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Globalisation and Industrial Performance in Nigeria

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Abstract

This paper examines the impact of the neo-liberal globalisation of African economies on industrial performance in Nigeria. Evidence from the study indicates that, contrary to claims by the World Bank, the economic performance of firms in the manufacturing sector during the globalisation period in the study was adversely affected by the process. The study confirms the position that the globalisation project that aims at the structural economic transformation of modern capitalist relations in Africa is associated with a process of de-industrialisation. On the basis of conclusions from the study, the author highlights critical lessons for African countries – the need to be critical in the implementation of the IMF/World Bank open-economy, and the 'hands off' market-driven, non-interventionist development model premised on Adams Smith's 'invisible hand'.

Résumé

Cet article étudie l'impact de la mondialisation néo-libérale des économies africaines sur la production industrielle au Nigeria. Les preuves récoltées de cette étude indiquent que contrairement aux affirmations de la Banque Mondiale, les résultats économiques des entreprises du secteur manufacturier ont été sévèrement affectés par le processus de mondialisation. Cette étude confirme la thèse selon laquelle, le projet de mondialisation qui tente de procéder à une transformation économique structurelle des relations capitalistes modernes en Afrique, est associé à un processus de désindustrialisation. Sur la base des conclusions tirées de cette étude, l'auteur souligne les enseignements majeurs que doivent en tirer les pays africains : le besoin d'avoir une approche plus critique envers l'application de l'économie ouverte préconisée par la Banque Mondiale/ le FMI, envers le modèle de développement non interventionniste, orienté vers le marché, et basé sur le concept de « la main invisible » développé par Adam Smith.

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Introduction and background to study

Globalisation remains one of the most controversial subjects of our time. Several authors have critically examined its varied usages and ideological applications (Spybee 1996; Hoogvelt 1997; Kiely and Marflet 1998; Culpeper 1997; Went 2000; Woods 2000; Mshomba 2000; Scholte 2000). According to Giddens (1990:64), globalisation can be defined as 'the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa'. Irrespective of the on-going controversy and a measure of ambiguity in its use, it often depicts 'the transformation of the relations between states, institutions, group and individuals; the universalization of certain practices, identities and structures, and perhaps, more significantly, the expression of a global restructuring that has occurred in recent decades in the structure of modern capitalist relations' (Aina 1997:8). It is best understood as concerned with 'the intersection of presence and absence, the interlacing of social events and social relations "at a distance" with local contextualities' (Giddens 1991). In line with this, the paper examines the impact of economic (neo-liberal) globalisation on industrial performance within the African context using Nigeria as an example.

Although the influence of the international community permeates contemporary social relations this trend is not entirely new. Globalisation began through an endless series of economic transactions, which linked Europe, Asia, Africa and the Americas. The trade in slaves from West Africa and the profits made from it boosted the industrialisation of Britain and the European industrial revolution in general. Between 1870 and 1914 the world economy knitted together in a way that had previously been inconceivable. (Theobald 1994; Worsley 1994). This marked the beginning of unequal relations between Africa and Europe based on a Euro-centric economic division of labour that served to benefit the industrialised world. It was made possible only by the European powers arrogating to themselves, through conquests and colonisation, vast areas of the world's surface. Current globalisation therefore, does not reflect a clear break from the past. Perhaps it is the intensity of interpenetration - in qualitative rather than quantitative terms - that may justify current notions of globalisation. At the economic level the ascendancy of neo-liberalism with its emphasis on the market economy as a global economic doctrine was ideologically promoted in the 1980s through the World Bank/IMF inspired programmes.

Went (2000) reflects these in the observation that the term 'globalization' is abused in at least three ways. First in its use by international organisations such as IMF, World Bank and G7 to control and restrict the policy making abilities of governments especially in developing countries and imposing their own agenda symbolised by the Structural Adjustment Programme (SAP). Second, the use of the concept for the justification of unpopular policies in developing countries. Third, in the employment of globalisation for justifying the increasing acquisition of power by international political and economic organisations such as the United Nations (UN), European Union (EU) and the World Trade Organisation (WTO). As part of economic globalisation, the Structural Adjustment Programme (SAP) with its market orientation is presented as inevitable and having no alternative (Olukoshi 1998). 'As a rule, globalization is portrayed as unavoidable and irreversible process which is rolling over us as some major natural phenomenon and drastically reshaping our lives' (Went 2000:5).

