INTERNATIONAL POLITICAL ECONOMY OF EXTERNAL ECONOMIC
DEPENDENCE AND FOREIGN INVESTMENT POLICY OUTPUTS
AS A COMPONENT OF NATIONAL DEVELOPMENT
STRATEGY: NIGERIA 1954 - 1980

DISSERTATION

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This study examined the effects and expectations of external economic dependence on foreign investment policy outputs with particular reference to the Nigerian experience between 1954 and 1980. Three basic kinds of external economic dependence were studied: foreign investment, the penetration of the Nigerian economy by foreign capital through the agency of the multinational corporations (MNCs); foreign trade, a measure of the Nigerian economy's participation in the world market; and foreign aid (loans and grants), a measure of Nigeria's reliance on financial assistance from governments and international financial institutions.

For the most part, the level of Nigeria's economic dependence was very high. However, economic dependency is not translated into changes in foreign investment policy in favor of the foreign investors in Nigeria as is predicted by the dependency paradigm.
The Nigerian case casts doubt on the dependency paradigm as a framework for fully explaining factors that may determine foreign direct investment policy changes that occur in a less developed Third World country. In other words, the dependency paradigm has a limited explanatory power; there is a factor independent of the economic factor operating out of the control of global capitalism (the center of the center in alliance with the center of the periphery); and that factor is the political process in Nigeria. The web of the Nigerian political process involves the various aspects of its internal functioning such as the manner in which needs, interests and demands are conveyed from the individuals and groups in the country to those performing state duties. Thus, Nigerian policy makers were more influenced by those elements than pure economic considerations treated in isolation.
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CHAPTER I

INTRODUCTION

Nigeria relies heavily on foreign supplied goods and factors of production to implement its economic programs. A high proportion of Nigeria's income is accounted for by foreign trade (2, 8, 43, 47). This means that Nigeria's overall dependence on conditions of supply and demand abroad may have a great impact on the level of internal production and income. Second, Nigeria is host to a relatively large stock of private direct foreign investment from multinational corporations based in advanced industrial countries. Also, Nigeria receives economic and technical assistance from international financial institutions and foreign governments (2, 3, 39, 43).

Although social scientists have been able to demonstrate the existence of a high degree of external economic dependency in the less developed countries (LDCs), relatively little research has been conducted to examine the relations of economic dependency to policy outputs (19; 44, pp. 234-256; 45, pp. 157-183). In other words, to what extent do relations of economic dependency affect the determination of foreign investment policy outputs?
Purpose of the Study

The primary purpose of this study is to determine whether or not there are any links between observed changes in the levels of Nigeria's external economic dependence and her foreign direct investment policy outputs (i.e. selected taxes and equity participation).

In order to achieve the primary purpose of this study, the secondary purpose involves: the determination of the differences between the level of Nigeria's external economic dependence and the tax rates on foreign direct investment's corporate income and petroleum operations profits, plus the determination of the differences between the level of Nigeria's external economic dependence and foreign and Nigerian investors' equity in direct investment.

Scope of the Study

In order to examine whether or not there is any link between the level of external economic dependency and foreign investment policy outputs in Nigeria, this study is limited to the time period, 1954-1980. The choice of this time period has something to do with the historical dimensions of the problem for this study. The first six years covered by this study deal with the period of the colonial government in the country. It is important that a background leading to the period of political independence be compared with the post independence years in some manner (both the extent of
external reliance and the type of economic policies pursued). This dimension of the study is also in compliance with the major tenets of the dependency paradigm—which claim that the colonial history of developing countries is a causal factor of their present state of dependency. Another reason for selecting the time period for this study is that it covers major foreign investment policy changes that accompanied increased foreign economic activities in Nigeria (2, pp. 106-122; 3, pp. 145-183; 7, pp. 185-205; 13, pp. 495-508).

This study is also limited to three areas of Nigeria's external economic relations, as follows: (a) foreign trade, (b) foreign direct investment, and (c) foreign aid. Finally, Nigeria's foreign direct investment policy output is limited to two areas: (a) tax rates on corporate income and petroleum operations profits, and (b) Nigerians' equity holdings in foreign investment. Emphasis is placed on the post-independence years.

Methodology

Two sets of data are collected for analysis. The first set of data is used to determine the level of external economic dependence of Nigeria in three principal areas in its international economic relations—foreign trade, foreign investment and foreign aid. The second set of data is used to determine corporate income tax rate, petroleum profit tax
rate and percent of Nigerian equity participation in foreign enterprises. These three indicators constitute the measure of foreign investment policy outputs in Nigeria. Thirdly, this study is limited to Nigerian laws, decrees, regulations, ordinances and policies designed for foreign investment operations in the country.

Two tables are constructed to aid in the analysis and interpretation of the data for this study. The first table displays the annual percentages of the three components of external economic dependency (dependency on foreign trade, dependency on foreign direct investment and dependency on foreign economic aid). One column shows the combined figure of the overall dependency. This figure is played graphically on an annual basis and compared with policy trends. The second table shows policy areas compared with the combined annual percentages of external dependency. These policy areas are: (a) corporate tax rate, (b) corporate tax on petroleum operations profit, and (c) percent equity for Nigerians. Like the dependency scores, policy areas are laid graphically along with the former.

Interpretations are based on the trends of both dependency and policy outputs. In other words, each comparison must focus on a particular hypothesis to be explained. If the results lend support to the dependency paradigm, we will expect tax rates for foreign investment in
the two policy areas to fall when the levels of dependency rise. Also, we will expect Nigerians' equity percentages to be raised during the periods of downturn in external economic dependency.

**Operational Definitions of International Economic Dependence**

There are many transactions used by dependency scholars as relevant to the measurement of external economic dependence. These include foreign trade, foreign direct investment, and foreign aid (11, pp. 720-738; 29; 35; 39; 44, pp. 234-256; 45, pp. 157-183). It is argued that to the extent that a less developed country engages in a relatively intensive relationship with very much more developed and powerful nation(s) in some or all of these areas, and to the extent that these ties are concentrated among relatively few economically and politically dominant nations, dependency is operating (29, pp. 31-32).

Some scholars working on the concept of dependency and policy outputs in the Third World countries have operationalized policy contents in terms of voting agreements or disagreements on the United Nations General Assembly roll calls. Other writers have compared policy contents in terms of increasing or decreasing equity shares offered foreign investors. In the first approach, researchers measure the levels of economic dependence of a particular country over a
period of years and, through Assembly roll calls, compare these with the position taken by the metropole and the former colony on a range of issues (35; 44, pp. 234-256; 46, pp. 868-888). Among other strategies, scholars have compared the levels of economic dependence with such policy areas as the number of contracts cancelled or awarded during a particular period of time, formal expropriation rates, alternation of taxation and royalty formulae, limitations of profits repatriations, etc. (8; 13, pp. 495-508; 19, pp. 1054-1875; 27, pp. 177-206; 31; 45, pp. 157-183).

For the purpose of this study, these mechanisms of external economic dependence are operationalized as follows:

1. **Foreign Trade Dependency** is measured as the total value of exports and imports in U.S. dollars as a percent of gross domestic product (GDP) at constant prices. GDP at constant prices refers to the value of goods and services produced within a nation taken over a series of years and adjusted to discount changes in the value of money (24, p. 96; 30, pp. 179-235). This indicator taps the extent of trade dominance and dependence. All exports include the cost of insurance and freight which is generally referred to as "cif."

2. **Foreign Direct Investment Dependence** is measured as the estimated book value in U.S. dollars of private direct investment from multinational corporations based in member countries of the Organization of Economic Cooperation and
Development Assistance Committee (OECD-DAC) as a percent of Gross Domestic Fixed Capital Formation (i.e., investment in fixed assets, such as buildings, vehicles, plant and machinery for replacing or adding to the stock of existing fixed assets). This measure is also known as "debit on investment income." There are sixteen countries that are members of the OECD-DAC (11, pp. 720-738; 29; 46, pp. 868-888). (3) Foreign Aid Dependence is measured as the value of the total official foreign economic assistance—loans and grants—as a percent of gross domestic fixed capital formation. These official aids are received from OECD-DAC countries. Members of the OECD-DAC extend aid as their contribution to the economic development and welfare of the less developed countries. The terms of the loans are considered to be quite concessional in nature. Military aid is not included here. These three aspects of external economic dependence will be used to determine the annual level of dependence in this study.

Since a country's reliance on trade may be particularly crucial, especially in the developing areas where foreign exchange is in short supply, foreign trade dependence is further delineated and operationalized to capture the vulnerability resulting from non-diversified economic activities leading to dependence. In this connection, the export dimension of foreign trade dependence is measured as
follows: (a) Export Commodity Concentration - is the value of a country's two major commodity exports as a percent of the value of the total exports; (b) Trading Partner Concentration - is the value of exports received by a country's two largest trading partners as a per cent of the total. The measures of export commodity concentration and trading partner concentration permit one to tap the vulnerability that is attributed to reliance on a narrow range of exports and trading partnerships (29; 30, pp. 179-235; 35).

Operational Definition of Foreign Investment Policy Outputs

Foreign investment policy outputs are broadly defined in this study to include the laws, decrees and regulations that give governmental guidelines to the type of business organization recognized, tax provisions, equity participation and other recognizable structure of legal relationships for the potential investor and the administrator (1, p. 299). Operationally speaking, three major policy areas will be defined as follows: (1) Corporate Income Tax, is measured as the per cent to which corporate income tax is of the Net Profit of a company; (2) Petroleum Profit Tax, is measured as the per cent to which petroleum profit tax is of petroleum operations profit. This tax is directed at companies engaged in petroleum operations, including the extraction and transportation of petroleum oil and natural gas.
Since Nigerian petroleum export accounts for over 90 percent of total export, this indicator is of vital importance to the focus of this study (2, pp. 106-122). In addition, the oil industry in the Nigerian economy is important because it provides employment of great magnitude (2, pp. 111-113; 43); (3) Percent Equity Participation, is measured as the required minimum level of Nigerian equity participation in foreign business enterprise (32). Nigerian equity participation has been a crucial issue since the attainment of independence in 1960 (32, 33). The issue of Nigerian equity participation touches a wide range of economic activities in the country. It concerns control of economic activities by both the government and citizens. Equity participation measures the extent to which the economy is owned by foreign interests. In short, equity participation touches the very nerve of external economic dependency. Therefore, it is a significant measure of the level of dependency and the role of the national institutions in the economy.

Operationalization of the Dependent Variable

Foreign investment policy output is the dependent variable in this research design. Three policy areas are selected for this study as follows: (1) per cent corporate income tax, (2) per cent income tax on petroleum operations profits, and (3) per cent equity participation of foreign
investors in direct investment. These percentages are specified in Nigerian government documents on foreign investment policy, regulations, decrees and laws (26). Percentages of the three variables selected are given. With respect to Nigerian equity participation, the minimum equity to be held by the indigenes is used without regard to additional shares that might have been secured during the period covered by a particular policy directive. If one equity rate is applicable for a period of many years, this also represents the annual rate for each year covered by the policy. This also applies to tax rates on corporate income and profits on petroleum operations. In the final analysis, tax rate percentages and equity rates assigned to Nigerians are tabulated on an annual basis. Then, these percentages are graphically represented and compared in accordance with the hypotheses.

Foreign investment policy output is crucial for a developing country because of the role and goals of the foreign investors as illustrated in the definition of direct foreign investment below.

Direct foreign investment involves more than financial motives. It implies the establishment of a foreign branch or subsidiary or the take over of a foreign firm. The motivation behind direct investment and the possession of foreign branches or subsidiaries, on the other hand, is primarily the acquisition of managerial control over a production unit in a foreign country. Direct investments are intended to establish a
permanent source of income or supply in the foreign
economy; consequently, they create economic and
political relationships of a lasting and significant
colorature (24, p. 7).

The other aspect of foreign investment which is not included
in this study relates to what is called portfolio invest-
ment. This involves the purchase of non-controlling
equities in a firm. The motive is financial. Hence
managerial control rests with the local firm.

Operationalization of the
Independent Variables

The independent variable of this research design is
external economic dependency. This variable has three
components that must be added to arrive at a single measure
of dependency. These components are: foreign trade,
foreign direct investment and foreign aid. All these
elements have been previously defined. The rationale for
selecting the measures explained above is that they draw on
the main factors of the dependency paradigm, outlined in the
previous sections. Also, these measures are used with the
understanding that dependency is a condition of foreign
penetration by several means over a period of years; it is a
combination of trade, investment, and aid ties over time.
The first step in operationalizing the independent variable
is to calculate the percentage of each component as follows:
1. Aid dependence = \( \frac{\% \text{ Value of Aid Received}}{\text{Gross Fixed Capital Formation}} \)

This equation is based on the assumption that foreign aid (loans and grants) are extended by donors to the recipient with the understanding that the latter has agreed to policy changes that meet with the former's approval (e.g. IMF or other foreign government agencies). For the most part, foreign government funds are earmarked for export-import bank loans and for economic development projects and programs. For this reason, one can fruitfully express these forms of aid in proportion to domestic capital formation leading to aid dependence index (11, p. 732; 35, pp. 100-101).

2. Investment dependence = \( \frac{\% \text{ Value of debit on Direct Foreign Investment Income}}{\text{Gross Fixed Capital Formation}} \)

The equation on investment dependence utilizes debits on foreign investment income as indirect indicators of the amount of foreign capital operating in the economy supplied by private interests. Due to a high volume of this type of investment, foreigners may constrain the decision-making capabilities of indigenous private enterprise as well as the national political authorities. In short, this equation determines the ratio of foreign control of economic activities to indigenes in the country (29, p. 38; 44, p. 250).
3. Trade dependence \[ = \% \frac{\text{Value of total import and export}}{\text{Gross Domestic Product}} \]

In the case of trade dependency, by relating imports plus exports to the gross domestic product (GDP), the extent of trade domination and dependence is tapped. In addition, it is an indication of the extent to which trade is important to a country's economic health (35, pp. 106-107).

The annual level of economic dependency is arrived at by combining all the component percentages as follows:

Percent of Aid Dependence + Percent of Investment Dependence + Percent of Trade Dependence = Annual Dependency Score

Acceptable minimum dependency level is 20% (38, p. 239).

The annual percentages are tabulated and graphically displayed along with each policy area for comparison. Only available figures will be utilized for the annual calculation and calculations for component percentages.

Operationalization of export commodity concentration and trading partner concentration is carried out as follows:

1) Export Commodity Concentration:

\[ = \% \frac{\text{Value of a country's two major commodity exports}}{\text{Value of Total Exports}} \]

2) Trading Partner Concentration:

\[ = \% \frac{\text{Value of exports received by a country's two largest trading partners}}{\text{Value of Total Exports}} \]
Final analysis is based on the annual tabulation of the figures and displayed graphically with the various policy area percentages.

Two other measures of trade are "export commodity concentration" and "trading partner concentration." The former is particularly important to a less developed country, since the foreign exchange receipts from its exports are in short supply, and vital to economic development efforts. The measure of export only helps to tap the vulnerability that is attributed to reliance on a narrow range of exports. Trade vulnerability here refers to the ability of a country to respond adequately to an external stimulus (i.e. changes in international market for one or two principal export products). As for trading partner concentration, a less developed country will experience vulnerability by the variations of supply or demand in the markets for individual partner-country, unless it enjoys a monopoly or monopolistic power (29, 35).

With respect to the measure of foreign direct investment, it is recognized that some transfer of valued things such as capital, capital goods, technology and managerial skills take place along with foreign ownership of means of production. Dividing the value of foreign investment by gross domestic capital formation in the host country gives an approximation of the contribution of the
foreign sector to total capital formation for a given year. The problem with this measure is that it excludes accumulated foreign ownership shares in the host's productive investments. Also, the value of annual current flows as used are reliable only to the extent that it is assumed that distortion is minor.

For the measure of official aid, this economic activity is seen as a capital resource for the recipient more purely than is the case for private investment (35). Most of the aid is earmarked for loans and for economic development projects and programs. The problem for this measure is that military aid is excluded. In reality, this may have some economic impact from the recipient's standpoint vis-a-vis the donor.

In summary, the product of the measures of dependence on trade, investment, and aid can indicate only some aspect of their original notion. That is, each indicator can make some claim to reflecting a less developed country's economic need for supplies made available by a foreign country or an investor. In practice, each measure may be less valid in varying degree of difficulties that would be encountered by any particular country that attempts to shift to alternative suppliers (35). Another problem with these measures is that while it is relatively easy to assess an actor's actual economic relations, it is more difficult to tap its
capability to redirect its external economic relations in the future.

Justification of the Study

This study is significant for several reasons. First, it aims at offering a limited quantitative examination of the relationship between external economic dependency and policy outputs. In this regard, the analysis emanating from the study may contribute to assessing the utility of the dependency paradigm and also lead to an improved understanding of the political economy of Nigeria.

Second, the problem has ramifications in Third World countries where the influences which external economic relations exercise on national development policies can be observed. It provides insight to the international political economy which deals with the relationship of the international economic system (including trade, monetary affairs and investment) to the international political system and how it sets the limits within which national development policies in the Third World countries can move (24; 42, p. 23;). Robert Gilpin illustrates the implications of the interplay of politics and economics which exemplifies the asymmetrical nature of international economic relations.

On the one hand, politics largely determines the framework of economic activity and channels it in directions intended to serve the interests of dominant groups; the exercises of power in all its forms is a major determinant of the nature of an economic system. On the other hand, the economic process itself tends to
redistribute power and wealth; it transforms the power relationships among groups. This in turn leads to the transformation of the political system, thereby giving rise to a new structure of economic relationships. Thus, the dynamics of international relations in the modern world is largely a function of the reciprocal interaction between economics and politics (24, pp. 21-22).

Foreign investment policy outputs were selected for this study because they narrow the concern of the state to the decision itself. They test the capability of the political system because the target is a particular course of events desired. Policy output assesses the particular line of action chosen, the particular declaration made, and the particular action taken (17; 25, pp. 6-7;). These elements of the public policy arena may aid the analyst in evaluating the autonomy and capacity of the public institutions.

Moreover, the three mechanisms of international economic dependency - foreign trade, foreign direct investment and foreign economic aid are among the most potent links of economic dependency (10; 16, pp. 213-236; 22; 39, p. 11; 41). Other mechanisms include military ties, cultural cultural and educational relations (4, pp. 312-313; 5; 29; 35).

From the above account, it is obvious that the problem under consideration in this study relates to a wide, influential and critical population. It is both timely and practical and, above all, additional research is needed to analyze and understand its implications.
The case study approach is adopted for this research. On the positive side, case studies provide the opportunity to locate concrete examples of hypothesized relationships (29, pp. 20-24). In other words, it is a productive process to single out one situation or case where the relationships postulated do exist. In that regard, absolute failure to confirm relationships may be strong ground for doubting the validity of hypotheses in question. Here, too, if it could be adequately demonstrated in a single case study that a particular relationship asserted does not hold, scholars supporting it may be compelled to either qualify or reject such generalization. Another advantage of the case study approach is that apart from the application of general ideas to particular cases, or for helping the inquirer to arrive at notions of problems to solve or solutions worth pursuing, it may be used as a means of determining whether solutions are valid (18). The case study approach is useful because it guides against hyperabstraction, and serves "to underscore how much more richly variegated, variable, and complex is the real world of politics" (28, p. 23). Case studies may lead to the discovery of relationships that may have been overlooked or were never suspected to exist. The case study approach when properly executed is a systematic, orderly way to encourage the growth of knowledge. Also, a case study may facilitate the examination of variation
within different sectors of a particular economy, between multinational and local enterprises, over time, and establish a detailed first case for comparative analysis (7). In some cases, the case study approach facilitates research to a degree far more detailed than the macrolevel generalizations that prevail in the literature on political matters (18, pp. 79-137; 21, pp. 65-88; 28, pp. 20-24).

Although the case study approach provides many research opportunities, it also entails some problems. One such problem on case studies is that we cannot generalize from a single or a few instances where a relationship seems to hold (18, pp. 18-99; 21, pp. 65-88; 28, pp. 20-24). The argument is that a single case or only a few of them may not be representative of the class of phenomena it is meant to test and illustrate (28, p. 21). Critics also see case studies as too descriptive, reflecting a defect in traditional comparative politics. Furthermore, the case study approach is criticized for not really contributing toward theory building. This argument is rejected on the ground that well-chosen case studies can shed much light on the plausibility of choosing between candidate theories (18, pp. 92-93).