The current wave of globalisation can be viewed as a desperate bid by international capitalism to recover lost grounds due to ideological shifts towards alternative paradigms which African countries adopted since independence – especially with the collapse of the Soviet Union and the unchallenged hegemony of capitalism and neo-liberal ideology (Sawyerr 1998). This bid was facilitated by the debt crisis experienced by African countries since the 1980s that was hijacked by the Euro-American mentored institutions – especially the International Monetary Fund (IMF) and the World Bank to facilitate their globalisation of neo-liberalism. The result has been the structural transformation of African economies through the imposition of Structural Adjustment Programmes – which entail the introduction of rapid structural changes in the economy in favour of market relations (Loxley1995).

From the viewpoint of the IMF, the economic crisis in Nigeria is a product of structural distortions in the economy due to overvalued exchange rates, import regulation, huge public sector expenditure, poor investment management and low returns on capital, high wage structure and low productivity of workers, import substitution industrialisation and its policy environment, over-extended inefficient and unproductive public enterprises, and their undue protection by government, and discriminatory credit policies against the private sector. (Onimode 1989; Olukoshi 1995; Beckman 1990; Adesina 1991, 1994; Aina 1997; Zeleza 1997). The underlying argument by the IMF/World Bank is that economic growth became blocked by the presence of unsustainable imbalances in the national economy between aggregate demand and aggregate supply with the result that imbalances caused growing deficits in the balance of payments, high rates of domestic inflation and huge and growing public sector deficits.

Solutions to the problems were, therefore, conceived through short term economic stabilisation programmes involving a sharp restriction of domestic demand through monetary and fiscal measures, and longer term adjustment instruments entailing the application of supply side policies to promote the production of exports and import substitutes – some of which employ exchange rate instruments and the reduction of tariffs and subsidies (Loxley 1995). Generally, these instruments involve policy elements that emphasise neo-liberal (monetarist) economic policies – the role of market forces, the rolling back of the state (non-state intervention), private enterprise economy, trade liberalisation, devaluation of local currency and at the political sphere, liberal-plural democracy. At the root of these is the objective of increasing the production and prices of tradable goods and services relative to the non-tradable ones – to enhance incentives for the production of the former relative to the latter (Bruno 1976; Corden 1977).

The economic restructuring project was, therefore, a major component of the globalisation process introduced to Africa in the form of structural economic reforms known variously as economic stabilisation programmes, economic adjustment policies, economic reform programmes or structural adjustment programmes. Structural adjustment and global integration are interdependent and mutually reinforcing (Aina 1997). While globalisation gave birth to structural adjustment as the countries involved responded to the global economic crisis, the adoption of IMF/World Bank reform measures has in turn widened and deepened the thrust towards global integration. As a result, the main policy changes demanded by the IMF in its financial negotiation with Nigeria relate to three broad areas – cuts in public expenditure, transformation of the structure and operational efficiency of the economy and the liberalisation of fiscal and trade policies (Onimode 1989; Olukoshi 1990, 1998).

While economic stabilisation policies were put in place from the late 1970s, the formal adoption of the economic globalisation in Nigeria began with the introduction of the Structural Adjustment Programme (SAP) in July, 1986 by the regime of General Ibrahim Babangida. The Programme has tended to favour the advanced capitalist countries rather than the debtor African Countries. George (1992) has observed that from the onset of the debt crisis in 1982 through 1990 each and every month, for 108 months, debtor countries of the South remitted to their creditors in the North an average of six billion, five hundred million dollars in interest payment alone. If payment of principal is included in the tally then each of the 108 months witnessed payments from debtors to creditors averaging twelve billion, four hundred and fifty million dollars. According to Harris (1989:19), 'The overriding agenda of the Fund and Bank is the construction, regulation and support of a world system where multinational corporations trade and move capital without restrictions from nation states'. This globalising objective of multilaterism and 'free trade' which the United States has been promoting since World War II, is deeply and fundamentally rooted in the structure and operation of the Bretton Woods Institutions. After several years of implementing the programme Babangida declared that the Nigerian economy had become a capitalist one – representing an ideological shift from the hitherto 'mixed economy' reflected in the First National Development Plan (1962–1968).

The immediate effects of the Economic Stabilization Act of 1982 enacted by the Shagari administration were the shortage of foreign exchange and the scarcity of imported raw materials and spare parts for industrial production. These were followed by a fall in the utilisation of installed capacity of most industrial enterprises. Olukoshi (1989) records that with capacity utilisation ranging between 20 percent to 40 percent in the industrial sector, about 101 companies surveyed by the Manufacturers Association of Nigeria had shut down for periods of between 7 and 12 weeks by July 31, 1983, with about 200,000 workers laid off.