Nigeria was selected for this study for several reasons. First, Nigeria provides an example of an independent Third World country, where, at least in terms of
size and natural resources, the chances of establishing a successful national or indigenous capitalist development appears great (6, pp. 20-22; 14, pp. 127-150). As a member of the Organization of Petroleum Exporting Countries (OPEC), Nigeria possesses an international strategic resource which gives it scope for initiative in the exercise of public policy as well as the financial means of developing through state or indigenous private enterprise its enormous internal market (14, p. 127). Second, in terms of geopolitics, Nigeria’s wealth and position have immensely enhanced her political and strategic importance both in Africa and international politics. For example, apart from being a strong member of the OPEC, Nigeria is a pioneer and stabilizing factor in the Organization of African Unity (OAU), a member of the non-aligned nations, a co-founder of the Economic Community of West African States (ECOWAS). In essence, Nigeria is slowly emerging as a major factor in the global power calculus (33). Third, the neo-colonial nature of the Nigerian economy is relevant to the major tenets of the dependency paradigm. For instance, at independence Nigeria was left with both political and economic structures modeled after, and by the former colonial power, Britain. When independence was achieved, Nigeria’s efforts at nation-building and economic development were influenced largely by
the experience gained under the colonial government (2, pp. 106-122; 7). In some cases, bilateral programs of advice and assistance came from the British government. Fourth, Nigeria's transactions with the member states of the Organization of Economic Cooperation and Development (OECD) are well documented and readily available for research purpose. Finally, the issue of foreign investment policy in the Nigerian economy has received much attention from the international business community since new laws were introduced in the late 1960s and early 1970s (2, pp. 106-122; 7; 12, pp. 21-28; 13, pp. 495-508). While Nigeria, like other less developed countries (LDCs) experiences economic problems associated with dependency, it is not prototypical of the latter in the periphery of the international economic system. This is due to the fact that Nigeria, unlike the majority of the LDCs, is endowed with a strategic resource which has increased her bargaining leverage in the international arena. In fact, some scholars describe Nigeria as a semi-periphery nation, which in essence implies a newly industrializing country (NIC) within the international economic community (13, pp. 495-508; 20, pp. 10-34; 37, pp. 207-236). Therefore, it is expected that this study will contribute toward an understanding of some basic problems of external dependence and its impacts on foreign investment policy outputs.
Hypotheses

Hypothesis One
The index of the Nigerian foreign direct investment taxes varies inversely with the index of her external economic dependence.

Hypothesis Two
The index of the Nigerian equity holdings in foreign direct investment varies inversely with the index of her external economic dependence.

Hypothesis Three
The index of the Nigerian export commodity concentration varies inversely with the index of her external economic dependence.

Hypothesis Four
The index of the Nigerian trading partnership concentration varies inversely with the index of her external economic dependence.

The foregoing test hypotheses are significant to the advancement of research within the dependency paradigm because they are derived from a major premise of the framework. That is, external economic dependency leads to the suppression of autonomous policies in the Third World countries (9). This process takes place as strong links are
established between the elites in the industrialized countries and their counterparts in the Third World. As Galtung (1971) puts it, a "bridgehead" of interests and connections is formed between these elites. Consequently, the Third World elites use their internationally acquired leverage to block politically unfavorable policies or influence the domestic policies in favor of the trans-national actors. Support for the selected hypotheses will encourage other scholars to pay some attention to the utility of the dependency framework in general and to the variables or indicators used in this study of the phenomena of dependency.

With particular reference to the political economy of Nigeria, any support given to the selected hypotheses will alert scholars to consider more seriously the policy areas as discussed in this study. In addition, further studies would be needed to focus on the impacts or outcomes of the policies pursued during the period covered here.

Limitation of the Study

There are some problems with the operationalization of the variables. One can argue that there is no threshold at which a country is deemed dependent. Singer (38) and Richardson (35) used a minimum of 20 per cent annual economic dependency rates as acceptable. This study is based on that figure. Nevertheless, this dependency
threshold is not considered as representing every Third World country. For instance, some countries may be classified as dependent at 5 per cent dependency annually; others may be higher than 20 per cent. Another problem area is with the choice of variables. It is assumed in this study that both the independent and the dependent variables would capture the salient elements of economic dependency and policy outputs. However, it is recognized that there are other variables that could have influence; such as the values held by the governing elite, the form of government - military or civilian, cultural limitations, etc. One other problem area is the data sources. Figures given by the government to the public could be manipulated to favor itself. This process may distort the data that the public may have access to in a study. Related to the above problem is the lack of data. It is assumed that the lack of data will not have a major negative impact on the final figures or diminish the value of a particular variable. Some scholars would argue also that the two kinds of taxes selected must be justified. The corporate income tax and the petroleum operations profit tax are imposed on a regular basis and intended to control the profits accruing to foreign investors in the economy (3, pp. 145-183; 7, pp. 185-205; 13, pp. 495-508). Some policy areas are problematic. For example, while it is possible to calculate the levels of
economic dependency on an annual basis, this is not possible with foreign investment policies since they are not introduced annually. One way to calculate dependency is on a periodic basis to fall in line with policy output. This method was deemed confusing and meaningless since the value of the annual figures would be distorted in the process. Finally, it is possible to argue that the years before political independence (i.e., 1954 to 1959) should have been omitted since the colonial administration was still in effect. The rationale for the inclusion of that period is to permit comparison of pre-independence and post-independence activities.

Finally, this study does not address the success or failure of the Nigerian government. Rather it analyzes the contents of the foreign economic policies pursued under both the civilian and military forms of government as was the case in Nigeria. It is not intended to deal with the different perceptions of the meaning of economic dependency and the elites' behavior. It does not evaluate strategies for development in the Third World countries.

Data and Sources

Data for this study are gathered from primary and secondary sources such as United Nations agencies, i.e., the U.N. Conference on Trade and Development (UNCTD), the International Monetary Fund (IMF), the International Bank
for Reconstruction and Development (IBRD), the Organization for Economic Cooperation and Development - Development Assistance Committee (OECD-DAC), the United States Department of Commerce, International Trade Administration, and Nigerian government agencies including the Central Bank of Nigeria, the Nigerian Institute of International Affairs (NIIA), Ministries of Economic Development, Trade and Commerce, etc. (See Appendices A and B.)

Scholars working with data from the Third World countries have raised questions about their reliability (29, pp. 168-176; 36, pp. 131-168; 39, p. 9). This study shares that concern and effort is made to examine the data for all variables, to construct tables and graphic representations for comparison. Second, it is expected that because of the measure of independence enjoyed by the various international organizations, plus the fact that this study draws on the same sources used by previous studies, such as Stallings (39), Richardson (35), Mahler (29, pp. 168-176), Wittkopf (46, pp. 868-888), Vengroff (44, pp. 234-256), Chase-Dunn (11, pp. 720-738), McGowan and Smith (30, pp. 179-235), West (45, pp. 157-183), Esseks (19, pp. 1052-1072) etc., the level of reliability will be reasonable. Third, effort was made to check figures reported by the Nigerian government. This was made possible through the OECD-DAC which collects independent data from countries involved in each transaction
(foreign trade, foreign aid and foreign direct investment). Fourth, all percentages were rounded to either one or two decimal place(s). Figures for Nigerian laws relating to taxes and equity holdings were compiled from official Nigerian government publications. These sources were checked against previous studies that deal with the topic under consideration (2, pp. 106-122; 3; 7; 13; 40; 31). In sum, as far as the data and the sources are concerned, it is believed that every possible avenue was followed to ascertain the reliability of our figures. It is recognized that any random measurement errors, either on the part of this author or on the part of the original compilers, that may have crept into the data utilized would, of course, serve only to reduce the validity and add to the unexplained variance. Finally, references are provided as appendix giving some details on data and sources as they relate to international organizations and government publications.

Arrangement of the Dissertation

The study is arranged as follows. Chapter I is the introduction to the study which includes the statement of the problem and the purpose, operational definitions of international economic dependence and foreign investment policy outputs, scope of the study, justification of the study, the hypotheses, operationalization of the dependent and independent variables, methods of gathering data and
analysis and interpretation of data. Chapter II is the review of related literature. Chapter III is a discussion of the background of Nigerian economic development. It highlights the colonial economic activities, modern economic sectors, and the Nigerian National Development Plans. Chapter IV deals with the political economy of the foreign investment policy process - this historical development covers the period of this study. Chapter V is the presentation of the data and analysis and interpretations. Chapter VI is the summary and provides some recommendations for further studies.
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CHAPTER II

REVIEW OF RELATED LITERATURE

In recent years, one concept which international relations and comparative politics scholars have been wrestling with is "dependency." The concept of dependency has provoked a great deal of disagreement among scholars concerning its definition, scope, etc. (4, pp. 13-50; 10, pp. 51-78). Although the controversy persists, there is a widely cited definition that has gained ground; it is offered by Theotonio Dos Santos, as follows.

By dependence we mean a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. The relation of interdependency between two or more economies, and between these and world trade, assumes the form of dependency when some economies (the dominant ones) can expand and be self-sustaining, while other countries (the dependent ones) can do this only as a reflection of that expansion, which can have either positive or negative effect on their immediate development (9, p. 232).

Thus, a nation is relatively dependent if it does not have control over major decisions affecting its own economy (35, p. 6).

Dependency theorists claim among other things, that international economic dependence leads to the suppression of autonomous policy in the Third World countries, exploitation of the periphery countries in the international economic
system and the "development of underdevelopment" in the less developed countries (6, p. 11; 37, p. 38). Dependency scholars stress that Third World leaders really do not have a choice; either they are too weak to cope with the powerful industrial nations and the multinational corporations (MNCs) or they are coopted by being taken in as partners in effect of the multi-national enterprises. As a result, their policies and development efforts are compromised (5, pp. 114-132; 36, pp. 517-534). Third World leaders are also controlled in another way because of their dependent position. As one writer puts it, the level of dependency may define the options open to a dependent nation in the areas of both economic and political decisions (40, p. 236). In other words, when a less developed country is heavily dependent upon external resources for its development aspirations, it becomes vulnerable to external manipulations. Consequently, national institutions (including private business and interest groups) are forced to give up right, capacity and power to take and implement decisions affecting the national economy and its component units. A corollary of the foregoing discussion is that the power given up by the national institutions is usually held by the transnational enterprises, interest groups or foreign governments (17).
The Theoretical Framework

The Intellectual Antecedents of the Dependency Paradigm: Imperialism and Structuralism

Dependency theorists draw on two theoretical perspectives: the Marxist theory of imperialism and the structuralist theories of development (8, pp. 15-17; 23; 34).

Classical theories of imperialism deal with many themes. One theme discussed by Lichtheim refers to "the relationship of hegemonic state to peoples or nations under its control" (23, p. 12). In this sense, imperialism connotes relationships at any time or place - from the Roman to the British Empire. For Karl Deutsch, imperialism in the foregoing sense implies the notion that the impetus for external domination is ultimately "biological-instinctive", "geographic-strategic", etc. (8, p. 21). Schumpeter (34, p. 51) refers to imperialism as a result of "atavistic" impulses which are dysfunctional and backward looking. He observes that this tendency is prevalent in modern countries.

Another theme refers to imperialism as a result of forces which are mainly structural. Writers holding this view reject the notion that "the course of history can be explained in terms of power drives, love of war, desire
for glory and the influence of outstanding personalities" (24, p. 48). What is evident among these scholars is a narrower sense of imperialism in which the expansion of Western dominance internationally since the 1800s is perceived as the result of the economic pattern found in Western countries (8, p. 24; 19). Thus, imperialism or colonialism was designed to maintain the position of the European countries. In this sense, imperialism is seen as an instrument used to secure trade and markets, as well as to ensure high employment levels and high export levels for the European countries. To Hobson, imperialism was instigated by the evolution of Western capitalism into a system firmly dominated by a relatively small number of monopoly interests. The theory of imperialism pioneered by Hobson postulates that underconsumption and overproduction led the European countries to expand abroad. In essence, maldistribution of wealth denied the poor majority the means to purchase overproduced goods. Consequently, the rich were unwilling to invest in productive activities and their income began to drop. Investors were compelled to seek more remunerative opportunities for their capital in underdeveloped areas. As one writer puts it "the flag followed investment in this case, as monopolist interests encouraged political control
that would solidify control of their foreign investment" (24, p. 49). This line of thought also reflects the notion that capitalism will eventually produce surplus goods, which must be placed abroad whether through sales or through capital exports. The argument is that the competition generated by capitalism may lead to war among the European powers in the process of acquiring colonies and markets. As a result, only special interests within the colonial power would benefit from the competition rather than the economy as a whole (19). On the other hand, traditional theories of imperialism stress its modernizing and civilizing influence upon the colonies (8, pp. 18-22).

The literature on modern imperialism reflects the works of Karl Marx (25) and V. I. Lenin (22), (2, pp. 91-102; 42, pp. 134-150). For Lenin the condition of imperialism was essential for the spread of the capitalist economic system. In other words, imperialism was necessary to sustain capitalism. Overseas possessions were used as the outlets for surplus capital accumulated in the European capital cities. European hegemony was a product of economic expansion consistent with the global capitalist system. Lenin also re-emphasized the danger of war which capitalist expansion is likely to produce. In short, Lenin was primarily concerned with the conditions that gave rise to imperialism and its role in the domestic political economy
of advanced capitalist states. Lenin saw imperialism as a function of the internal development of advanced capitalism, and argued that as such, it will eventually lead to war among the colonial powers. Lenin identified five characteristics of imperialist expansion as follows:

1. The concentration of production and capital so that it creates monopolies;

2. The fusion between banking capital and industrial capital occurs as the result of concentration of production in monopolies. This merger gives rise to the finance capital dominated by financial oligarchies and financial traders;

3. The exportation of capital, which is more important than the export of commodities into other countries, thanks to foreign investment;

4. The formation of international capitalism monopolies that share the world among themselves;

5. The territorial division of the whole world by great powers (22, pp. 29-30).

Modern dependency and development theories stress informal economic structures of dominance and control rather than direct political and military.

In more recent writings, Paul Baran and Andre Frank argue that the dual process of imperialist-capitalistic expansion is the cause for the underdevelopment prevailing in most Third World societies today (2, pp. 91-102; 12). Other proponents of the Marxist-Leninist theme are equally concerned about the fact that a vast majority of the less developed countries do not gain from their
inclusion in the global capitalist system. They observe that only a handful of the elite class (the compradores) in the Third World countries enjoy the benefits of the international capitalist system (27; 30, pp. 131-151).

The theory of structuralism from which dependency scholars also borrowed is an attempt to explain the underdevelopment in many countries of the world (16, pp. 81-117; 27; 30). This school of thought postulates that the global system is structured in a manner unconducive to the development potential of the less developed countries. Furthermore, structuralists point to the fact that technological progress tends to reduce the importance of primary products in the overall production process. Therefore, Third World countries whose many exports are primary products are generally worse off in the scheme of the global economy. This is because the prices of primary products tend over the long run to deteriorate relative to prices of the manufactured goods that Third World countries import. Hence the developing Third World countries are more than likely to suffer chronic balance of payment difficulties (30). Prebisch observed that the terms of trade between developed industrial nations of the world and the underdeveloped poor countries have skewed in favor of the former. He noted that even though the underdeveloped countries are exporting more raw materials than ever before
in their history, the reward is at best the same or even less for those same raw materials. Unfortunately, these countries are compelled by market forces to pay more for the manufactured goods they must import from industrialized countries. Furthermore, foreign trade has other dimensions that must be pointed out.

A study by Albert O. Hirschman on German economic penetration of Eastern Europe prior to World War II illustrates some of the potential consequences of external economic dependence (18). Hirschman found that international trade could be used as an instrument of a state's power. In this connection, one state has the capacity to influence and control another state. According to Hirschman, international trade produces two effects; the benefit of trade and dependence on trade. Trade benefit is derived from the fact that goods will be available to the parties involved. Dependence on trade gives the more powerful partner the ability to interrupt commercial and financial activities with less damage to itself than the damage that may result in the economy of the less powerful trading partner. The implication is that the dependent state is vulnerable to the actions of its more powerful trading partner and it is also subject to its control. The notion of dependence as manifested in the above discussion also forms the cornerstone of the dependency paradigm.
Also, Myrdal made the following observations about foreign trade which are relevant to dependency formulation:

International trade . . . will generally tend to breed inequality, and will do so the more strongly when substantial inequalities are already established . . . Unregulated market forces will not work toward reaching any equilibrium which could imply a trend toward an equalization of income. By circular causation with cumulative effects, a country superior in productivity and income will tend to become more superior, while a country on an inferior level will tend to be held down at that level or even to deteriorate further--as long as matters are left to the free unfolding of the market forces (28, p. 297).

Myrdal saw the inability of the free market to regulate itself. He supported governmental intervention to effect national economic integration. He firmly believed in a comprehensive rational state planning as an essential requirement for the solution of Third World underdevelopment.

The contribution of Johan Galtung to the literature on structuralism is hailed as classic. Galtung's formulation postulates that center countries have a high level of economic development. Second, those countries have a low level of internal disharmony. Third, center countries provide processed or manufactured goods for what Galtung calls the periphery countries - which provide primary, or unprocessed, goods for the center. This system as discussed above is generally referred to as an international division of labor. Structuralists claim that global division of labor perpetuates a vast inequality between the center and periphery. In the center of the system, the production of
processed goods with the aid of high technology generates "spin-off" effect (27). As a result, extensive linkages occur across the economy which lead to development. On the other hand, periphery countries whose main products are raw materials - involving little or no technology, experience "distorted development" or "growth without development" or "enclave economy" which lacks integration of sectors, but is externally oriented (24, pp. 51-53). Galtung postulates that interactions (whether based on economic, political, cultural, communications or military) among the countries of the world reflect a feudal structure characterized as follows: a) center to center countries experience high interactions; b) center to periphery countries experience medium interactions; c) periphery to periphery countries experience low or in some cases no interactions (16, pp. 89-90). In essence, Galtung's emphasis is on how inequality between the center and the periphery countries is maintained due to vertical interaction and the international division of labor.

The Contemporary Dependency Paradigm

Contemporary writings on the dependency paradigm are premised on several basic themes from which hypotheses and mid-range theories have been formulated, studied and assessed within the past two decades or so. One theme postulates that in the international system the existing
interdependence between the center and the periphery countries is asymmetrical (31, pp. 3-12). Another theme is that the international political economy is controlled by the industrialized countries to the disadvantage of the less developed peripheral countries (16, pp. 81-118). A third theme is that because of their dependent position periphery countries exhibit certain characteristics (24, pp. 47-68). Their foreign trade is highly concentrated both in trading partners and export commodities - usually one or two. Periphery countries exchange low level processed goods or raw unprocessed goods for manufactured goods from industrialized nations. Countries within periphery host a large stock of private direct foreign investment from transnational corporations based in the industrialized-center countries. Economic assistance flows from center countries to the periphery countries. However, the economic assistance is paid for with the scarce resources in the periphery countries in the form of debt services. Other relationships between the center countries and the dependent countries take the form of military and educational close exchanges (3, pp. 95-137; 36).

A fourth theme underlying the contemporary dependency paradigm postulates that development taking place in the periphery countries is conditioned by the actions taken in the industrialized center countries. Hence dependence in
this sense is perceived as a causal relationship. It is also noted that distorted development (such as growth without development and enclave economies) in the periphery countries is caused by actions taken in the center. A cautionary note here is that causation is subject to interpretation. In other words, it is admitted that factors in the periphery countries may also contribute toward distorted development internally. A corollary of the fourth theme is that distorted development in the periphery countries takes various forms: increasing degree of income inequality, a decreasing level of political competition and participation, decreasing budget expenditures for health, welfare, and educational programs. Other forms of distortion include rising unemployment and underemployment, more outflow than inflow of capital from the individual periphery country and an escalation of the use of coercive force by the ruling elites (14; 36, pp. 517-534).

Another theme that can be observed in connection with modern dependency is that there exists a coopted elite class in the periphery countries that benefit from their countries' dependent position. Also, it is perceived that periphery elites serve the interests of the center countries. Consequently, the dependent countries are at a disadvantage in their development efforts. One other theme is that the established relations between the center and
periphery countries are mutually reinforcing and self-perpetuating. Therefore these relations need fundamental structural change in the international political and economic systems.

The contemporary dependency paradigm has brought to the fore historical events consisting of colonial government policies, and transnational economic activities that shaped the present global system. Dependency theorists claim that those activities have established a structure that is disadvantageous politically, economically and socially to periphery countries. The historical linkages of the current international system under the dependency paradigm have led to new formulations in theories of economic and political development. Other pursuits within the dependency perspective relate to theories explaining global hegemony, the role of transnational actors, foreign trade, technological transfer, foreign direct investment, foreign aid and military as well as educational relations (6; 13; 36, pp. 517-534). The dependency paradigm has equally generated concerns about traditional concepts of power as it relates to complex interdependence, global bargaining and decision making and class relationships within the developing countries.
Previous Research on the Dependency Paradigm

Scholars working on the dependency paradigm have attempted to evaluate quantitatively the various hypotheses within the framework (7, 11, 24, 26, 35, 39, 40, 43, 44). Briefly stated, three major propositions of the dependency paradigm constitute the focus of these studies. The first proposition is that the relationship between dependence and economic growth-development is negative. That is, a highly dependent nation-state will experience negative levels of economic growth development. The findings based on this proposition appear to be mixed. For instance, two studies, McGowan and Smith and Vengroff, (26, 39) did not support the hypothesis. In fact, McGowan and Smith (26) suggested a positive relationship between dependence and levels of economic growth development. The two studies discussed above used data from sub-Saharan African countries. Three other studies appear to support the proposition that high economic dependence may lead to negative economic growth/development. These findings were reported by Chase-Dunn and others (7, 32, 41).

The second proposition is that dependence leads to distortions within the dependent nation-state. In other words, a highly dependent country will have more domestic
imbalances such as vast class and income inequality levels, lack of political competition/participation as well as instability. This proposition has been supported by several studies (7, 21, 33, 38). On the other hand, Mahler (24) reported mixed results in his study.

The third proposition that has received much attention is that a dependent country is subject to control by the hegemon. Consequently, policy outputs by the governing elites are altered to favor the hegemonic country and transnational actors (such as multinational corporations). This particular proposition is the main concern of the present study. Studies supporting this proposition include Vengroff (40) and Jackson, Russett, Sydal, and Sylvan (20). On the other hand, Richardson (31) rejects the proposition. The present study is intended to either support or reject the contention that policy outputs will necessarily be altered in favor of trans-national interest in a highly dependent Third World country.
CHAPTER BIBLIOGRAPHY


CHAPTER III

A BACKGROUND TO THE NIGERIAN CASE STUDY:
THE POLITICAL ECONOMY OF DEPENDENCY
AND DEVELOPMENT PLANNING

The present study seeks, among other things, to examine the economic effects of the colonial ties on post-independence Nigeria. The extent to which the Nigerians were allowed to engage in economic activities determines the structure and control over economic activities that continue to be modified to suit the changing environments.

One of the essential linkages between foreign interest and host government interest is trade. Thus, those who control trade, which was the major activity with which foreign capital was involved in West Africa, determined the nature of the economic structure which promoted their interests. During the Colonial administration in West Africa, the Royal Niger Company (RNC) controlled a major part of the commerce by Royal Charter until 1900, and continued to dominate West African trade thereafter (23, p. 45). The challenges and difficulties faced by Africans who wanted to trade in Nigeria and other West African countries has been summarized as follows.

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In territories controlled by the RNC, every foreigner wishing to engage in barter or retail selling had to obtain a retail license costing £100. The licensing system was created with the deliberate intention of excluding the African traders who almost always caused Goldie to lose his sense of proportion. Difficulties were thus created for Africans trying to conduct small scale trade; however, African traders operating on a scale significant enough to effectively challenge British monopoly power were destroyed by military means.

Restrictions were also imposed on entry into other economic activities; for example, after 1909, licenses for prospecting were granted only to existing licence holders, and all licence-holders applying for renewal had to prove that they had a capital of at least £500. Furthermore, Africans were effectively excluded from shipping and the import trade by the operation of a shipping ring.

Thus, a significant characteristic of the economic transformation of West Africa was the monopolization of certain economic activities by the British—shipping, mining and the import-export trade—and the destruction of African economic power in these areas if Africans were able to effectively challenge British capital. Other aspects of the changed terms of economic activity were indirectly related to the ways in which African manufactures were replaced in African consumption by British imports, and in which 'encouragement' was given to the production by Africans of raw materials for export (23, p. 45).

Apart from the foregoing strategies adopted in West Africa generally, other economic institutions were created by the various administrations elsewhere. Before World War II, the British penetration of Nigeria was completed. Therefore, the colonial administration began a second phase of their development—that is, the process of institutionalization of export commodities control.
Following World War II the British effort to better organize the export trade centered upon the establishment of the first marketing boards. Monopolistic boards were created for Nigeria's main export crops in 1947. The primary object of these boards was to buy the local crop through local purchasing agents who were usually employees of commercial firms which had dominated the trade prior to the establishment of the boards. The boards monopolized the sale of these products on the world market and attempted to stabilize the price paid to indigenous farmers when the world price of commodity products was high. The difference between the world price and the price paid to the farmer was banked by the boards in London banks where it was held as sterling balances credited to Nigeria's account (5, p. 100).

This form of control continued even after Nigeria had attained independence in 1960 because the British created monopolistic Marketing Boards and passed incentive policies which enabled the foreign investors to expand and dominate the Nigerian export trade, manufacturing sector, etc. (3, p. 109). In Chapter IV, we discuss at some length the incentive policies passed by the British authorities (in the decade preceding Nigerian independence) to maintain control of the nation's economy by foreign investors. We also point out how the first post-independence Nigerian administration was compelled to follow the same policy incentives which were inherited.

In connection with the foregoing dilemma of newly independent nations, some writers think that, during the initial years of post-independence, the structural relationships between the former colonial power and the new state
are best described as neo-colonialism (18, p. 118; 26, p. 236; 5, pp. 96-106). According to O'Connor,

In the pure case of neo-colonialism, the allocation of economic resources, investment effort, legal and ideological structures, and other features of the old society remain unchanged—with the single exception of the substitution of 'internal colonialism' for formal colonialism, that is by the transfer of power to the domestic ruling classes by their former colonial masters (18, p. 118).

In the Nigerian case, Callaway defines and illustrates the phenomenon in this manner:

Neo-colonialism is the process by which colonial patterns of dependency are sustained after the granting of formal political independence. The primary objective of neo-colonialism is to maintain the former colony as a controlled source of raw materials as well as a market for investment and the sale of goods manufactured overseas by local subsidiaries of foreign firms. The realization of a mass market and the promotion of certain types of consumption habits are crucial to the foreign investors. Thus, the major private foundations and commercial firms of the Western, developed countries invested heavily after Nigerian independence in national market and feasibility studies.

Nigeria is a neo-colonial state in that political independence did not significantly affect the country's economic dependency before the post-1970 development of the oil industry. During the first ten years of its existence as a nation, Nigeria followed a conservative monetary policy, avoiding foreign exchange restrictions and remaining open to foreign investment and foreign companies. Thus, at the beginning of the 1970's, foreign interests controlled savings, investments, the money supply and the prices of most consumer items. All large trading and manufacturing firms were foreign controlled or owned. Nigerian firms were small and there was little Nigerian investment (5, pp. 104-105).

Despite these odds imposed on the Nigerians during the pre-independence years, some were fairly successful in the
areas of "bread and cake making, garment manufacturing, tire retreading, sawmilling, furniture making and foresting" (5, p. 105). In particular, many inroads were made in joint venture activities with foreign technical partners. The nature of joint venture in the Nigerian economy has been described in these words.

Firms with a prior interest in the market turned to supporting import-replacing industrialization in order to meet the rising competition. Most of the manufacturing enterprises in this form of industrialization consisted of the old merchant firms lowering the cost of imported commodities through processing, assembling, or packaging them in Nigeria. The government granted tariffs to protect such finished products (made in Nigeria) from "outside" competition, while leaving imported materials as well as capital and equipment for construction of the plant duty free, and provided "tax holidays" and permitted repatriations of profit. UAC, for instance, built sewing machine assembly plants, cigarette and beer factories and bicycle assembly lines in order to maintain its dominant share of the consumer market. It is thus very profitable for foreign firms to engage in this type of import substitution and the scope for it is great (5, pp. 105-106).

Unfortunately, instead of increasing the role of indigenous businessmen and women, government incentives encouraged further domination by foreign investors of the Nigerian economy (3, pp. 107-109). For example, the Industrial Survey of Nigeria, Lagos, in 1966 shows that foreign domination was still prevalent. Foreign investment accounted for about 70 per cent or more of the total industrial investment. In addition, foreign investment amounted to at least 90 per cent of the total investment in many basic industries. In the manufacturing sector, foreign
investment was at least 80 per cent of the total investment (3, p. 109).

Economic Sectors: An Overview

There are three main sectors in the Nigerian economy. They are agriculture, manufacturing and oil. The agricultural sector is the oldest. It sustained export products. Agriculture ranked highest in export products before the commercialization of crude oil. As for the manufacturing sector, Nigeria has had very little success in reducing its dependence on imported goods. The oil sector is a recent activity, although in comparison it has yielded more revenues than both agriculture and manufactures combined. Nigeria's membership in the Organization of Petroleum Exporting Countries (OPEC) has enhanced its status economically and politically.

In other sections we draw on some recent findings about the three sectors in the Nigerian economy. We are interested in the share of Nigerians and foreigners in each sector, and the extent to which foreign penetration and control might have existed between the years 1960 and 1980. To further the discussions that follow, we are making two assumptions. First, that to properly understand the nature of external economic dependence in Nigeria, one must examine closely its economic activities and linkages with the developed nations. Secondly, we think that Nigeria's
economic relations with developed nations in essence involve dominance and dependence. Therefore, it is possible that the dynamics within these interactions should give indications about any attendant conditioning process and the counter-efforts to limit the process.

The Agricultural Sector in Nigerian Economy

Agriculture led Nigeria's economic activities between 1960 and 1973 (26). During this period, agriculture recorded its peak by accounting for 59 per cent of the gross domestic product (GDP) in 1960. The lowest record of 42 percent of the GDP was in 1972. Thus, Nigeria's agricultural economy during this period was characterized by export of mainly primary products and an import of mainly manufactured goods. Control of the agricultural sector was in the hands of the British during the colonial period (14, p. 44). This was through the creation of marketing boards in 1947 (5, p. 100). Nigeria's agricultural products for export were mainly cottonseed, palm oil and kernels, cocoa, groundnuts, benniseed, and timber (12). Other commodities were produced for domestic consumption.

The Manufacturing Sector in the Nigerian Economy

For a less developed country to reduce its dependence on imported goods, it must be able to manufacture enough goods for the domestic markets. The level of manufacturing
activities may indicate to some extent the progress being made in the area of technological advancement. The manufacturing sector contributes directly the gross domestic product and employment.

The Nigerian manufacturing sector has expanded its size and value of output. One account shows that by 1950 manufacturing activities accounted for only $26 million; in 1971, it rose to $672 million (4, p. 79). Moreover, manufacturing contributed 0.6 percent to the gross domestic product in 1950 and by 1972 it had increased to 7.8 (4, p. 79).

The manufacturing sector consists of a wide range of processes, technology and organization. Therefore, it is difficult to describe it in a precise manner. One economist has attempted to illustrate this point in this way:

European or government-owned enterprises, medium-scale processing and assembly of a more labour intensive character but still employing advanced technical processes, small-scale yet capital-intensive producers, skilled artisanate industries utilizing mainly hand tools, marginally employed semi-skilled producers making crude consumer goods, and lastly commercial processing in the household.

Industrial production in Nigeria thus exhibits wide diversity in terms of the degree of specialization and division of labor, technology, factor proportions, the quality of raw material input and product finish, the character of markets being served, and entrepreneurial organization (13, p. 17).
Due to import-substitution efforts, most Nigerian manufacturing industries emphasize low-technology. The areas where industries mainly focus are textiles, cement, beer brewing, tobacco production, soap, and cosmetics (4, p. 79). High technology industries are now developing in the areas of industrial chemicals, pharmaceuticals, machinery and electronic equipment. There is a Volkswagen assembly plant in the Lagos vicinity built in 1976.

Investment capital in manufacturing has increased from 56 per cent to more than 75 per cent between 1963 and 1972. High technology and agro-industries are receiving great attention in recent years. It has been estimated that 33 per cent of all investments in manufacturing are located in Lagos-Ikeja areas. Other areas of great concentration are Port Harcourt and Aba in the East and Kaduna and Kano in the North—both regions account for about 37 per cent (4, p. 80).

In his study, Biersteker notes that

... of the paid-up share capital of limited companies covered in the industrial survey of that year (1972), 58 percent was supplied by foreign private capital. Approximately 16 percent was supplied by Nigerian entrepreneurs. Other sources including international institutions, holding companies, and shares held on trust or for distribution accounted for the remaining 14 percent. Those subsectors in which Nigerian firms predominated in 1972 included meat products, vegetable
oil milling, bakery products, tanning, footwear, wooden furniture, printing, drugs and medicines, tire manufacture, and cement. In all other subsectors the share of paid-up capital owned by foreign firms exceeded 50 percent in 1972 (4, p. 80-81).

The study shows also that since the 1960s, ownership of the industrial sector in Nigeria has not changed significantly from the colonial era. Between 1963 and 1972 no substantive changes have occurred in foreign ownership of industries in Nigeria. Another phenomenon in the manufacturing sector in the Nigerian economy is that in 1964 foreign investment originating from Britain accounted for 56.4 per cent of the total foreign investment (4, p. 81).

The Crude Oil Sector in the Nigerian Economy

We indicated previously that the British were not keen in the acquisition of land or in the establishment of foreign operated plantation system, at least in West Africa. Nevertheless, the British attitude toward the exploration of mineral wealth was remarkably different. As one writer observes

Africans had engaged in mining operations centuries before the arrival of the first Europeans, but the colonial government did not permit African ownership of any mining operations until 1927 and thereafter made ownership difficult with the establishment of exorbitant lease fees. Africans with experience in mining operations were employed solely as labourers in the expatriate-owned and managed mines. In the petroleum industries incentives were established to lure expatriate investors, including territorially unlimited exploration rights for thirty years that were automatically renewable (4, p. 70).
The foregoing shows that mineral wealth in Nigeria (as in most West African states) was not available to the Nigerians until very recently. The monopolization of wealth was a widespread practice during the colonial era. The French and the Germans in Africa were all engaged in similar exploration exercises in their respective holdings (14).

The first substantive oil exploration activities started in 1955 when the government granted licenses to some oil companies—Shell-BP, Mobil Exploration Nigeria Incorporated, AMOSEAS, Texaco Mineral Company, and the Nigerian Gulf Oil (7, pp. 156-157). Each company was required to pay over $1 million. The first discovery of commercial quality occurred at Oliobirim, Rivers State. Other locations include Afam and Bornu. By April 1967 Shell-BP production had reached about 350,000 barrels a day. In the present Bendel (then Mid-Western State), oil production began also in 1967 with 145,000 barrels per day. Before the Nigerian civil war, oil production reached 580,000 barrels per day. By 1971 the government under General Gowon established the Nigerian Oil Corporation (NOC). This corporation was to undertake activities similar to those of the private oil corporations.

As of 1985, Nigeria needs foreign exchange to finance its development. Its major source of such foreign exchange has been mainly dollars earned from oil exports to the
United States (about 50 per cent of the total oil export) and other countries. Roughly from 1973 to 1980, oil revenues increased and Nigeria expanded development activities based on expectations of continuing huge oil sales and rising prices. Unfortunately, there was a drop in foreign exchange earnings resulting from a decrease in oil demand and prices. Thus development activities in Nigeria have been slowed in some areas, while others have been abandoned completely. Nigeria now is dependent on oil trade to earn hard-currency foreign exchange. By being dependent, she is thus vulnerable to events affecting the world oil market, and the U.S. economy. In fact, the recession of 1981-83 in the U.S. economy hurt the Nigerian oil export trade.


In this section we define "development planning" as practiced in many Third World countries with particular focus on Nigeria's version. This practice has more to do with the economic activities as envisaged by the various administrations in Nigeria. This section will also show the role assigned to external economic resources in the achievement of each development plan. Here also the scope of external reliance for the accomplishment of development plans will be brought to focus. Thirdly, we discuss the implications of external dependence in development planning.
This section is not intended as an evaluation of the success or failure of Nigeria's development plans. We begin our discussion with the definition of development plan which we consider relevant to this section.

Development planning involves deliberate, reasoned, and orderly use of measures to achieve stated economic goals in determined sequence. The terms 'reasoned' and 'orderly' merit particular emphasis. Reasonable use of government power presupposes knowledge of the probable effects of alternative actions—information about the structures and operating characteristics of the economic system and about the responses of individuals to changes. Reliable statistics, economic analyses, sustained research activity—these are all a part of reasoned government economic policy (6, p. 77).

The idea of development plans has been a part of Nigeria's economic process for a long time. Perhaps what seemed to have encouraged planning all along is the fact that available resources are limited while the economic needs of the people are not. Therefore, planning has always involved how to use limited resources now or in the future in order to yield maximum satisfaction to the people. It also involved what to encourage or discourage within the economic processes. But, as we discuss below, Nigeria, like many ex-colonies, inherited institutional structure and resource allocation patterns that have made the country externally dependent. As one widely known authority on African development notes,
Given slowly expanding world demand and the domination of the world markets by oligopolistic multinational corporations, the African nation that remains dependent on overseas sales of crude materials is likely, over time, to be condemned in economic growth rates that barely keep pace with population expansion. This underscores the necessity for state action to formulate and implement national plans designed to change the institutional structure and resource allocation patterns to attain a balanced, nationally integrated economy capable of achieving increased productivity and higher levels of living for all inhabitants. Examination of the conflicting classes that had emerged at independence further emphasizes the added requirement that the institutional changes made must include channels enabling those who may expect to benefit from this kind of development to exercise a sufficient degree of influence over the machinery of the state (22, p. 81).

Within the West African economic region, either during the colonial period or the post-independence administrations, there were some general aims of development plans. One West African economist has articulated these aims as:

(a) Acceleration of the rate of economic growth. If the rate of economic growth is faster than the rate of population growth, the level of living of the population can be raised. The plans therefore seek to achieve a rise in the national output every year.

(b) The development of infrastructures. These include roads, railways, waterways and electricity, which will promote economic development in general.

(c) Effective utilization of resources. All resources are to be harnessed for economic growth. This means that governments, government agencies, private foreign and private indigenous businessmen will co-operate in the execution of capital projects. Private entrepreneurs are encouraged by the governments through the provision of loans, tax holidays, industrial estates and expert advice.

(d) Increase in the facilities for education, housing, health and other components of social development.
(e) Diversification of the economy. It is hoped that the plans will reduce the present precarious dependence of West African countries on a few export crops. Diversification of farm products will result in variety in exported products and make the countries self-sufficient in domestic food requirements. Factories that will process the increased farm output are to be established. Industrialization will also lead to the avoidance of the past heavy reliance on economically advanced countries for capital and consumer goods. This will save foreign exchange.

(f) Creation of employment opportunities. With the implementation of the various projects in the plans, more people will be employed. New skills will be acquired by West Africans so that fewer of the highly skilled workers from foreign countries will be required.

(g) Raising the level of economic and social well-being through an expansion of per capita income (2, p. 257).

These general aims reflect the direction of all the development plans which Nigeria pursued between 1960 and 1980. To discuss the post-independence national development plans we first review the British pre-independence development planning in general. The manner in which the British colonial government operated economic planning can be summarized as follows:

... The governments of the British colonies, particularly after World War II, drew up a variety of plans for development. These were, however, particularly limited. For the most part they consisted essentially of "departmental shopping lists," indicating the kinds of projects and the funds needed to implement proposals strung together by the various governmental departments. Wedded to the idea that for the most part only private enterprise should invest in productive activities, the plans provided the social and economic infrastructure needed to encourage private firms--of necessity mainly foreign--to make those investments. The net result was that the colonial
plans, if anything, served primarily to further the expansion of the export enclave and the increased external dependence of the colonies (22, p. 82).

From the foregoing background, we now discuss the nature of British development plans in Nigeria. The first national development plan by the British government was introduced in 1946—the "10-year-Plan for Development and Welfare" (11). It was criticized by various Nigerian elite groups for lack of inputs from the people of Nigeria leading to a series of revisions within the plan. By 1954, a revised version was put into operation (2, p. 258). Nevertheless, the plans faced other problems.