This paper examines the impact of the globalising economic reforms of the 1980s and 1990s on Nigeria's industrial performance – with particular reference to the Food, Beverage and Tobacco sub-sector located in the manufacturing sector of the Nigerian economy. The Food, Beverage and Tobacco sub-sector was selected for this study first because it is one that experienced the collapse of import substitution industrialisation in Nigeria. Remarkably, the organisations in the sector represent different pulses of the Structural Adjustment Programme (SAP) implemented in Nigeria, reflected in its uneven impact. The paper also discusses the coping strategies employed by the participants in the industry in dealing with the challenges of globalisation while arguing that economic globalisation has not favoured the Nigerian economy. Instead it has thrown up complex and intractable industrial problems associated with 'de-industrialisation'.

Given the profit orientation of the organisations, profitability is the major criterion that will be used in assessing their economic performance. The analysis will be carried out first on the basis of nominal naira values, and then in terms of profit margins, returns on turnover and real values of the naira as the case may be.

Moreover, although the entire period examined involved the adoption of various shades of economic globalisation (economic stabilisation policies initiated by the creditor institutions and later adjustment policies), comparative analysis of the pre-SAP and SAP periods will be undertaken wherever data are available, to capture the specific effects of the formal introduction of globalisation in 1986. The pre-SAP period is taken to be 1981–85, while the SAP period is taken from 1986 when SAP was formally adopted in Nigeria.

Furthermore, the Radical Organisation Theory outlined by Burrel and Morgan (1979) will be used as the framework of analysis, given its unifying themes of totality, structure, contradiction and crisis. This framework was selected because of its usefulness for explaining the relationships between the economic crisis and macro socio-economic elements of globalisation, on the one hand, and the structures of the industry and firms in the study, on the other. It is also useful in the analysis of the contradictions responsible for the economic crisis, those thrown up by the globalisation programme - reflected in the organisations, as well as the coping strategies employed by organisational participants.

The Pre-SAP period: Crisis, contradiction and structure

In the pre-SAP (stabilisation) period, the crisis experienced in the Food, Beverage and Tobacco industry was largely part of the wider crisis of capitalist development in Nigeria – which sharpened with the global economic crisis. Its specific manifestation in the industry was reflected in the overall decline in the industry's total turnover from N2,530 million in 1982, to N2,189 million in 1985 – irrespective of an approximately 38 percent increase in the number of companies in the industry, in the period indicated in Table 1. The decline in turnover is a reflection of the production problems that confronted the industry during the economic crisis. As a result of acute raw material problems that confronted the industry at this period, the utilisation of installed capacity in the industry was as low as 10.12 percent by June 1985.

As pointed out earlier, the Food, Beverage and Tobacco industry experienced expansion in the pre-SAP era with the growth in the membership of AFBTE – from 56 in 1982 to 77 in 1985, as shown in Table 1. This was however, accompanied by a decline in the workforce within the period from 53,160 and 56,470 in 1982 and 1983 respectively to 42,154 in 1985. These figures reflect the job losses that accompanied globalisation pressures arising from the earlier mentioned crisis. Coping strategies took the form of rationalisation - retrenchment of workers, novel shift work, cuts in wages, compulsory leave, and compulsory overtime work without extra pay. While the former reduced the number of workers, the later ensured that the lean workforce put in longer hours to cover the entire jobs - as part of their contribution to the survival of the enterprise. This state of affairs also adversely affected the trade union in the industry - the Nigerian Union of Food, Beverage and Tobacco, Employees (NUFBTE), which suffered contraction in union density and funds due to its loss of more than 50,000 members in the pre-SAP period (NUFBTE Records 1990).

Many of the contradictions encountered in the Food, Beverage and Tobacco (FBT) industry were related to the import substitution industrialisation that characterised the industry. These include capital intensive production in the light of abundant labour, and high dependence on imported raw materials and spare parts to the neglect of the local ones which were left unexploited.

Moreover, national level stabilisation policies of the pre-SAP era in the form of austerity measures aimed at reducing the cost of production, improving turnover and profits and ensuring the survival of the organisations, generated contradictions. The wage freeze, retrenchment of workers, redundancies and pay cuts reduced the disposable income of consumers and led to consumer resistance, stockpiles of unsold goods, and further declines in turnover and profits. The nature of goods produced in the industry (especially beer, soft drinks and cigarettes), which were 'non-essential' to consumers also made them susceptible to consumer resistance. The effect of this trend is more prominent in the factor price analysis below, which accounts for the effects of the depreciation of the naira.

The foregoing indicates that the economic crisis at the national level and the consequent macro-economic policies of the pre-SAP era, especially the stabilisation measures of 1982, had an overall negative effect on the Food, Beverage and Tobacco sub-sector.