Shortage of capital funds as well as highly qualified and experienced professionals, technical and administrative staff hindered the implementation of the 1946-1954 and the 1955-1960 Development Plans.

Their general feature was a lack of comprehensiveness. They were primarily a collection of development schemes designed mainly to provide basic economic and social services. Furthermore, there was no clearly set out integration plan whereby economic development in the public and private sectors of the economy could be harmonized (2, p. 159).

Although from the surface one might have the impression that the colonial government was concerned with the economic activities of the colonies, it is evident that their plans were more or less self-serving. For example, when the Balewa government took office in October 1, 1960, Nigeria inherited a long-term adverse balance of trade which was fifteen times greater than the year 1955 (7, p. 159). In short, imports generally grew faster than income.
The Post-Independence National Development Plans in Nigeria

The discussion of Nigeria's post-independence national development plans, as pursued by the respective administrations, only highlights those aspects of the plans that relate to external economic resources. The reason for this focus is that this study is directed to the examination of those areas of Nigeria's economic activities which relied heavily on external resources. Also we examine the potential influences that they might have had on foreign investment policy outputs during the period 1960 through 1980. In a study of newly independent states, Seidman (22) summarizes the general characteristics of National Development Plans in Africa which we consider to have influenced the Nigerian orientation.

Upon attainment of independence, the first round of African plans publicly proclaimed the goal of augmenting the per capita incomes of the African populations. In reality, however, they continued to prescribe policies not unlike those adopted by the colonial government planners. True, a greater emphasis was placed on social as well as economic infrastructure: many more schools and hospitals, as well as roads and ports, were to be built. But private enterprise was still expected to provide the main motor for development in the productive sectors. The underlying assumption apparently continued to be that government’s expanded efforts to construct infrastructure and create an ‘hospitable investment climate’ would attract the necessary private investment to achieve proposed production targets.

As the end of the Development Decade neared, it became increasingly self-evident that the first round of national plans had achieved little notable success in spreading productivity and raising the levels of living
of the broad masses of the population in any African country. What effort had been made to expand production---much of it still concentrated on exports---appeared to have been vitiated by falling world prices. Balance of payments crises had spread as governments sought to increase the import of capital goods and equipment to meet plan targets.

Foreign finance anticipated in the plans for development did not appear to be forthcoming in the amounts anticipated. Some nations, notably Ghana and Nigeria, began to utilize high-cost suppliers' credits in an effort to build promised social and economic infrastructure . . . . The required repayment of interest and principal increased the burden on the future balance of payments.

Given the realities of the circumstances confronting the newly independent African governments, it should have surprised no one that their initial plans turned out to be little more than paper documents. One observer suggested, in addition, that "men and organizations can easily become captives of rite and ritual, thus reducing planning activities to little more than formal, symbolic exercises." Sometimes this was justified by the experts: after all, it was said the purpose of planning was merely to provide some sort of propaganda tool to arouse African populations to necessary development efforts. Others concluded that there was really no point in planning at all. The best that could be hoped for under the circumstances, they held, was a kind of year-to-year effort to evaluate progress and suggest next steps (22, pp. 82-83).

The era following Nigeria's independence was characterized by a combination of economic and political challenges. A choice had to be made. Simultaneously with independence Nigeria accepted planning as an instrument of policy to carry out her transition. In this respect, economic planning is seen as giving a concrete expression to the aspiration that led to independence, and investment policy is intended to create the framework which facilitates
the realization of the development plan (1, p. 298). Accordingly, independence, planning, and investment policies have followed each other in close chronological sequence. For example, Nigeria attained independence on October 1, 1960. By 1962, the First National Development Plan was introduced, followed by the "Immigration Law of 1962," which was in effect, a foreign investment policy (8). From 1960 to 1980 Nigeria pursued three national development plans.

The first Nigerian National Development Plan, which was introduced in 1962, covered a six-year period--1962-1968. The general aims were

(i) To surpass the past growth rate of the economy of 3.9 per cent and to achieve a rate of 4 per cent per year and if possible to increase this rate.

(ii) To achieve this aim by investing 15 per cent of the Gross Domestic Product, and at the same time to endeavour to raise the per capita consumption by about one per cent per year.

(iii) To achieve self-sustaining growth not later than by the end of the Third or Fourth National plan. This involves raising the domestic savings ratio from about 9.5 per cent of GDP in 1960-61 to about 15 per cent or higher by 1975 in order to sustain the bulk of domestic investment.

(iv) To develop as rapidly as possible opportunities in education, health and employment; and to improve access of all citizens to these opportunities. This includes the training of a greatly increased number of doctors, the provision of a greatly increased number of places for university students, the provision of primary education for a rapidly increasing proportion of children of school age, the expansion of hospital services commensurate with the ability of the economy to sustain them.
(v) To achieve a modernized economy consistent with the democratic, political, and social aspirations of the people. This includes the achievement of a more equitable distribution of income both among people and among regions (17).

The estimated capital expenditure under the First-Plan was N2.2 billion or $3.63 billion (10, p. 9). The 1962-68 Plan called for a total of $1.1 billion private investment. It was hoped that $560 million or slightly more than half of the private investment total would be invested by foreign private business (20, p. 4). Unfortunately, by 1964 the amount received and the foreign investments made were short of the projected target. One problem in particular was that foreign aid donors imposed too many unacceptable conditions. For instance,

each donor country had its own requirements, and as a result project documentation had to meet the idiosyncrasies of particular lenders. This called for greater versatility on the part of planning officials, and thus accentuated the problems of shortage of skilled manpower.

Secondly, the terms on which the aid was given also discouraged its utilization. Many donor countries tied their aid to the financing of particular projects in the development plan. These projects were not necessarily those to which the government attached a high priority from the point of view of development strategy. Thus, the government was not prepared to release its limited resources for implementing such low priorities in the early years of the plans. This in effect meant that the foreign exchange made available could not be utilized even though there were highly priority projects which had been properly appraised and documented and were therefore ready for execution (7, p. 162).
In short, many factors were probably responsible for the failure to implement and therefore complete the first Nigerian National Development Plan. Among these were the Civil War, shortage of foreign exchange, technical know-how and manpower combined. For the purpose of this study, it is obvious that Nigeria's overdependence on external resources caused the initial frustration by 1964, at least before the war. For instance, the federal government even went to the extent of guaranteeing foreign investors that nationalization would not take place at least during the period covered by the 1962-1968 Development Plan. To be perceived as a serious partner, the government included in the Plan a clause which reads as follows,

It is the intention of the Government to enable Nigerian businessmen to control increasing proportion of the Nigerian economy, not through nationalization but by the accelerated training of businessmen, the provision of advisory and training services, and the improved flow of capital and technical and market information (17, p. 24).

The government also promised the foreign investors "access to all the incentive policies and facilities available to the Nigerian investor" in the Plan. However, all these efforts did not seem to amount to any substantial inflow of foreign capital during the Plan period. Perhaps it is logical to think that foreign investors and their governments had a more accurate assessment of the events in Nigeria than the Nigerian planners themselves. In Chapter IV we survey
literature about the government policies which observers consider as a national response to the failure of foreign investors and donors to cooperate as expected under the 1962-68 Development Plan.

Officially, the 1962 National Development Plan expired in 1968. But because of the Civil War, a second plan was not introduced until 1970. The Second National Development Plan of 1970-74 has its objectives as follows:

(1) promote even development and fair distribution of industries in all parts of the country; (2) ensure rapid expansion and diversification of the industrial sector of the economy; (3) increase the incomes realized from manufacturing activity; (4) create more employment opportunities; (5) promote the establishment of industries which cater for overseas markets in order to earn foreign exchange; (6) continue the program of import-substitution as well as raise the level of intermediate and capital goods and production; (7) initiate schemes designed to promote indigenous manpower development in the industrial sector; and (8) raise the proportion of indigenous ownership of industrial investment.

This called for a capital expenditure of N3.192 billion or $5.266 billion (10). According to the government document, the total capital expenditure actually spent was N5.3 billion. The public capital expenditure was N2.237 billion or $3.69 billion while the private sector contribution amounted to N3.1 billion or $5.115 billion. The public and private sectors have contributed shares of 41.6 per cent and 58.4 per cent, respectively (10, p. 12).

Another feature of the Second National Development Plan 1970-74 is the "Indigenization Policy." According to the
government source, in order to give effect to the
indigenization policy contained in the Second National Plan,
the Nigerian Enterprises Promotion Decree was promulgated in
February 1972 (9). The Decree set out in its first schedule
25 industries and commercial ventures which were reserved
exclusively for Nigerian citizens and associations. For
instance, Schedule 2 of the Decree requires 40 per cent
Nigerian participation. The details of this Decree are
discussed in Chapter IV.

Although the First National Development Plan stressed
an accommodationist theme toward foreign investments, the
Second National Development Plan of 1970-74 reflected a
change in government policy. The government was more
ambitious and aggressive than ever before in its approach
toward foreign economic influence in the country. According
to the Plan provision,

Beginning with the present Plan the Government will
establish an Agency whose sole responsibility will be
to ensure that all employers (private and public)
conform to the Nigerianization policy to which the
nation has been long committed. The Agency will work
closely with the Expatriate Quota Committee, which is
responsible for processing applications for allowing
expatriates into the country. Furthermore, Government
will establish a strict time-table for Nigerianization
of various sectors of the economy, taking into
consideration the peculiar manpower requirements of
individual industries.

... It will be naive, indeed dangerous, to hope that
in the process of industrial development, a set of
national objectives will automatically be achieved by
their mere declaration. A truly independent nation
cannot allow its objectives and priorities to be
distorted by the manipulations of powerful foreign investors.

... To this end, the government will seek to acquire, by law if necessary, equity participation in a number of strategic industries that will be specified from time to time (9, pp. 288-289).

We discuss in Chapter IV the government policies used to achieve a substantial level of Nigerian equity participation in the various industries. The significance of this policy shift is that it marks the end of the colonial-inherited open door policy toward foreign investors. Nonetheless, Nigeria still operates an open economy by all accounts, and foreign investors are still being attracted consistently.

The Third National Development Plan 1975-80 laid emphasis on the need to give Nigerian investors some assistance to continue with the indigenization measures (10). An examination of the provisions of the Third Plan shows that it is different from the past two plans in many ways.

Firstly, it is the biggest and most ambitious Plan ever prepared in Nigeria. While the 1962-68 and 1970-74 Plans involved capital expenditures of #2.2 billion and #3 billion respectively, the present Plan envisages a capital programme of #30 billion. Again, while the two last Plans postulated growth rate of 4 percent and 6.6 percent in real terms the present Plan postulates a growth rate of over 9 percent. The size of the Plan is meant to ensure a radical transformation of the economy during the Plan period (10, p. 10).

Under the third plan, the government continued to pursue those broad goals as outlined in the first and second plans. However, there were specific short-term objectives
which the third plan was to focus on. These objectives included:

(a) Increase in per capita income,
(b) More even distribution of income,
(c) Reduction in the level of unemployment,
(d) Increase in the supply of high level manpower,
(e) Diversification of the economy,
(f) Balanced development,
(g) Indigenization of economic activities (10, p. 29).

Within the realms of "general policy measures" the Third Plan emphasized economic integration of the West African sub-region. Perhaps the efforts under this Plan led to the formation of the Economic Community of West African States (ECOWAS) in 1975 (25, pp. 234-250).

Of the $30 billion or $49.5 billion estimated for capital expenditure in the third plan, the private sector was to contribute $10 billion. Again, as indicated elsewhere, the private sector in the Nigerian economy usually depended heavily on foreign investment. Thus, based on past records, the government expected over $5 billion or $8.25 billion from the foreign investors. Initially, the federal and state governments were expected to generate a total of $20 billion or $33 billion toward the Third Plan. Later this figure was "revised upward up to a new figure of $43.3 billion or $71.445 billion." The assumption probably was
based on the revenue projected from crude oil sales. But, by the end of the fourth year of the Plan (i.e., barely one year to expire) the actual amount contributed by the public sector was only ₦22.68 billion out of the revised figure of ₦43.3 billion. Apparently there was some problem with the projected revenue expected during the Plan period.

President Shehu Shagari put the problem this way in an address to a joint session of the Nigerian National Assembly;

The Third National Development Plan was launched against a background of rapidly rising price and production of crude oil. Our production was projected to rise from 2.3M barrels per day at the beginning of the plan to about 3.0M barrels per day by the end of the plan period. This projection under the circumstances then prevailing justified optimism in the potentiality of public sector investment. This was what was responsible for the upward revision of the public sector side of the Third Plan. As it turned out the dream did not come true. It was probably a case of over-optimistic optimism. The reason was simple. Soon after launching the plan, the oil market situation changed, not for the better. Added to this, on account of developments in the world economy generally, our level of oil production fell sharply from 2.3M barrels a day to 1.3M barrels a day during the plan period. It was not until 1979 that we were able to regain our 1974 level of production (24, pp. 138-139).

The foregoing explanation has at least two key implications related to this study. First, it shows that Nigerian exports relied heavily on crude oil. Second, as a corollary of the first point, the public sector was solely dependent on export revenue in financing its programs.
To summarize, it is instructive to know that the National Development Plans in Nigeria spell out the directions of the foreign investment policy outputs as indicated throughout the discussions of the three development plans pursued by the government. Second, Nigerian National Development Plans relied heavily on foreign funding sources, such as banks, governments, and MNCs, for implementation. Third, under the first Plan, 1962-68, the chief source domestically was the agricultural sector, whereas the Second and Third Plans depended on revenues from crude oil sales in foreign markets. In essence, for most of Nigeria's first twenty years as a sovereign nation, foreign sources played a key role in her economy.
CHAPTER BIBLIOGRAPHY


CHAPTER IV

NIGERIAN FOREIGN INVESTMENT

POLICY OUTPUTS

The focus of this chapter is to identify the various major documents containing Nigeria's foreign investment policies (Laws, Regulations, Acts, Ordinances and Decrees) and to examine their contents as they relate to tax and equity holdings. Emphasis is placed on the post-independence policies. Specific changes in policy directions during the period are noted. What factors influenced the changes? Who were the beneficiaries? These are some of the questions raised in this chapter.

John D. Esseks (1971) in attempting to assess the direction of foreign investment policies of new independent states in Africa notes,

In the trade, immigration, investment, and other policies of African governments designed to cope with the circumstances of economic dependence, two general types of strategies may be detected: (1) co-existence with foreign economic powers, and (2) compulsory indigenization of sectors of the economy and of employment opportunities.

The essence of co-existence strategies is (1) to refrain from restricting significantly or expelling foreign enterprises and personnel, and (2) to accept in substantially unaltered form the pre-independence
pattern of foreign economic relations, i.e., remain in Franc Zone or Sterling Area, continue to sell most exports in the traditional markets and buy most imports from the former metropole.

The essential feature of compulsory indigenization strategies is the use of rule-making authority to force the substitution of indigenously controlled enterprise for foreign enterprise and the replacement of alien managers and staff with citizens. Often the same governments will be intolerant of the existing situation in foreign economic relations and will attempt through aggressive diplomacy and administrative control to diversify export markets and the sources of imported goods and foreign capital investment (11, pp. 1052-1075).

It is assumed that strategy is used in the above context as a mediating variable between the host government and the foreign enterprises. In this regard, records of strategies pursued by the colonial authorities in Africa showed that indigenous Africans were subjected to unfair economic regulations. In some cases Africans were intimidated; in other cases complete elimination of African enterprises was a standing order. Africans, in general, played minimal and passive roles. There were other extreme cases.

For instance,

By imposing heavy trading licenses, and stringent marketing regulations and by sending punitive expeditions against resisting Africans, the colonial government eliminated indigenous competitors and opened the way for an unimpeded take-over of the economy by the expatriate firms (4, p. 70).

The foregoing quotation has some overriding implications. First, Africans would like to have seen that regulations which were designed to deny them the right to business
ownership were either modified or eliminated. Secondly, African leaders and other elites saw political independence as a lever to realize the goal of either reshaping or completely rejecting colonial policies toward foreign investments. The post-independence period is important for the realization of those objectives.

**Pre-Independence Foreign Economic Policies in Nigeria**

With particular reference to the Nigerian experience, this section reviews some pre-independence foreign investment policies pursued by the British authorities. In a case study of Nigerian economic development, Biersteker makes this observation about the colonial administration.

Policies directed toward foreign investors during the colonial period have had far-reaching implications for both the Nigerian economy in general and subsequent, post-independence foreign investment policies. Although they consistently opposed the acquisition of land and establishment of plantations by Europeans, the colonial authorities enacted legislation that not only tolerated but supported the growth of large expatriate trading firms in Nigeria (4, p. 70).

The foregoing passage shows that Nigeria was committed in advance to pursue the external economic policies inherited from the colonial authorities. As is shown below, the colonial investment regulations were extended and strengthened during the initial years of Nigerian independence. Some reasons for such a strategy by the first post-independence administration in Nigeria are related to economic and political consequences.
Almost all the foreign investment policies introduced in the decade preceding Nigerian independence took the form of incentives rather than any substantive control of the inflow and domination of the Nigerian economy by foreign investors. As Biersteker puts it,

These incentives became particularly pronounced in the final years of British colonial rule. Tax relief ordinance passed in the 1950s guaranteed exemptions from company taxes for 'pioneer' industries, allowances on building and plant facilities, and relief from import duties. Limited tariff protection for many foreign investments was promised, and sweeping national policy statements welcomed foreign investments and denounced nationalization.

Constitutionally or legislatively binding ordinances regarding repatriation, nationalization, and compensation provided further incentives for foreign investors (mostly British) during the 1950s. Freedom to repatriate profits, dividends, and capital was assured the multinationals in the 1957 Constitutional Conference and reiterated in a 1958 national policy statement on foreign investment. Assurances that no Nigerian government (federal or regional) was interested in nationalization were also made during this period. All the provisions of the 1957 Constitutional Conference regarding repatriation, nationalization, and compensation were retained in the 1960 constitution adopted just prior to independence (4, pp. 70-71).

In more specific terms, beginning in 1952 the colonial government passed one of the most significant policies toward foreign investment entitled, "Aid to Pioneer Industries Ordinance (No. 10, 1952)." This document lists industries which were declared as "pioneer industries" by the government. The 1952 Ordinance provides for company tax exemptions, allowances on buildings and plant facilities, and
relief from import duties. Between 1952 and 1956 the World Bank undertook a mission to Nigeria to assess the potential for economic development. In its recommendation, both the federal and regional governments were urged to publicly make some commitment to foreign capital input in the future of Nigeria's economy. The World Bank wanted some pronouncement regarding openness, acceptability and a cordial economic atmosphere (27, 28).

Following the World Bank recommendations, the Nigerian authorities made a series of "Statements on Industrial Policy" beginning in 1956 (see Appendix C). Precisely, the 1956 "Statement on Industrial Policy" emphasized the "vital" role which the government hoped that foreign capital and expertise would play in the economic development of Nigeria. The "Statement" promised foreign investors the utmost cooperation from the government through favorable investment policies.

By 1957, the "Industrial Development (Import Duties Relief) Ordinance 1957" was introduced. Among other things it allowed

... qualified companies to obtain relief from import duties on materials or parts for use in manufacturing or processing when it can be shown that such relief is necessary for the firm to meet competition with imports. Relief may also be granted when the competing imported finished article is subject to a lower rate of import duty than are the materials which must be imported to manufacture the same product locally. Any relief granted may be restricted both as to the amount of duty to be refunded annually and as to the period of relief, the maximum being 10 years (24).
The above Ordinance was followed by two others in 1958. The first, which liberalized and extended the former "Aid to Pioneer Industries Ordinance 1952," is entitled the "Industrial Development (Income Tax Relief) Ordinance 1958." Its provisions can be summarized as follows:

- Firms operating in industries which have been designated by the Government as 'pioneer industries' may qualify for complete income tax relief for up to five years, depending on the size of the capital investment involved in the particular undertaking.

Initial tax relief under this legislation is granted for two years provided that a minimum qualifying capital expenditure of $15,000 has been incurred on fixed assets before the start of production. If, by the end of the first two years the amount of qualifying capital expenditure incurred by the company has reached $15,000 ($42,000) relief will be granted for a further year; and if by the end of that extended period the total reaches $50,000 ($140,000) another year will be added. A final year, making a total of five years in all, will be given if the qualifying capital expenditure reaches $50,000 ($140,000) at the end of the fourth year.

If losses are incurred during the tax holiday a further extension may be given. For each accounting period within the tax holiday in which a loss is incurred, tax relief is extended by the same period.

There is also provision for capital expenditure of the type which normally attracts relief from income tax and which is incurred in a tax relief period, to be written off wholly from the taxable profits arising after that period.

As a corollary to the exemption from tax of profits earned by the company in its tax relief period, shareholders are exempted from tax on dividends up to the amount of such profits.

To qualify for relief under the Industrial Development Act, a firm must be granted a pioneer certificate.
Accelerated Depreciation—The Income Tax (Amendment) Act, 1958, allows all companies operating in Nigeria to write off capital assets against profits at an accelerated rate.

Initial deductions of 40 percent for machinery and 20 percent for industrial buildings are allowed. The annual depreciation allowance on machinery, based on expected life, is ordinarily between 5 and 15 percent; that on buildings of all types is 10 percent. In the first year a company may claim both an annual deduction and the initial allowance.

Where the taxable income of a company does not absorb fully the capital allowances claimed, the unabsorbed balance may be carried forward indefinitely against future taxable profits. Unabsorbed losses may be similarly carried forward against future taxable profits but for a limited period of 10 years (24).

The second ordinance introduced in 1958 was "The Dumped and Subsidized Goods Ordinance 1958". This Ordinance was to protect foreign companies operating in Nigeria against dumped goods from other countries. The "Dumped and Subsidized Goods Ordinance 1958" is also called "Customs Duties (Dumped and Subsidized Goods) Act". It states in summary

"... when necessary, imposition of a special duty on any goods being dumped in Nigeria or subsidized by any Government or authority outside Nigeria (will be levied). The right to exercise this power is vested in the Federal Government which must be satisfied both that material injury will be threatened, or caused by entry of such goods to a potential or established industry in Nigeria, and that imposition of a special duty will not conflict with Nigeria's obligations under the General Agreement on Tariffs and Trade (GATT) (24)."

Finally, the British authorities passed two other policies in 1959. One is the "Petroleum Tax Ordinance 1959" which entitled the government to a 50% tax on all crude oil
produced in Nigeria. Foreign investors were granted another incentive—it is known as "The Drawback (Customs) Regulations". These regulations in summary

. . . allow manufacturers to claim repayment of import duties in certain circumstances. Repayment of duties in full will be made on goods imported: (a) for use in manufacturing products to be exported from Nigeria, (b) for use in manufacturing goods which are purchased by organizations or persons entitled to duty-free importation of similar or identical goods, (c) on paper imported for use in manufacturing educational materials to be supplied to recognized educational institutions. Partial repayment is made on tobacco used in the manufacture of cigarettes (24).

From the provisions of the five major policy outputs (ordinances, acts and regulations) as outlined in this section, one is left with the impression that the colonial authorities responded to their interests. But the reverse was the case.

The Acts increased foreign investment in the Nigerian industrial sector but hardly achieved any positive result in the desired use of Nigerian indigenous personnel and other domestic inputs (21, p. 241).

**Pre-Independence Pressures for Nigerian Equity Participation**

Public pressures were mounted against the British authorities as a result of their policies toward foreign investment and the Nigerians' role. In 1957, Chief Obafemi Awolowo cautioned his Party members as follows:

We must not allow foreign monopoly in any field of industrial venture. By this I mean that we must not allow a foreign investor to go it alone. Experience has shown that once a foreign investor has entered a particular field of industrial venture, that field is
forever closed to Nigerian entrepreneurs . . . What we are anxious about is that a foreign investor should always take into partnership in any new venture, either the Government or any of its agencies or private indigenous investors. We all know that the latter class of investors is almost non-existent just now and, until they are forthcoming, it is only fair that the Government, as the trustee of our people, should insist on financial participation in any new industrial venture.

. . . We hope that . . . the Federal Government will see to it that no industrial venture is launched in this country in the future unless there is a substantial indigenous financial participation either by the Government or its agencies, or by private individuals. Unless this is done now we would be creating a situation which might lead to serious consequences in the future (3).

Public pressures from the Nigerian elite to participate substantively in the economic activities ranged from parliamentary debates to open criticism of specific provisions of plans proposed by the British administration. One writer notes as follows,

In the economic sphere, mainly in commerce and industry, the Nigerian nationalists as far back as the late 1940's expressed resentment against the economic domination of the country by foreign nationals. Their primary preoccupations were, first, to secure a higher share of Nigerian import-export trade for themselves, and, second, to achieve maximum participation in industrial enterprises located in the nation.

In the administrative sphere, 'Nigerianization' of the Public Service became the watchword. As the years went by, it gained more momentum. In relation to the administrative system, the term 'Nigerianization' has been variously defined. For instance, the Phillipson-Adebo Report of 1953 defined it as 'the reduction and ultimately the ending of expatriate predominance in the highest levels of the civil service.' The Gorsuch Report of 1955 on the Public Services saw 'Nigerianization' as 'the planned infusion of Nigerians into the senior service.' In 1958, the Parliamentary
Committee on Nigerianization maintained that "Nigerianization means providing the people of Nigeria with an effective civil service manned by the best available Nigerian people" (21, p. 243).

While the British authorities responded by various ordinances, laws, acts and regulations, the majority of the Nigerian elite did not think that the government had done enough to place it in positions of control. The nationalists were quite dissatisfied, calling British foreign investment policies biased against Nigerian participation. This thinking is expressed in the following words.

From the beginning, the demands by the nationalists for the exclusion or complete elimination of foreign personnel from the highest echelons of the civil service was in most part pursued simultaneously with the demands for higher share of Nigerian commercial and industrial activities for the indigenous people in the policy. The first formal step that was undertaken by the colonial government in the early post Second World War years to accommodate the latter pressures (i.e., the nationalists' growing fears of foreign economic domination and desire to reverse this trend) was the establishment by statute of a Marketing Boards System to handle Nigeria's main export commodities. On paper, the statute transferred the control and marketing of Nigeria's main export crops from foreign trading houses to the Nigerian government and its citizens . . . . The Marketing Board System, however, fell short of the expectations of the Nigerian indigenous business elites because in actual practice it did not lead to any significant Nigerian control of its import-export trade. At best, it only slightly increased the number of Nigerian elites who functioned as licensed buying agents of the Produce Boards and/or as ineffective middlemen in the distributive trade of non-board products. This was largely because the colonial administration was not enthusiastic about the effective
protection of the interests and aspirations of the indigenous businessmen, since this would in the long run hurt the interests of British and other European companies operating in the country (21, pp. 243-244). Thus, the Nigerian elite were quite aware of its fundamental economic rights as citizens regardless of political status living in a colonial territory. In addition, Nigerians made their demands known to the appropriate authorities even though they were not fully met. Also the nationalists' agitation (at the eve of the Nigerian independence) signaled what might be expected in the years ahead. Whether or not the dissatisfactions of the nationalists would be translated into some meaningful actions in the form of policy changes is seen in our next discussion.

**Post-Independence Demands for More Participation in Economic and Administrative Sectors**

We sketched in the previous section the attitude of the Nigerian elite toward the British authorities in the pre-independence years. One would expect the new leadership to move quickly in translating those demands into policy changes following the attainment of independence. But, as we will point out below, substantive policy changes did not take place until the end of the 1960s. One writer describes this situation as follows
During the first six years of self-rule following independence in 1960 (the political party years), the incentive policies inherited from the colonial administration remained virtually intact. In fact, the new government added to or strengthened existing incentives. Nigeria's first national development plan promised the foreign investor "access to all the incentive policies and facilities available to the Nigerian investor." . . . when Nigeria became a republic in 1963, its new constitution made the rights of the foreign investor "fundamental," protecting them with entrenched clauses that could be amended only by a special procedure that was difficult to achieve. And in 1965 Nigeria became one of the first signatories of the World Bank's "Convention on the Settlement of Investment Disputes Between States and Nationals of Other States" guaranteeing third-party arbitration in any investment disputes originating in Nigeria (4, pp. 70-71).

However, the moderate approach toward foreign investors met with resistance from many Nigerians. For instance, Chief Obafemi Awolowo, who was the leader of the Opposition Party in the Federal Legislature in 1961, challenged the government's policy (Federation of Nigeria, Hansard, 1961). He called for a program of "nationalization" of the essential industries in Nigeria. His motion reads: "That this House approve in principle the nationalization of basic industries and commercial undertakings of vital importance to the economy of Nigeria." In essence, this call represented the attitude of the nationalist groups which felt that the government was too slow in transferring ownership and control of economic activities to the Nigerians. The nationalists resented foreign domination of the Nigerian economy, particularly in the "extractive and secondary
industries, commerce and small scale distributive trade and shipping activities." The issue at stake during the 1961 parliamentary debates was whether the Nigerian government should follow an economic policy of "Nigerianization" or "nationalization." Nigerianization or indigenization calls for "the replacement of expatriate personnel and ownership with Nigerians" either in the public or in the private sector. This approach gained acceptance in many neighboring West African states. It was characterized in these words.

The trend toward indigenization is the most significant recurring trend in Nigeria's foreign investment policy. It is also the aspect of Nigeria's policy most frequently emulated throughout West Africa . . . . However, not until after independence was significant indigenization legislation passed. After being supported in principle in both the First National Development Plan and in a 1961 House of Representatives resolution, provisions for increasing Nigerianization were codified into law in the 1963 Immigration Laws (4, p. 73).

Perhaps the significance of the Immigration Law is that it restricts, under a quota formula, the number of expatriates a foreign company can employ in Nigeria. But there is no evidence to show that the number of alien personnel was dramatically reduced in the private sector within the first decade of independence. Rather, observers believed that the Balewa government wanted the law in order to head off the nationalists' confrontation. On several occasions the Federal Minister of Finance, Chief Festus Okotie Eboh defended the government's position (14). On the issue
of either Nigerianization or Nationalization, the Biafra administration was again defended by the Minister of Finance who indicated that

The Council of Ministers was more inclined toward the creation of an independent economy through Nigerianization than through Nationalization. Thus, the government's conception of an independent economy was based on a selective programme of indigenization aimed at increasing the participation of the state and its people in the economy without such policy hurting or being prejudicial to continued and desirable foreign investment in especially the intermediate and capital good sectors (21, p. 247).

In short, the first civilian government in Nigeria did not achieve "economic independence" which would allow the Nigerian elite to have control over the economic activities which it perceived to be within the realms of their legitimate rights. Many factors may have been responsible for the cautious manner with which economic policy was handled under the first post-independence administration. John D. Esseks (11) explains factors that were more likely than not to have influenced many new African leaders to continue to follow inherited colonial policy incentives toward foreign investment.

By accepting the existing situation (i.e., economic policies) governments were assured for the first years of independence of markets for most of their countries' exports, of the services of most of the skilled manpower recruited in the former metropole and frequently subsidized by the ex-colonial power, and in many cases some public aid for balancing current or development budgets.
In the first years of a state's independence, coexistence strategies were also advantageous for directly political reasons. Revising external trade and monetary ties or reconstructing the ownership and managerial organization of their economies demanded far more policy-making man-hours and political risks than the leaders of most countries wished to expend on that area of government concern.

In addition to being politically expedient in the early years of independence, co-existence strategies were attractive because of their relatively low political costs. Articulate left-wing economic nationalists were usually few in number and indigenous business interests were in general poorly organized . . . .

A fourth political condition favoring coexistence strategies was the nearly complete absence of African countries that could serve as a contrary model (11, pp. 1064-65).

The foregoing argument seems to hold true for the first civilian administration in Nigeria. The Nigerian government followed the strategy of "co-existence" rather than "compulsory indigenization" in her initial years of independence (at least between 1960 and 1966) for other reasons. One scholar of Nigerian economic development considers the strategy of "coexistence" peculiar to the policy (2, p. 111). In his study, Akeredolu-Ale reasons that the strategy of "open-door economy" was based on three assumptions, as follows:

The first one which is often not explicitly stated, is that it will be possible, in reasonable time, for local factors of production (especially capital, entrepreneurship, and management) to replace the imported ones. Implied in this assumption is yet another, namely, that it is possible for these local factors of production (which admittedly, are in short supply at first) to grow simultaneously with the expansion of private foreign investment in the country.
The third and final assumption was that the expansion of private and foreign investment would help rather than retard the development of these local factors. Foreign monopoly capital, of course, seized the opportunities which these illusions afforded to expand and consolidate its interests in Nigeria (2, p. 111).

We have seen in this section some evidence of pressure directed toward the Balewa government to increase equity participation of Nigerians in the economic activities of the country. We also notice that this first administration chose to move rather cautiously with regard to foreign investment control. In the next section we document the direction of foreign investment policy followed under the military regime in Nigeria.

The Military Regime and the Post-Independence Foreign Investment Policy Outputs

Under the military regime there was a shift from a near total "coexistence strategy" (in the first post-independence administration) to a substantive "compulsory indigenization strategy." Initially, the military government was faced with the problems of prosecuting the Civil War. According to one account

During the Nigerian civil war very little effort was made to attract new investment, and little new investment actually took place. If anything, the war years gave rise to a greater regulation of transnational corporations. In 1975, however, new inducements to attract foreign investors were again announced. In his budget speech of 31 March 1975, the Head of State General Yakubu Gowon announced that import duties would be cut, excise duties for locally produced goods abolished, and, most significant for transnational corporations, foreign exchange control
considerably relaxed. The expatriate quota law frequently criticized by expatriate managers, was relaxed; and limits on payments to non-resident directors of Nigerian companies were abolished. The tax on company profits was reduced from 60 percent to 40 percent, and the first $9,600 of any company profit along with 50 percent of its Udoji arrears were declared "tax free". Because of oil revenues accumulated by 1975, Nigeria had less reason to be concerned about the dividends repatriated by foreign investors and could afford to provide generous investment incentives again (4, p. 71).

The above analysis highlights what observers generally consider to be the moderate aspects of the regulations pursued during that period. The substantive control and the indigenization drive which took place under the military regime showed a new approach to foreign investment laws.

Beginning with the 1968 "Companies Acts" or "Companies Decree 1968," foreign companies operating in Nigeria were required to be incorporated and registered according to the provisions of the decree (see Appendix B). The decree states precisely that

Every foreign company . . . shall in respect of its operation in Nigeria be deemed to have been incorporated under this decree as a separate entity from the company incorporated outside Nigeria and the company so deemed to have been incorporated in Nigeria shall have as part of its name (unless already therein) the word "Nigeria" . . . (8).

This decree provides the basis for the regulation and monitoring of operations and transactions of business entities operating in Nigeria. It achieved for the military government a full control of foreign enterprises.
However, by 1971 the government offered special incentives to industrial enterprises under the "Industrial Development (Income Tax Relief) Act of 1958" (Amended 1971) (see Appendix B). This Act intends to promote new industries and to expand those where the demand exceeded supply. Companies which are classified as "pioneer" by the Ministry of Industries are eligible under this Act for complete relief from income taxes for the first three years of their operations. An additional two years of tax relief may be granted depending on the government's approval, which takes into account a minimum capital expenditure of 50,000 naira or approximately 85,000 dollars.

With specific reference to the petroleum industry, Biersteker (1982) notes that "most of the new regulations affecting the petroleum companies were derived from similar OPEC agreements reached with the international majors during the mid-1960s." Since then the Nigerian government has taken additional measures to reap the benefits of the petroleum industry. The most significant of these measures is the "acquisition of majority interest in Shell (Nigeria) ... through the Nigerian National Oil Corporation (NNOC)," now renamed Nigerian National Petroleum Corporation (NNPC).

In the drive toward "compulsory indigenization," the Nigerian military government made what is to many of the
Nigerian elite is the greatest stride in foreign investment control. In 1972 the military government promulgated the "Nigerian Enterprises Promotion Decree 1972" (often referred to as the "Indigenization Decree"). Its general objectives are:

(i) to create opportunities for Nigerian indigenous businessmen,

(ii) to maximize local retention of profit,

(iii) to raise the level of intermediate capital goods production,

(iv) to raise the proportion of the indigenous ownership of industrial investment,

(v) to increase Nigerian participation in decision-making in the larger commercial and industrial establishments (6). (See Appendix D.)

Following the promulgation of the decree many speculations were heard as regarding the actual basis for the law.

In its 1974 Overseas Business Reports editions, the U.S. Department of Commerce made this observation about the Indigenization law:

The Nigerian Enterprises Promotion Decree 1972 seeks to secure greater local participation on mutually beneficial terms to further the economic advance of Nigerian citizens and avoid clashes of interest which may arise from predominance of foreign investment in certain areas of the economy. Twenty-two types of enterprises are reserved exclusively for Nigerians in Schedule 1 of the Decree . . . .

A second category of 33 types of enterprises are reserved for at least 40% Nigerian participation. These are generally more sophisticated activities, with paid up capital exceeding $600,000 or annual turnover
exceeding $1.5 million, in which there is, at present
time, insufficient indigenous expertise, as listed
under Schedule 2 . . . .

Enterprises already established in Nigeria, affected by
this Decree, were given 2 years to comply with
provisions for transfer of 40% or more ownership to
Nigerians.

The term 'Nigerianization' is not synonymous with
'nationalization' because the business should remain in
private hands, new private industry is being encouraged
under the new rules and compensation is as mutually
arranged (23).

The "Nigerian Enterprises Promotion (Indigenization)
Decree 1972" was unique when compared to the previous
regulations. By categorizing enterprises under two
schedules and mandating a 100% exclusive ownership for
Nigerians in group one and a 40% equity participation in
group two, the former colonial policies were being
vigorously challenged and repudiated. Nigerians' reactions
also attest to this claim. General Gowon, whose
administration promulgated the Decree, asserted in a public
statement that the policy was a process of "consolidating our
political independence" (7, p. 137).

There were Nigerian groups that criticized the decree
of being short of their expectations. These were the organized
pressure groups with industrial interests. They include the
members of the Manufacturers Association of Nigeria and
other business elites. These groups used the 1972 decree as
the basis to push for further indigenization of the economic
activities. According to Sayre P. Schatz:
The implementation of a partial indigenization decree in 1974 increased the clamor for further indigenization, strategically placed persons and other Nigerians who hoped to gain, had self-interested motives for pressing further. . . . Government thus not only continued to assist Nigerian business as a means of promoting economic development, but also inclined toward advancing indigenous business interests even at the expense of retarding development as long as the cost was not excessive (26, pp. 40-41).

Despite the self-interests mentioned above, there were other reasons for a further indigenization drive. The 1972 Decree did not reduce substantially foreign participation under Schedule II of the scheme. Also, according to a government "white paper," only a third of the affected foreign owned companies complied with the directives of the 1972 Decree (21, p. 253). The Decree failed to reduce foreign participation in the economic activities because it exempted from Schedule II many of the very large import substitution industries from having to provide an equity share to local producers. These factors, and public pressure, led to a second phase of the indigenization scheme.

In 1977, the "Nigerian Enterprises Promotion (Indigenization) Decree 1977" was introduced (20). It sought to secure greater local participation in mutually beneficial terms for the Nigerians and the foreign investors. Under the 1977 revisions, a Board with power to advance the promotion of Nigerian Enterprises was established. Under the new provisions, a committee also was established in each state to assist and advise the Board on
the implementation of the Decree. It must ensure that its provisions are complied with by resident aliens. Furthermore, the 1977 version increased the number of enterprises reserved exclusively for Nigerians from twenty-two to thirty-nine in Schedule I. Under Schedule II, the number was increased from thirty-three to forty. Thus, Nigerian equity participation was raised from 40 per cent to 60 per cent. A 1976 government budget policy statement also eliminated the distribution of dividends in excess of 30 per cent of the before-tax profit of foreign firms (4, p. 73).

To complete the second phase of the indigenization policy the "Nigerian Enterprises Promotion Decree 1977" classified industries under three Schedules. The new "Schedule III" classified enterprises must have a minimum of 40 per cent Nigerian ownership. Forty enterprises so far are classified under this group. Another feature of the 1977 Decree is that "the minimum turnover required for exemption from 100 per cent Nigerianization in Schedule II industries also was raised to $3.2 million" (as against the previous requirement of only $760,000). The 1977 Decree was expected to go into effect by December 1978 (4).

From this brief account of foreign investment policy changes in Nigeria from 1968 through 1977, there seems to be no doubt that a shift had taken place. Yet, opinion is
divided as to the motives behind these changes, and as to whether the country is better off. We attempt, in the remaining portion of this section, to present some scholarly opinions. In his 1982 study, Thomas J. Biersteker makes the following remarks about the efforts of the Nigerian government toward inducement and control of foreign investment.

Nigerian foreign investment policies can be accurately characterized as ensuring an open economy. Its elaborate system of incentives, although currently waning, has created a climate that has encouraged investment by multinational firms. Although factors such as the size of its domestic market, its resource base, and its relative abundance of skilled and educated manpower also contribute significantly to Nigeria's attractiveness to foreign investors, its official policy has reinforced its attractiveness.

A limited but increasing amount of regulation of multinational corporations has accompanied Nigeria's investment incentives. These competing trends have been combined in a carrot-and-stick approach to multinational corporations. The economy remains open, but Nigeria is intent on obtaining a greater share of the surplus provided by foreign investment. Exchange-control restrictions have been applied erratically since independence, and a number of statutes and decrees have been promulgated to obtain a greater share of the benefits in the petroleum industry. A more significant trend has been the increasing pressure for indigenization in Nigeria since independence. Increased local participation in ownership, personnel, and even the supply of raw materials has created a situation in which every multinational corporation investing in Nigeria today is directly affected by its regulatory policies (4, p. 75).

The foregoing suggests that the steps thus far taken by the Nigerian government are within the limit of a well-balanced
approach under the circumstances. An open economy may be more desirable than the nationalization path.

Other explanations have been offered regarding the indigenization policy in the post-1970 Nigeria. One possible explanation is that Nigerian decision makers are reacting to the civil war experience. This group of scholars assumed that foreign companies did not cooperate fully with the federal government during the war period. The Shell-BP Company was cited as a case in point. By making a part-payment of royalties to the secessionist regime, the company enraged Nigerian leaders (7, p. 137; 15; 22). Furthermore, it is suggested that Nigerian leaders emerged from the Civil War with renewed confidence and a feeling of national importance which was then translated into an aggressive policy stance (7, p. 137). In an earlier paper cited by Ogbuagu in the Journal of African Affairs, Biersteker argued that wealth accumulated by some Nigerian elites through the sales of arms to both sides during the conflict gave the impetus to "fan the flames of popular nationalism and put pressure on the state to Nigerianize the economy after the war" (21, p. 254).

Other works have contributed to our knowledge regarding the motives behind the post-1970 Nigerian foreign investment policy shift. One, published by E. O. Akeredolu-Ale (2) addresses a wider factor. He stresses the secular
deterioration of the terms of trade and declining returns from primary commodities have caused balance of trade problems for Nigeria, as the primary sources of the demand for indigenization. Akeredolu-Ale's (2) conclusions are based on two key factors.

. . . (1) Nigeria's economic difficulties since the mid-1950s and the way they were explained, and (2) the lesson in self-reliance forced upon Nigeria's political class by several national experiences and events, especially during the decade beginning in 1962.

The economic difficulties which inspired economic nationalism and a new orientation to private foreign investment had to do primarily with the country's balance of payments position after 1955 and with the efforts of the Government from 1956 to 1966 to boost indigenous business.

. . . But the difficulties had also been attributed to the general rise in the cost of private foreign investment, especially through the repatriation of profits, capital, and capital gains; to the decline in the inflow of private foreign capital; and to the dwindling and progressive tightening of conditions of official aid flows into Nigeria.

Many factors have combined to force the lessons in self-reliance on the Nigerian political class. Among these are the substantial shortfall in the expected foreign contribution in the 1962-8 Development Plan, the increasing cost to Nigeria (as to other underdeveloped countries) of her dependence on foreign capital, the escalation of restrictions on migration from the poor to the rich countries of the world, the anxiety to avoid the political embarrassment to Nigeria (and to Africa) which are bound to arise from the crystallization of foreign economic dominance in the country, and, finally, the belt-tightening experience which Nigeria had undergone in the 1967-70 Civil War (2, pp. 113-114).

Still other scholars hold contrary views. One of them is Inyang Eteng, whose perspective is Marxist. According to
him, the motives behind the indigenization measures in Nigeria can be summarized as follows.

. . . (a) that current indigenization policy as elaborated in the post-civil war development plans basically constitute the culmination of politico-economic reactions of the local petty bourgeoisie against colonial and capitalist imposition, (b) that indigenization which essentially seeks to guarantee to the Nigerian ruling class and its allies a modicum of indigenous control of and participation in the local economy currently under stringent foreign control, has taken various forms over the decades in reaction to the growth of capitalism from its merchantilist to its advanced monopoly capitalist stage; and (c) that because indigenization in whatever form is merely an accommodative reaction to the logic of capitalism, it is at best a lumpen-bourgeois development palliative, not an authentic national development praxis (12, pp. 218-219).

The foregoing statement certainly reflects "dependencia" orientation. Eteng believes that the celebrated indigenization policy designed to increase Nigerian equity participation in the economic activities is externally instigated. He thinks that it is an enthronement of the "growth and development of capitalism in Nigeria" (12, p. 219). He contends that both the Second and Third Development Plans covering the period 1970-80, reflect an externally motivated entrepreneurship among the Nigerian ruling class and its pro-capitalist allies.

The significance of the policy documentation presented in this section is that 1) from 1968 through 1977 two major decrees were promulgated to advance the equity participation of Nigerians in the economic activities of the nation;
2) through these decrees government control was substantially increased; 3) foreign domination of the Nigerian economy has led to the indigenization measures as were pursued; 4) there is a reasonable consensus among scholars to the effect that Nigerian foreign investment policy outputs are based on the leadership's desire for self-determination for Nigerians. Also, there is a general agreement among the various writers that the Nigerian government particularly was disappointed with the lack of cooperation, or deliberate refusal, from foreign governments and investors in the First National Development Plan initiatives. This, in effect, identified a possible tool that the foreign collaborators could use as a lever in dealing with an extremely dependent nation.


CHAPTER V

DATA PRESENTATION AND ANALYSIS

The tables and charts on the pages that follow indicate the findings for this preliminary test of the hypotheses derived from the dependency paradigm. (See also Appendices A and B for the details of data and data sources used in this study.) Secondly, the analysis which accompanies the data presented here reflects an overall picture of the Nigerian case.

To analyze the findings of this study, two sets of data were collected (see Tables I and II). The first set of data (Table I) is the economic indicators. Essentially, the data deal with the annual level of Nigeria's external economic dependence and the degree of vulnerability. Column one of Table I is the year during which the economic transaction was recorded. Column two is the degree or level of Nigerian external economic dependence. Column three indicates the degree to which the Nigerian national economy was vulnerable to the international market forces due to a narrow range of her export commodities. Column four is the degree to which the Nigerian economy was vulnerable to her two major trading partners. Indicators in columns three and four of Table I are used to explain
<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Levels</th>
<th>Degree of Nigeria's Vulnerability to External Market Forces</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>of External Economic Dependence (Combined Indicators For Aid, Investment, and Trade in Percentage)</td>
<td>Percent That Two Major Export Commodities Are of Total Percent That Two Major Trading Partners' Exports Are of Total</td>
</tr>
<tr>
<td>1954</td>
<td>71.68</td>
<td>87.4</td>
</tr>
<tr>
<td>1955</td>
<td>73.13</td>
<td>85.3</td>
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<tr>
<td>1956</td>
<td>66.94</td>
<td>83.4</td>
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<tr>
<td>1957</td>
<td>60.13</td>
<td>82.7</td>
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<tr>
<td>1958</td>
<td>47.74</td>
<td>84.4</td>
</tr>
<tr>
<td>1959</td>
<td>51.26</td>
<td>84.7</td>
</tr>
<tr>
<td>1960</td>
<td>47.68</td>
<td>82.9</td>
</tr>
<tr>
<td>1961</td>
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<td>1963</td>
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<tr>
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<td>1968</td>
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<td>1978</td>
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<td>1980</td>
<td>49.66</td>
<td>97.36</td>
</tr>
</tbody>
</table>

Source: Computed from sources as indicated in Appendix A.
the consequences of economic dependence with a lack of diversified export commodity and trading partnership.

The second set of data (see Table II) deals with the Nigerian foreign investment policy indicators. Two policy areas were addressed—taxes and equity participation as they affect foreign investors and the local business community, respectively. The first column of Table II is the year covered by the policy. Columns two and three display the indicators of corporate income tax and the petroleum operations profit tax for foreign direct investment. Column four reports the indicators of Nigerians' minimum equity holdings in foreign direct investment, and column five is foreigners' holdings.

Summary of Results

In order to compare the level of economic dependence and the direction of foreign direct investment policy in Nigeria, graphic representations were used (see Figures 1, 2, 3, 4 and 5). The levels of external economic dependence was compared with specific policy areas to arrive at the result in accordance with the hypotheses (see Figures 1, 2, and 3). The question as to whether Nigeria's economic dependence was accompanied with vulnerability to external forces was analyzed by comparing the degree of dependence and vulnerability (i.e. commodity and partnership concentrations).
### TABLE II

**SUMMARY OF POLICY INDICATORS**

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent That Petroleum Profit Tax is of Petroleum Operations</th>
<th>Percent That Nigerians' Minimum Equity Is of Total</th>
<th>Percent That Foreign Legal Equity is of Total</th>
</tr>
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<tbody>
<tr>
<td>1954</td>
<td>40</td>
<td>NA</td>
<td>0</td>
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<tr>
<td>1955</td>
<td>40</td>
<td>NA</td>
<td>0</td>
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<td>1956</td>
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*Source: Computed from sources as indicated in Appendices B and D.*
Fig. 1—Comparing changes in the level of dependence with rates of corporate income tax as a policy output.
Fig. 2—Comparing changes in the level of dependence with rates of petroleum operations profit tax as a policy output.
Fig. 3—Comparing changes in the level of dependence with both Nigerian and foreign equity participations in foreign direct investment.
Fig. 4—Comparing changes in the level of dependence with the degree of export commodity concentration as a measure of vulnerability to external market forces.
Fig. 5—Comparing changes in the level of dependence with the degree of trading partnership concentration as a measure of vulnerability to external market forces.
Hypotheses One

Hypothesis one was formulated with the expectation that when the level of Nigerian external economic dependence rises (i.e. considered high) tax rates directed at foreign investment would be lowered as an incentive measure toward the foreign business community in the country. The evidence from the data shows that lower tax rates levied on foreign enterprises during the years when the country's economy was substantially dependent on external resources were exceptions rather than the rule. Besides, since the introduction of both the corporate and petroleum taxes in 1954 and 1959, respectively, there had never been any decline. The pattern shows a periodic increase in the tax rates rather than any responses to the levels of external economic dependence (see Tables I and II and Figures 1 and 2). For example, the initial income tax rate in 1954 was 40 per cent. This rate was increased to 45 per cent in 1950. In 1975, a new corporate income tax rate was set at 50 per cent which remained in effect until 1980. There is no rational basis from the data to show that both tax hikes were in response to the falling levels of external economic dependence in Nigeria. To be sure, there are a few years when tax hikes coincided with falling levels of external dependence; but these instances must be viewed as mere
coincidence since the same pattern did not obtain similar circumstances.

The second levy imposed on foreign direct investment is the "petroleum operations profit tax" in 1959, at the rate of 50 per cent. Like the corporate income tax, the petroleum levy was increased two times—in 1970 and 1975. The 1970 rate was 55 per cent of the profit derived from petroleum operations. In 1975, the petroleum tax was raised to 85 per cent; the highest rate levied during the period covered in this study.

The level of economic dependence fluctuated erratically from 1954 to 1980. Besides, there was no single year during which Nigeria did not meet the threshold of economic dependence specified for this study (i.e. 20 per cent on annual basis). The highest level of economic dependence of 96 per cent (approximately) was recorded in 1973; while the lowest level of economic dependence was approximately 44 per cent in 1979.

Another point about the indicators for the level of economic dependence and the foreign investment tax rates is that each tax hike was preceded by a period of high level of economic dependence. For instance, a tax increase in 1970 was preceded by a six-year period of extremely high level of economic dependence (i.e. 1964 through 1969, both years inclusive). This point is important because it
challenges the position of the dependency theorists who claim that a high level of economic dependence may inhibit policy change. The implication of a policy change must be analyzed on the basis of those it favors rather than the shift in policy. In this case, foreign direct investment was the loser by paying higher taxes. The fact that the Nigerian economy was more dependent on foreign sources did not seem to matter very much to her policy makers. The Nigerian government tax hike may be due to financial considerations.

Hypothesis Two

This hypothesis was intended to test a widely held view that a newly independent state due to conditions of economic dependence may refrain from restricting significantly foreign enterprises. Specifically, hypothesis two states that the index of the Nigerian equity participation in foreign direct investment varies inversely with the index of its external economic dependence. This hypothesis is partially supported (see Figure 3). It is evident from the graphic representation in Figure 3 that a sharp decline in the level of Nigerian external economic dependence in 1974 was proceeded by a substantial increase of Nigerians' equity participation in 1975. On the other hand, foreigners' equity participation was dramatically reduced at the same time. However, there are instances where the rising level
of Nigerian external economic dependence did not really lead to any increase in her citizens' equity in foreign enterprises. In other cases, both the decline and the increase of external dependence and Nigerians' equity, respectively, coincided. However, the data for the Nigerian equity participation policy showed that from 1954 to 1963 there was virtually no law passed to mandate foreign investors to offer Nigerians specific shares (See Table II and Figure 3). The absence of any laws that required foreign enterprises to offer equity to indigenes illustrates the restraint exercised by the Nigerian authorities during the initial post-independence years. Also, Figure 3 shows a steady decline of foreign equity participation in foreign direct investment. For instance, in 1954 foreign equity was 100 per cent. By 1964, when a policy was introduced, foreign equity declined to 90 per cent. Again in 1972 there was a further decline in foreign equity to 60 per cent and from 1976 through 1980 this index remained at a 40 per cent record low.

In sum, the Nigerian foreign direct investment policy regarding equity participation was initially pro-multi-national corporations (MNCs) as evident by an absence of any law. Secondly, by 1964 when the first law was introduced to address the issue of equity participation for Nigerians in foreign direct investment, only 10 per cent minimum equity
was reserved for the indigenes. This gesture on the part of the Nigerian government seems to demonstrate its unwillingness to restrict foreign enterprises in the country during the first years of the post-independence era.

Furthermore, the Nigerian equity participation policy had continued to increase the legal minimum share for Nigerians since its inception, 1964. In other words, although the progress for more equity holdings had been incremental, a decrease in the baseline was never recorded during the period covered in this study.

Another observation must be made about both the level of economic dependence and the nature of the policy output. In view of the widespread of military regimes in Nigeria, it is essential to point out that the major shifts in the foreign investment policy outputs studied occurred during the periods of the military government. While civilian government took the liberty to retain and strengthen foreign economic policies inherited from the British administration, the military government radically changed most of the policies in favor of the indigenes. These changes occurred between 1966 and 1977. The data showed also that policy changes did not necessarily follow the levels of Nigerian external economic dependence.
Hypothesis Three

This hypothesis was formulated to tap Nigeria's vulnerability due in part to a narrow range of export commodity and international market forces. Hypothesis three states that the index of the Nigerian export commodity concentration varies inversely with the index of her external economic dependence. The result of hypothesis three (see Figure 4) shows that it was well supported by the data as presented. In other words, there is substantial evidence to show that the index of export commodity concentration varies inversely with that of economic dependence. But the fact remains that Nigeria was highly dependent and her export commodity was undeniably concentrated. Whether this situation has any bearing on the foreign investment policy pursued during the period of this study, is an open question.

Nevertheless, Nigeria was not in a position to adequately respond to her external stimulus. This was due to the fact that Nigerian economy was less diversified with a narrow range of export commodity. In other words, a change in the international market for one or the two major export commodities would have adversely affected the national economy. It is important to mention that the dependency paradigm emphasizes the export of raw or unprocessed goods
as a characteristic of a dependent economy. The Nigerian case showed that the two major export commodities were unprocessed (e.g. cocoa and crude oil).

Hypothesis Four

Hypothesis Four focuses on Nigeria's vulnerability resulting from the concentration of trading partners. A country that exports to a wide variety of countries is less vulnerable to an action taken by an individual country because of its diverse trading partner options. Such a country is subject to less potential control or manipulation by a particular trading partner. On the other hand, if a country trades with only one or two partners, then it is more vulnerable to an action taken by one of those countries because it has few available trading partner options. The implication of this pattern of trading relationship is that a country may be highly dependent without being highly vulnerable. Specifically, Hypothesis Four states that the index of the Nigerian trading partnership concentration does vary inversely with the index of her external economic dependence. The result of this hypothesis (See Figure 5) was partially supportive. Thus, hypothesis four can be accepted as relevant to the analysis of this study. Secondly, although the variation observed was inversely related somehow to the level of economic dependence, no hard evidence of uniformity exists. Instead, the degree of
trading partnership concentration fluctuated during the period covered.

In this chapter, we presented the principal data for the study. Analysis of the data shows a mix result. Nigeria's high level of external economic dependence did not necessarily lead to expected changes in foreign investment policy in favor of foreign investors. There were instances of policy restraint and in other cases, radical changes were made in favor of indigenes. The latter mode of policy behavior was not expected. Chapter VI discusses in some detail the conclusions drawn from the data; and some recommendations for further study are made.
CHAPTER VI

CONCLUSION: SUMMARY, IMPLICATIONS AND SOME RECOMMENDATIONS

Summary

This study has been primarily concerned with the examination of the effects and expectations of external economic dependency on foreign direct investment policy outputs in Nigeria. Dependency was the theoretical framework adopted. Quantitative tables were used to show that dependency expectations were not met in the Nigerian foreign investment policy stance. In other words, economic dependency was not translated into policy changes in favor of foreign direct investment in Nigeria as was predicted by dependency theorists (20).

Based on the results of this study, it seems that the dependency paradigm has a limited explanatory power; there is a factor independent of the economic factor operating out of the control of world capitalism (the center of the center in alliance with the center of the periphery); and that factor is the political process in countries like Nigeria (6). This point relates to the various aspects of the Nigerian internal functionings such as the manner in which
needs, interests and demands are conveyed from the groups and individuals in the country to those performing state duties.

Areas of scholarly work in the dependency literature show that one can look at a host country in relation to all external influences or, as a variant of that, the most important external influences (3). This study has addressed the latter aspects of the external influences with the hope that it would contribute toward the improvement of the dependency paradigm.

Three basic variables of external economic dependence were studied as follows: foreign investment, the penetration of the Nigerian economy by foreign capital through the agency of the multinational corporations (MNCs); foreign trade, a measure of Nigerian economy's participation in international markets; and foreign aid, a measure of Nigerian economy's reliance on both the technical and financial assistance from international institutions and foreign governments. The dependent variable is the Nigerian foreign direct investment policy outputs as follows: corporate income tax and petroleum operations profit tax toward foreign investment, and Nigerian equity participation in foreign direct investment. The independent variable is the overall level of external economic dependence.
The evidence presented in Chapter V showed that Nigeria was highly dependent on external economic resources throughout the period covered in this study (i.e. from 1954 through 1980). The lowest level of economic dependence was 44 percent in 1979; and the highest level of dependence was 96 percent in 1973. Dependence did not necessarily tend to deepen over time in Nigeria. Rather, economic dependence fluctuated erratically during the period covered here.

Since trade is important to developing countries where foreign exchange receipt is very much needed, foreign trade dependence was delineated and measured to tap Nigeria's vulnerability to international market forces. The value of Nigeria's two major export commodities as a percent of the total exports was extremely high. Also, the value of exports received by Nigeria's two largest trading partners was very high. This goes to show that Nigeria was both sensitive and vulnerable to the changes that took place in the international market. In this regard, Nigeria had very few available trading partner options and her economy lacked diversity. Consequently, Nigeria was not in a strong position to respond to changes in the demand for those exports in her line of foreign trade. Nigeria's high level of dependence and her vulnerable position during the period covered in this study meant that the foreign direct investment
policy outputs would be formulated to give concessions to the international business community in the country.

Ironically, the data and the analysis in Chapters III, IV, and V showed mixed results. Specifically, external economic dependence appeared to have hindered policy initiative during the period 1954 through 1963 in one policy area. For example, there was no policy to require foreign direct investment in the country to offer Nigerians equity for the period stated. Second, corporate income tax and petroleum operations profit tax remained constant, an indication of restraint on the part of the Nigerian authority. At the same time, it was observed that incentive policies were regularly introduced to attract foreign investment to the country. This pattern of policy behavior supports a similar conclusion reached in another study (9). That is, many leaders in newly independent African nations are known to continue with inherited foreign economic policies after their independence. The rationale is that they are fearful of losing the economic benefits they were receiving from their former hegemonic country. Evidently, the Nigerian case is a testimony to that mode of policy behavior.

On the other hand, from 1964 through 1980 many changes occurred that contradict the prediction of the dependency paradigm. For instance, for the first time, the Nigerian
government introduced a policy that required foreign direct investment to offer a 10 percent equity holding to Nigerians in 1964. This action seemed to undermine the high level of Nigeria's external economic dependence. Besides, since the introduction of the equity policy, foreigners' required shares in foreign direct investment has declined steadily from 90 per cent in 1964 to 60 per cent in 1972 and 40 per cent in 1975. At the same time, both the corporate income tax and the petroleum operations profit tax for foreign investment have equally been increased concurrently with equity. In 1970, corporate income tax for foreign investment was set at 45 per cent, while petroleum operations profit tax was 55 per cent. These two tax rates were raised again in 1975 to 50 per cent and 85 per cent, respectively. During the period 1964 through 1980 the average level of Nigerian external economic dependence was approximately 67 per cent. This figure is considered an extremely high degree of dependence (18, p. 224).

From the above, the aggregate measures used in this study contributed toward our understanding of Nigeria's most important external economic influences considered as a unit. The findings also made us aware of Nigeria's total reliance on two major export commodities as well as trading partners. In this regard, Nigeria must in the future avoid the concentration of her foreign export commodities. This can best
be achieved by diversifying her domestic economy. Emphasis should be placed on developing different sectors of the economy. Industries that may contribute toward processing Nigeria's export commodities should be encouraged to improve the country's competitive edge. Nigeria must also diversify her trading partnership, since concentration creates modes of being dependent and in danger of being influenced.

On the other hand, the aggregate measures did not tell us anything about the role of social (domestic and transnational) groups. The indicators used did not show the manner in which groups aligned with foreign actors. Also, aggregate measures ignore the opportunity cost of Nigeria's changing economic relations with a particular external actor. In other words, while it is relatively easy to assess an actor's actual economic relations, it is more difficult to tap its potential capability to redirect its external economic relations in the future.

From the foregoing reasoning, future research should be directed at the following areas: first, to determine the opportunity cost of changing from one external partner to another and the constraints facing Nigeria; second, to determine the distortions in the domestic economy of Nigeria resulting from its dependent position; third, to determine the activities and influences of classes, social-economic groups and political forces; fourth, to determine the
influences of the form of government (military or civilian) on policy output in Nigeria.

In general, Nigeria in the time studied has had an extremely high external economic dependency rate; but it has shown (especially during the 1970s) that there was a good bit of policy independence. What does this mean for the dependency paradigm along with other studies? Is dependency theory invalid? Or does this study cast doubt on it? Are there other studies that cast doubt on the dependency theory? These questions are considered below with their implications for theoretical and policy analysis.

Theoretical and Policy Implications

Theoretically speaking, a basic assumption underlying the dependency paradigm is that domestic politics of a dependent country is subordinate to external economic interests of transnational actors. Therefore, foreign economic policy of a dependent country may yield to an explanation in terms of economic interests of the latter (4; 8, pp. 231-236; 11; 20, pp. 23-48; 21). Furthermore, the dependency perspective emphasizes the fact that it is not internal characteristics of the less developed countries (LDCs) so much as the structure of the international system, particularly in its economic areas, that is the major variable to be studied in order to understand the form that
policy and development have taken in non-communist industrializing countries. This means that contemporary political and economic changes in the Third World societies must be understood as aspects of the relationship fostered between the elites in the core and the elites in the non-core countries (4, pp. 166-171). Many dependency theorists also postulate that in the third world countries, the alliance of the elites in both the advanced and the less developed countries may successfully resist and repress the attempts of the new middle class to share political power which may lead to policy changes in favor of this latter group (10, p. 49; 14, pp. 308-309; 15). In short, dependency theorists see the LDC bourgeoisie, a skilled and organized labor force, etc., to be too weak to challenge traditional elites and policy patterns.

From the Latin American dependency perspective, the external system is real enough and capable of exacting its greatest leverage in a variety of forms. That is, the system of domination can reappear as an "internal" force, through the social practices of local groups and classes which try to enforce foreign interest (4). In the Nigerian case, dependency scholars would like us to think that there was an alliance among the elites, the bourgeoisie and the bureaucracy. If so, they had acted in contrivance of a development model and a political regime in order to balance
their interests against more serious enemies, the popular masses (4, 5). The implication here is that although there is a potential national bourgeoisie in Nigeria with some proclivities for independence in economic policy making, the inherent fear of popular classes would sooner or later compel it to join forces with the "internationalized" elites. Therefore, policy may take the appearance of nationalistic outlook of the governing elites, whereas in reality they act as a de facto intermediary for foreign penetration and domination of the domestic economy (13, p. 273). As a corollary of the foregoing, dependency scholars would argue that the Nigerian experience represents an attempt by the country's elite to establish domestic capitalism through state sponsorship of indigenous entrepreneurship and managerial expertise. Therefore, policy outputs are essentially elitist and guided by externally motivated capitalist entrepreneurship. Likewise, the policies are decidedly not instruments of real, self-reliant national development.

On the other hand, there are critics of the dependency perspective who claim that internal factors in the Third World countries should be taken seriously in the analysis of changes occurring in policy stance and in economic development (3, pp. 606-607; 19, pp. 247-288). In his critique of the dependency paradigm, Smith argued that the
model overestimates the power of the international system in the Third World societies. He asserted that the dependency perspective has systematically underestimated the real influence of the less developed countries over their own affairs. Smith's major contention against the dependency paradigm is that it subordinates an analysis of parts to the whole, and in so doing, "deprives local histories of their integrity and specificity, thereby making local actors little more than the pawn of outside forces" (19, p. 267).

Caporaso holds the view that the exclusive focus on external forces affecting dependent countries had led to a neglect of the complex, and often very influential, internal anatomy of dependency (3, p. 607). Caporaso notes that the internal forces must not be seen simply as competing for influence with the external ones. Rather, they act and fuse with the latter in a complex manner, making them quite relevant.

The Nigerian case shows that domestic politics of a dependent country may not be all that subordinated to foreign actors' economic interests. Rather, foreign economic policy may be governed by domestic political considerations. Evidently, the classes, socio-economic groups and political forces in Nigeria acted more autonomously than dependency theorists say they should be. This finding agrees with the results of several other works having similar focus (1, pp. 106-122; 2; 16; 19; 22).
For instance, Richardson found that the support from certain Latin American countries for the United States at the United Nations General Assembly was declining despite their high degree of dependence on the latter. He identified the political processes internal to these countries as the relevant factor contributing to their autonomous foreign policy stance. He noted that countervailing pressure is put on the state by those elites who regard dependence as a depressant or a threat to their economic interests (16, p. 68). Both Biersteker (2, pp. 186-189) and Akeredolu-Ale (1, pp. 106-122) indicated that internal factors in Nigeria were primarily responsible for the shift in the foreign investment policy outputs. These factors include pressures exerted on the government authority by the Nigerian business elites and labor leaders, balance of payment difficulties experienced by the nation during the 1960s and the Nigerian civil war experiences.

Another explanation for the co-occurrence of high level of external economic dependency and restrictive foreign investment policies by the Nigerian government is political motivation stemming from other Third World dependent countries. Problems confronting less developed countries are similar in nature. For instance, they cannot individually be effective in reversing their dependency positions. Thus, they tend to act collectively.
The strategy of concerted action has been visible since the formation of the Organization of Petroleum Exporting Countries (OPEC). Also, the less developed countries have acted collectively at the United Nations Conference on Trade and Development (UNCTAD). The OPEC was successful in controlling the production and setting of the price levels of crude oil during the 1970s for its member states. At the United Nations, Third World countries have acted to pressure the UNCTAD to legitimize and formalize the political prominence of economic resource distribution between the industrial rich countries and the less developed poor ones (16, pp. 39-40).

Therefore, when Nigeria was toughening up on its foreign investment policy, every country in the Third World was essentially doing the same (7, pp. 22-28). They were all in touch, talked about it at the UN and UNCTAD, and so on (16, pp. 129-164; 17, pp. 39-48). Thus, it can be concluded that Nigeria's policy, instead of responding to the levels of its economic dependency, was essentially following the changes underway among the developing countries as a group.

Also, the initial policy restraint during the early years of post-independence shows that Nigeria followed the path that other developing states have followed. For instance, keeping the existing colonial policies for a few
years is a common experience among newly independent African countries (9, pp. 1052-1075).

In sum, the Nigerian case casts doubt on the dependency paradigm as a framework for explaining factors that may determine foreign economic policy changes that occur in a less developed Third World country. In order to improve the explanatory power of the dependency paradigm, the political system and processes of a so-called dependent country should be treated as the independent variable; whereas, the social and international environments become the dependent variables if we are to understand direct investment regulations as the products of public policy process. In this regard, the analysis will have to deal with the policy output and its consequences from the political structure and process standpoint (12, pp. 3-30). This focus leads to a creative perspective elaborating the consequences of political choices. In the literature, the dependency perspective treats the external environment as the independent variable from which the actions or changes taking place in the third World countries can be explained. By this approach the dependency paradigm underestimates the various aspects of political reality that produce public policy. It also ignores the fact that no understanding of any public policy areas (particularly as they affect transnational actors) can be complete without
rigorously and systematically examining it in light of the intermixture of politics and economic processes. It is increasingly a theoretical and a practical mistake for dependency theorists to attempt descriptions and explanations of any facet of the changes occurring in the Third World countries, as if they were abstracted and disconnected from internal political trends and forces. Dependency theorists must seek to systematically examine those macro-level national and international political-economic trends and forces which increasingly limit or constrain the options available to political and governmental actors and institutions engaged in public policy making.
CHAPTER BIBLIOGRAPHY


APPENDIX A

INDICATORS AND DATA SOURCE USED FOR COMPUTING EXTERNAL ECONOMIC DEPENDENCE IN NIGERIA
INDICATORS AND DATA SOURCE USED FOR COMPUTING EXTERNAL ECONOMIC DEPENDENCE IN NIGERIA

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<td>II Gross fixed capital formation</td>
<td>The Yearbook of National Accounts Statistics published by the United Nations</td>
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<td>III Debits on foreign investment income</td>
<td>The Balance of Payments Yearbook published by the International Monetary Fund</td>
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<tr>
<td>IV Export and import commodities and countries</td>
<td>Yearbook of International Trade Statistics published by the United Nations</td>
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<td>V Gross domestic product</td>
<td>The Statistical Yearbook published by the United Nations</td>
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<td>VI Gross national product per capita</td>
<td>International Financial Statistics published by the International Monetary Fund</td>
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APPENDIX B

INDICATORS AND DATA SOURCES FOR COMPUTING FOREIGN INVESTMENT POLICY OUTPUTS IN NIGERIA
### Indicators and Data Sources for Computing Foreign Investment Policy Outputs in Nigeria

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<td><strong>III Expatriate Quotas</strong></td>
<td>Federation of Nigeria, Immigration Act (Cap. 84) 1962. Immigration Act Notice to General Public, Official Gazette, July 18, 1963, Gov't Notice No. 1416, Para. 4 and subsequent amendments, Federal Ministry of Internal Affairs, Lagos, Nigeria.</td>
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**NOTE:** Other supplementary sources include—Dr. Samuel Suckow, Nigerian Law and Foreign Investment (Geneva: African Institute, 1966); David R. Mummery, The Protection of International Private Investment, Nigeria and the World Community (New York: Frederick A. Praeger Publishers, 1968); International Marketing Information, Overseas Business Reports; and Foreign Economic Trend and Their Implications for the United States (various issues), U.S. Department of Commerce International Trade Administration, Washington, D.C.
APPENDIX C

JOINT STATEMENT OF THE NIGERIAN FEDERAL AND REGIONAL GOVERNMENTS--OPPORTUNITIES FOR OVERSEAS INVESTMENT
JOINT STATEMENT OF THE NIGERIAN FEDERAL AND
REGIONAL GOVERNMENTS—OPPORTUNITIES
FOR OVERSEAS INVESTMENTS

1. The Governments of the Federation of Nigeria, of the Northern, Eastern and Western Regions recognise that Nigeria will, for many years to come, need overseas capital and managerial and technological skills, if her resources are to be developed to the extent, which the Governments and people of Nigeria desire. They realise that overseas investors will be reluctant to lend their capital unless they can be assured that such investment, and the skilled overseas personnel which may be necessary to make it successful, will be welcome. The purpose of this statement is to give such an assurance.

2. Nigeria is rich in mineral and agricultural raw materials. Mineral resources include tin, columbite, lead-zinc, gold, iron, ceramic clays, quartz, feldspar, silica sand and limestone, as well as carbonaceous fuels. Agricultural resources include cocoa, cotton and other fibres, oil seeds, rubber, hides and skins, root starches, grain, fruits, hardwoods and a group of forest products such as gums, resins, tannins and extracts. There is thus great scope for agricultural and industrial development. Individual agricultural settlement by non-Africans is not encouraged, but there is scope for the cultivation on a plantation scale of produce for export in the raw or in a processed state; some such crops are copra, cashew nuts, coffee and tea.

3. Certain public utilities such as railway transport, telephone services and electricity are normally reserved for public operation. Consideration would however be given to the provision of electricity supplies by private enterprise in any area where the Electricity Corporation of Nigeria was unable to provide this service. With these exceptions overseas capital and skills will be encouraged in every form of support to the principle of partnership between overseas and indigenous capital and skilled personnel. We prefer that where there are willing Nigerian investors they should be available for investment in suitable enterprises seeking rigid insistence on local participation but Governments may wish to share in the financing of certain large enterprises which have a special significance to the public. No precise limits will be laid down for the numbers of Africans to be
employed in senior managerial, technical, and professional posts, but it will be expected that posts, which can be efficiently filled by Africans, should not be filled by non-Africans. Our Governments will naturally especially value enterprises which are animated by this spirit of partnership and which make satisfactory arrangements for the employment, training and advancement of Africans.

4. Particular industries which would appear to offer favourable opportunities for investors include the canning of foodstuffs; manufacture of bricks and tiles; milling of guinea corn and wheat flour; manufacture of enamel ware, leather goods, paper, sacks, bonemeal, ceramics, corrugated iron sheeting and other sheet metal goods; oilseed processing, textiles and engineering services. There is also a great shortage of high class hotel accommodation. This is by no means an exhaustive list.

5. It has been suggested that new industrial undertakings might wish to restrict capacity to meeting the demands of the Regions in which they are located and to rely on local raw materials owing to the possibility of rival plants being established in other Regions. While naturally no undertaking can be given that rival plants will not be set up in other Regions, our Governments accept that Nigeria is an economic entity for the purpose of industrial development, and it has been agreed that there shall be regular consultation on this subject between them. In addition, a National Economic Council has been set up and has already held ten meetings. This Council is composed of representatives of the Nigerian Governments. It is consultative only but is designed to ensure the maximum cooperation in economic matters. It can be accepted, therefore, that it is most unlikely that if the Nigerian economy could only support one plant in any particular industry, any Nigerian Government would encourage the setting up of a rival plant. Prospective industrialists are, therefore, advised to consider Nigeria as an economic entity and not as four separate economic units.

6. The Nigerian economy has expanded rapidly in recent years. The population is now estimated at more than 35 million. The estimated revenue of the Nigerian Government in 1960/61 is £106 million compared with £6 million before the war, and visible imports have risen from £8.6 million in 1938 to £167 million in 1958. In the same period total visible exports rose from £9.7 million to £134 million. In 1959 imports were worth £179.4 million and exports £163.6 million. The National Income of Nigeria was estimated to be about £812.3 million in 1956/57. There is an ample supply of labour which responds well to training schemes and sympathetic supervision.
7. Profits and dividends arising from sterling or non-sterling capital investment in approved projects may be freely transferred to the country of origin and such capital may be repatriated at will. Nigeria is a member of the Sterling Area and there is no reason to anticipate any change in this situation.

8. Our Governments have no plans for nationalising industry beyond the extent to which public utilities are already nationalised, nor do they foresee any such proposals arising. Nevertheless, they are anxious that there should be no doubt in the minds of overseas entrepreneurs that Nigeria will provide adequate safeguards for the interests of investors in the event of any industry being nationalised in the future. Should this occur, then fair compensation, assessed by independent arbitration, would be paid.

9. The Industrial Development (Income Tax Relief) Ordinance, 1958, has recently been enacted to supersede the earlier Aid to Pioneer Industries Ordinance, 1952. It provides a tax-holiday to pioneer companies for an original period of up to five years according to the capital invested in fixed assets with provision for an extension of the period for each year of the original period in which a loss is sustained. Losses may also be carried forward to be offset against tax liability after the expiration of the tax holiday. A pioneer industry is one which is either not being at present carried on in Nigeria or not being conducted on a commercial scale suitable to the economic requirements of the developments of Nigeria. In order to qualify as a pioneer enterprise, a company must, in addition to satisfying the above requirements, be incorporated in Nigeria and be a public company. Over thirty industries have been declared pioneer industries under the provisions of the previous Ordinance, including those for the manufacture of Portland cement, textiles, asbestos cement products, paper pulp and metal goods, and underground mining methods for the extraction of lead-zinc ore. All industries declared pioneer under the Aid to Pioneer Industries Ordinance remain so under the Industrial Development (Income Tax Relief) Ordinance and it is expected that further industries will be declared shortly, since the scope of industries eligible to be so declared has been considerably widened. The relief offered in the new Ordinance is more generous, the conditions for obtaining it less onerous and the procedure quicker and more flexible.

10. The Income Tax (Amendment) Ordinance has as its object the granting to companies of a very much quicker write-down of their capital assets in the early years of trading, so as to enable the company to amortise its capital assets in the formative years of the company, and to build
up liquid reserves at an early date. The initial capital
percentages for the write-down of capital assets in the case
of machinery have been increased from nil to 40 per cent.
This is in addition to the ordinary annual write-down of 5
per cent to 15 per cent. Thus in the first taxable year of
its existence a company would be enabled to write off from
profits, for the purposes of computing taxable income, some
50 per cent of the capital value of the machinery employed
in that company. Where the taxable income of a company does
not absorb the full capital allowances claimed, the
unabsorbed balance may be carried forward indefinitely
against future taxable profits. Unabsorbed losses may be
similarly carried forward against future taxable profits.
The Income Tax (Amendment) Ordinance does not merely apply
to pioneer companies. These benefits accrue to all
companies, both public and private, overseas, and are not
confined to companies engaged in pioneer industries. Where
a company receives a pioneer certificate the write-down of
capital assets described in this paragraph can be claimed in
toto at the end of the tax free holiday.

11. The Industrial Development (Import Duties Relief)
Ordinance, 1957, provides for the repayment, wholly or in
part, of amounts paid in customs duty on materials or
capital equipment imported for the use of Nigerian
industries, where such repayment would be to the country's
overall economic advantage. The Ordinance also makes
provision for the repayment, wholly or in part, of duty paid
on components imported for assembly into finished articles
and the responsible Minister may enter into agreement with
the recipients of any repayment, guaranteeing the
continuance of repayments for periods up to ten years.

12. There are not the same opportunities for fresh
overseas capital and enterprise in the commercial sector of
the economy, which is reasonably well served by existing
African and non-African enterprise. But overseas capital
designed to expand trade facilities in those less developed
parts of the three Regions and in the whole of the Southern
Cameroons, which are at present not adequately served in
this respect, would be welcome. Plans for large-scale
projects such as department stores, which would provide
useful competition with existing non-African establishments,
but would not encroach unduly on those sectors of the economy
already reasonably well served by indigenous enterprise
would also receive favourable consideration. There is scope
also for commercial organisations dealing on a wholesale and
distributive basis in technical goods, particularly those
which call for highly skilled after-sales service.

13. Enquiries in connection with this statement will be
welcomed. They should be addressed to the Federal Ministry
of Commerce and Industry, Northern Region, Kaduna; the
Ministry of Commerce, Eastern Region, Enugu; the Ministry of
Trade and Industry Western Region, Ibadan; or to the
Ministry Commerce and Industries, Southern Cameroons, Buea.
Enquiries in the United Kingdom should be addressed to the
Counsellor (Commercial), Office of the High Commissioner for
Nigeria or to the Regional Agents-General in London. In
U.S.A. enquiries should be addressed to the Trade Promotion
and Investment, Division of The Consulate-General of
Nigeria, 575 Lexington Avenue, New York, New York 10022; or
to the Embassy of Nigeria, 1333 16th St., N.W., Washington,
D.C. 20036. Our Governments wish to emphasise that they
will be glad to advise overseas industrialists as to the
best prospects for investment, and to help them in the
acquisition of suitable sites and the provision of
communications, and in all other matters connected with the
setting up of industrial enterprises.

14. This joint statement was first issued by the
Federal and Regional Governments of Nigeria in September
1956 and was reissued in August 1959. Changes of fact and
up-to-date statistics have been incorporated in this revised
version but the general sense of the joint statement remains
unaltered.

SOURCE: The Nigerian Consulate General, New York, New
York, 1965.
APPENDIX D

NIGERIAN ENTERPRISE PROMOTION (INDIGENIZATION)

DECREES 1972 AND 1977
Investment in Nigeria

The Government of Nigeria supports and encourages foreign investment, both in cash and in kind by way of equipment, technical expertise, and services as a means of increasing the supply of investment capital to the economy and of encouraging technology transfer to Nigeria. It offers incentives to both foreign and domestic investors to strengthen those sectors of the economy which the Government believes contribute most toward economic development. At the same time, the Government strictly regulates the establishment and operations of foreign investment through laws and decrees it has adopted over the years since Nigeria gained its independence from Great Britain in 1960. The two main laws affecting foreign investment, the Companies Decree of 1968 and the Nigerian Enterprises Promotion Decree of 1977, ensure that all foreign investment is government approved and has indigenous equity participation. The Government's primary interest in regulating foreign investment to this extent is merely another facet of its interest in regulating and guiding the economy to self-sustained and indigenously controlled development. Aside from the continued execution of these existing laws, the Government plans to scrutinize increasingly the extent to which firms owned in part by foreigners use locally produced inputs and train their Nigerian employees.

Indigenization or Nigerianization should not be misconstrued to mean nationalization of industry by the Nigerian Government. It is not the Government's intention to participate in the private sector except in such strategic economic sectors as petroleum, iron and steel, communications, utilities and in some cases, banking. Under its policies, the Government will take an equity position in a going venture only to make it comply with the Nigerian Enterprises Promotion Decree if private capital is unavailable or Nigerians are unwilling to invest.

Business Organizations

Aside from government owned concerns and statutory corporations, the principal forms of business organization in Nigeria are incorporated companies, partnerships, and sole proprietorships.

Partnerships.—Partnerships are governed by the Englished Partnership Act of 1890, unless the agreement provides otherwise. In a partnership, there may be no less than 2 and no more than 20 partners, although they may be of
any nationality and may be a corporate body. In general, the partners are jointly liable for the debts and obligations of the firm. In addition, each partner is personally liable to the extent that debts of the partnership have not been discharged from the firm's assets.

Incorporated Companies.—The Companies Decree of 1968 provides for incorporation, regulation, and operation of companies. Subject to certain exceptions, Part X of the Decree provides that no company may carry on business in Nigeria unless it is incorporated as a separate entity in Nigeria. Incorporated companies may be unlimited, limited by guarantee, or limited by share, with the last named the most commonly adopted by foreign investors in Nigeria. The liability of each member of a limited by shares company is limited to the amount, if any, unpaid on the shares held by that member. Once a member has paid for those shares, there is no further liability. There is no maximum or minimum amount of share capital, and shares may be pegged at any value.

A limited-by-share company may be incorporated either as a public or as a private company, although in practice there is little difference between the two. Public companies are normally formed to enable the investing public to share in the profits of an enterprise without taking part in the management. Such companies usually have no limitation on the maximum number of members (but must have a minimum of seven). Their Articles of Association provide for transfer of shares and for subscription from the public. A public company is not necessarily quoted on the Nigerian Stock Exchange. A private company must have at least 2, but no more than 50 members. It may restrict the right to transfer its shares and prohibit any invitation to the public to subscribe for its shares or debentures.

Foreign Companies Exempt from Incorporation.—The Companies (Special Provision) Decree of 1973 empowers the Government to exempt certain specified categories of foreign companies from complying with Part X of the companies Decree. Only the following categories of foreign companies are eligible for exemption: nonprofit corporations, companies invited by or with the approval of the Federal Government to execute specified projects, companies executing specific loan projects on behalf of donor countries or international organizations, foreign government-owned companies engaged solely in export promotion activities, and engineering consultants and technical experts engaged in specialized projects under contracts with any of the state governments or any of their agencies or with any person where such contracts have been approved by the Federal Government.
The granting of Part X exemption status is becoming increasingly rare. Only about one-quarter of the applications for exemption are now being approved, and entities previously enjoying this status are generally unable to obtain renewal once the initial period expires. In addition, the ability to perform as a local entity has become an important factor in the awarding of government contracts to construction firms and consultants of all types.

Nigerian Enterprises Promotion Decree

Under the Nigerian Enterprises Promotion (Indigenization) Decree of 1977, the minimum level of Nigerian equity participation in any business enterprise is 40 percent. The Indigenization Decree, first enacted in 1972 and modified in 1977, established three schedules of enterprises and minimum percentages of Nigerian financial participation under each schedule. In Schedule I are enterprises reserved exclusively for Nigerians. Operations of firms in this schedule are relatively noncapital intensive or do not involve high levels of technological input. Schedule 2 enterprises are those whose ownership must be at least 60 percent Nigerian. These firms generally use more capital-intensive production processes or more sophisticated technology than firms in Schedule 1. In Schedule 3 are enterprises which must be at least 40 percent owned by Nigerians. Firms in this category typically use high inputs of both capital and technology. Appendix A contains a list of business categories by schedule, under the Nigerian Enterprises Promotion Decree.

The Nigerian Enterprises Promotion Board (NEPB), established to monitor compliance with the provisions of the Decree, is responsible for issuing a certificate of compliance to those companies that have met all the requirements of the act. The Board issues detailed guidelines to companies and conducts post-compliance inspections before final certification is given. To receive a certification of compliance, companies must submit the following documents to NEPB:

(1) Evidence of acquisition of shares
(2) Evidence of payment of purchase consideration
(3) List of board of directors. At least two of the Nigerian directors must be an executive for a Schedule 2 enterprise, and at least one must be a director for a Schedule 3 enterprise. (In addition, the Board has adopted a policy requiring that the composition, by nationality, of a company's board of directors reflects...
the proportional ownership of the company.)
(4) Copies of business permit and expatriate quota authorizations.
(5) Memorandum and articles of association
(6) List of appointed indigenous distributors (for manufacturers) and lists of suppliers (for commercial or trading companies) and their addresses
(Manufacturers are not allowed to appoint only one distributor).
(7) Evidence of compliance with the mandatory worker's participation in equity (equal to 10 percent of the foreign investor's interest) with at least 50 percent of the mandatory proportion having been sold to non-marginal employees.
(8) Copy of company's tax clearance certificate.

THE NIGERIAN ENTERPRISES (INDIGENIZATION)  
DECREE 1972, DECREES NO. 4, SECTION 4,  
FEBRUARY 23, 1972

Schedule I: Enterprises Exclusively Reserved for Nigerians

The Nigerian Enterprises Promotion Decree 1972 provides that with effect from 31st March 1974, no person other than a Nigerian citizen or association may be owner or part owner of any the following 22 categories of enterprises in Nigeria and no enterprise in these categories may be established in Nigeria after 23rd February 1972 unless it is entirely owned by Nigerians:

1. Advertising agencies and public relations business.
2. All aspects of pool betting business and lotteries.
3. Assembly of radios, radiograms, record changes, television sets, tape recorders and other electric domestic appliances not combined with manufacture of components.
4. Blending and bottling of alcoholic drinks.
5. Blocks, bricks and ordinary tiles manufacture for building and construction works.
6. Bread and cake making.
7. Candle manufacture.
8. Casinos and gaming centres.
9. Cinemas and other places of entertainment.
10. Clearing and forwarding agencies.
11. Hairdressing.
13. Laundry and dry-cleaning.
15. Newspaper publishing and printing.
16. Ordinary garment manufacture not combined with production of textile materials.
17. Municipal bus services and taxis.
18. Radio and television broadcasting.
19. Retail Trade (except by or within the deptmental stores and supermarkets).
20. Rice milling.
21. Singlet manufacture.
22. Tyre retreading.

The retail trades affected are to be specified by the Federal Commissioner for Industries acting with the prior approval of the Federal Executive Council.

Schedule II: Enterprises Conditionally Reserved for Nigerians

The decree further provides that with effect from 31st March 1974, no person other than a Nigerian citizen or
association may be the owner or part owner of any of another thirty-three categories of enterprises listed below, where such enterprise has (depending on whichever of the two following tests the Nigerian Enterprises Promotion Board ("Board") considers to be appropriate in relation to such enterprise)—either (i) a paid-up share capital not exceeding N400,000 or (ii) a turnover not exceeding N1,000,000. Moreover even if an enterprise in these categories satisfies the appropriate test of paid-up share capital or turnover, an alien can still not be the owner or part owner of such enterprise unless at least 40% of the equity of the Enterprise is owned by Nigerian citizens or associations. As from 23rd February 1972, no enterprise in these thirty-three categories having alien participation, can be established in Nigeria except it satisfies the above conditions as regards a minimum Nigerian ownership of 40% and a turnover/paid-up capital of more than N1,000,000 or N400,000 respectively, whichever is in the opinion of the Nigerian Enterprises Promotion Board, the more appropriate.

For the above tests, the turnover or paid up capital of an enterprise is determined by reference to the most favourable of its accounts, as submitted to the Federal Board of Inland Revenue, which formed the basis periods for the 1968/69, 1969/70 and 1970/71 years of assessment. For an enterprise incorporated after 1st April 1971, the relevant figures are those of the accounts forming the basis period for its second year of assessment. However, the Federal Commissioner for Industries ("Commissioner") may on the recommendation of the Board and with the approval of the Federal Executive Council, grant exemption to any enterprise in the thirty-three categories for an initial period of six months, to enable it comply with the conditions as regards turnover/paid-up capital or level of Nigerian participation. Any exemption granted as a result of the Commissioners, acting on the recommendations of the Board and with the approval of the Federal Executive Council, for a further six months at a time. There is no limit as to the number of six-monthly extentions of exemption that may be granted by the Commissioner acting in the said manner.

1. Beer brewing
2. Boat building
3. Bicycle and motorcycle tyre manufacture
4. Bottling soft drinks
5. Coastal and inland waterways shipping
6. Construction industries.
7. Cosmetics and perfumery manufacture
8. Departmental stores and supermarkets
9. Distribution agencies for machines and technical equipment
10. Distribution and servicing of motor vehicles, tractors and spare parts thereof or other similar objects.
11. Estate agency
12. Fish and shrimp trawling and processing
13. Furniture making
14. Insecticides, pesticides and fungicides
15. Internal air transport (scheduled and charter services).
16. Manufacture of bicycles
17. Manufacture of cement
18. Manufacture of machines
19. Manufacture of metal containers
20. Manufacture of paints, varnishes or other similar articles
21. Manufacture of soaps and detergents
22. Manufacture of wire, nails, washers, bolts, nuts, rivets and other similar articles
23. Manufacture of suitcases, briefcases, handbags, purses, wallets, portfolios and shopping bags
24. Paper conversion industries
25. Passenger bus services (inter state)
26. Poultry farming
27. Printing of books
28. Production of sawn timber, plywood, vensers and other wood conversion industries
29. Screen printing on cloth, dyeing
30. Slaughtering, storage, distribution and processing of meat
31. Shipping
32. Travel agencies
33. Wholesale distribution.

*The wholesale distribution trades affected are to be specified by the Federal Commissioner for Industries, acting with the prior approval of the Federal Executive Council.

**Equity Participation**

The equity participation in a company is defined as "equity shares or other capital contributions" but for the purpose of determining the level of the Nigerian participation in an enterprise, capital bearing fixed interest or dividend must be excluded. Thus, the 40% participation by Nigerians could consist wholly or substantially of shares with restricted voting rights or with potentially inferior dividend rights, e.g. participating preference or ordinary shares vis-a-vis deferred shares, but not of preference shares of debenture stock.
Business Categories Under the Nigerian Enterprise Promotion Decree

Schedule 1.—Enterprises Exclusively Reserved for Nigerians

1. Advertising and public relations business
2. All aspects of pool betting business and lotteries
3. Assembly of radios, radiograms, record changers, television sets, tape recorders, and other electric domestic appliances not combined with manufacture of components
4. Blending and bottling of alcoholic drinks
5. Blocks and ordinary tile manufacture for building and construction works
6. Bread and cake making
7. Candle manufacture
8. Casinos and gaming centers
9. Cinemas and other places of entertainment
10. Commercial transportation (wet and dry cargo and fuel)
11. Commission agents
12. Departmental stores and supermarkets having an annual turnover of less than 2 million naira.
13. Distribution agencies excluding motor vehicles, machinery, and equipment and spare parts
14. Electrical repair shops other than repair shops associated with distribution of electrical goods
15. Estate agency
16. Film distribution (including cinema films)
17. Hairdressing
18. Ice-cream making when not associated with the manufacture of other dairy products
19. Indenting and confirming
20. Laundry and dry-cleaning
21. Manufacturers’ representatives
22. Manufacture of suitcases, briefcases handbags, purses, wallets, portfolios and shopping bags
23. Municipal bus and taxi services
24. Newspaper publishing and printing
25. Office cleaning
26. Passenger bus services of any kind
27. Poultry farming
28. Printing of stationery (when not associated with printing of books)
29. Protective agencies
30. Radio and television broadcasting
31. Retail trade (except by or within departmental stores and supermarkets
32. Singlet manufacture
33. Stevedoring and shorehandling
34. Tire retreading
35. Travel agencies
36. Wholesale distribution of local manufactures and other locally produced goods

Schedule 2.--Enterprises in Which Nigerians Must Have 60 Percent Equity Participation

1. Banking (commercial, merchant, and development banking)
2. Basic iron and steel manufacture
3. Beer Brewing
4. Boat building
5. Bottling of soft drinks
6. Business services (other than machinery and equipment rental and leasing) such as business management, consulting services, and fashion designing
7. Clearing and forwarding agencies
8. Canning and preserving of fruits and vegetables
9. Coastal and inland waterways shipping
10. Construction industry
11. Departmental stores and supermarkets having annual turnover of not less than 2 million naira
12. Distribution agencies for machines and technical equipment
13. Distribution and servicing of motor vehicles, tractors, and spare parts thereof or similar objects
14. Fish and shrimp trawling and processing
15. Establishments specializing in the repair of watches, clocks and jewelry, including imitation jewelry for the general public.
16. Garment manufacture
17. Grain mill products including rice milling
18. Industrial cleaning
19. Insecticides, pesticides, and fungicides
20. Internal air transport (scheduled and charter services)
21. Insurance (all classes)
22. Lighterage
23. Manufacture of bicycles
24. Manufacture of biscuits and similar dry bakery products
25. Manufacture of cosmetics and perfumery
26. Manufacture of cocoa, chocolate, and sugar confectionery
27. Manufacture of dairy products, butter, cheese, milk, and other milk products
28. Manufacture of food products like yeast, starch, baking powder, coffee roasting; processing of tea leaves into black tea
29. Manufacture of furniture and interior decoration. Manufacture of metal fixtures for household, office, and public building
30. Manufacture of jewelry and related articles including imitation jewelry
31. Manufacture of leather footwear
32. Manufacture of matches
33. Manufacture of paints, varnishes, or other similar articles
34. Manufacture of plastic products such as plastic dinnerware, tableware, kitchenware, plastic mats, plastic machinery parts, bottles, tubes, and cabinets
35. Manufacture of rubber products, rubber footwear, industrial and mechanical rubber specialties such as gloves, mats, sponges, and foam
36. Manufacture of tires and tubes for bicycles, motorcycles, and motor vehicles
37. Manufacture of soap and detergents
38. Manufacture of wire, nails, washers, bolts, nuts, rivets, and other similar articles
39. Other manufacturing industries such as nonrubber and nonplastic toys, pens, pencils, umbrellas, canes, buttons, brooms and brushes, lamp-shades, tobacco pipes, and cigarette holders
40. Mining and quarrying
41. Oil milling, cotton ginning, and crushing industries
42. Paper conversion industries
43. Printing of books
44. Production of sawn timber, plywood, veneers and other wood conversion industries
45. Petrochemical feedstock industries
46. Publishing of books, periodicals, and such like
47. Pulp and paper mills
48. Restaurants, cafes, and other eating and drinking places
49. Salt refinery and packaging
50. Screen printing on cloth, dyeing
51. Inland and coastal shipping
52. Slaughtering, storage associated with industrial processing and distribution of meat
53. Tanneries and leather finishing
54. Tin smelting and processing
55. Wholesale distribution of imported goods
56. Photographic studios, including commercial and aerial photography.

Schedule 3.--Enterprises in Which Nigerians Must Have 40 Percent Nigerian Equity Participation

1. Distilling, rectifying, and blending of spirits such as ethyl, alcohol, whisky, brandy, gin, and the like
2. Fertilizer production
3. Tobacco manufacture
4. Manufacture of basic industrial chemicals (organic and inorganic)
5. Manufacture of synthetic resins, plastic materials, and man-made fibres except glass
6. Manufacture of drugs and medicines
7. Manufacture of pottery, china, and earthenware
8. Manufacture of glass and glass products
9. Manufacture of burnt bricks and structural clay products
10. Manufacture of miscellaneous nonmetallic mineral products such as concrete, gypsum, and plastering products (including ready-mixed concrete) mineral work, abrasive; asbestos products; graphite products
11. Manufacture of primary nonferrous metal products such as ingots, bars and billets; sheets, strips, circles, cecrous rods, tubes, pipes and wire rods; casting and extrusions
12. Manufacture of (fabricated metal) cutlery, hand tools, and general hardware
13. Manufacture of structural metal products, components of bridges, tanks, metal doors and screens, and window frames
14. Manufacture of miscellaneous fabricated metal products, except machinery and equipment, such as safes and vaults, steel springs furnaces; stoves; and the like
15. Manufacture of engines and turbines
16. Manufacture of agricultural machinery and equipment
17. Manufacture of metal and wood working machinery
18. Manufacture of special machinery and equipment, such as textile and food machinery, paper industry machinery, oil refining machinery and equipment, and the like
19. Manufacture of office, computing, and accounting machinery
20. Manufacture of other machinery and equipment except electrical equipment, pumps, air and gas compressors; blowers, air-conditioning and ventilating machinery; refrigerators; and the like
21. Manufacture of electrical industrial machinery and apparatus
22. Manufacture of radio, television, and communication equipment and apparatus
23. Manufacture of electrical appliances and housewares
24. Manufacture of electrical apparatus and supplies not elsewhere classified, such as insulated wires and cables, batteries, electric lamps and tubes, fixtures and lamp switches, sockets, switches, insulators, and the like
25. Shipbuilding and repairing (excluding boat building)
26. Manufacture of railway equipment
27. Manufacture of motor vehicles and motorcycles
28. Manufacture of aircraft
29. Manufacture of professional and scientific and measuring and controlling equipment, such as laboratory and scientific instruments, surgical medical and dental equipment, instruments and supplies, and orthopaedic and prosthetic appliances
30. Manufacture of photographic and optical goods
31. Manufacture of watches and clocks
32. Manufacture of cement
33. Manufacture of metal containers
34. Plantation agriculture for tree crops, grains, and other cash crops
35. Plantation sugar and processing
36. Ocean transport/shipping
37. Oil servicing companies
38. Storage and warehousing—the operation of storage facilities and warehouses (including bonded and refrigerated warehouses) for hire by the general public
39. Textile manufacturing industries
40. Hotels, rooming houses, camps, and lodging places
41. Data processing tabulating services (on a fee or contract basis)
42. Producing of cinema and television films (or motion picture production)
43. Machinery and equipment rental and leasing
44. All other enterprises not included in Schedule 1 or 2 not being public sector enterprises

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