The SAP-Globalisation period: Crisis, contradiction and Structure

With the formal introduction of globalisation as embodied in the Structural Adjustment Programme (SAP) in July 1986, and the scrapping of the import license system, there was a slight improvement in economic activities. Capacity utilisation in the manufacturing sector in the period 1987–89 rose slightly to an average of 32 percent from the pre-SAP level of 30 percent. (MAN Report 1987–89). Partly responsible for this development was the replacement of the import license system of the pre-SAP period with the Second-Tier Foreign Exchange Market (SFEM). The latter operated generally on the principle of 'ability to pay'.

In the Food, Beverage and Tobacco industry, capacity utilisation fluctuated within the range of 30 percent to 45 percent in the period 1986-

Table 1: Performance of the food, beverage and tobacco industry 1982–1992

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
1. Number of Companies	56	67	70	77	80	75	77	73	73	71	69
2. Number of Employees	53,160	56,470	53,526	42,154	41,150	37,052	42,830	42,703	39,924	40,216	42,669
3. Turnover (Nmillion)	2,530	2,515	2,578	2,189	2,233	2,688	4,625	6,507	8,592	9,651	16,748
4. Profit before tax (Nmillion)	N/A	N/A	N/A	362	362	322	539	995	1,143	1,469	2,300
5. Return on turnover (%)(43)	N/A	N/A	N/A	16.5	14.6	12.0	11.6	15.30	13.30	15.2	13.73

* *N/A:* Not Available.
Source: Compiled from AFBTE Annual Reports.

1989. By the first half of 1991, however, the utilisation of installed capacity in the Food, Beverage and Tobacco industry was lower than that of the manufacturing sector as a whole. This stood at about 28.5 percent – lower than the immediate pre-SAP level of 30 percent in the manufacturing sector (AFBTE 1992/93:6). The general picture that emerges from the manufacturing sector and the Food, Beverage and Tobacco industry is that since the economic crisis and adjustment, utilisation of installed capacity either before or during globalisation rarely attained 50 percent in the period 1982–1991.

Low capacity utilisation notwithstanding, turnover and profits in the Food, Beverage and Tobacco industry showed an upward trend in the SAP period – indicated in Tables 2 a and b.

Further analysis of the performance of NBL – the most impressive firm in the industry – will be more illuminating. The financial summary of the firm as shown in Table 3 is very impressive, especially in the second half of the SAP era. When viewed beyond mere percentage increases from preceding years, it becomes even more impressive. In 1986 for instance, NBL's profit before tax was about N45 million. In 1989, it rose to about N227 million. This represents about a 400 percent increase, within the first four years of globalisation. By 1991 it had risen to N422 million – about a 875 percent increase within the period 1986-91. The immediate four-year period prior to globalisation on the other hand recorded about a 29 percent decline in profit before tax.

In comparison with other firms in the industry and other sectors of the economy, NBL emerged top of the beer sub-sector and the Food, Beverage and Tobacco industry in 1989. Beyond the industry and sectoral levels, it was ranked first of the top 100 companies in Nigeria, listed according to profits before taxation in 1989. This achievement was irrespective of the slump experienced in the beer/stout sub-sector of the industry in that year (NBL 1989; *This Week* 1989; AFBTE 1990). This performance portrays NBL as one of the most viable firms in Nigeria during globalisation.

The implication of the above picture is that the globalisation policies of the SAP period have been successful in dealing with the economic crisis that faced the Food, Beverage and Tobacco industry in the pre-SAP period. This impression may be misleading considering another set of crises that accompanied the implementation of the programme. These included the devaluation of the naira and a high rate of inflation, high cost of production and high ex-factory prices of commodities, consumer resistance and unanticipated high stockpiles of unsold commodities in the firms. The effects of these factors on organisational performance will be evaluated

Table 2a: Sales turnover and profit performance by firms in the food, beverage, and tobacco industry, 1985–1987 (N'000)

Firms	1985		1986		1987	
	Turnover	Profit before tax	Turnover	Profit before tax	Turnover	Profit before tax
1. Nigerian Breweries	179.109	41.566	205.476	45.387	341.047	75.774
2. Guinness Nig.	258.214	68.439	268.052	60.095	307.839	40.120
3. Foremost Breweries	10.202	1.857	9.116	1.033	9.861	0.366
4. Premier Breweries	59.032	8.559	48.877	4.098	48.587	3.191
5. Food Specialties Nig.	102.265	21.832	96.159	23.410	166.497	51.218
6. Northern Flour Mills	103.999	13.842	92.830	11.504	59.366	15.106
7. Coca-Cola	204.922	41.953	309.330	86.474	354.098	59.477
8. Cadbury Nigeria	112.746	17.139	122.249	12.773	125.631	11.135
9. Nigerian Tobacco	89.365	24.118	107.458	31.348	133.627	42.900

Source: MAN Reports 1987–89 and NBL Annual Reports.

Table 2b: Sales trunorver and profit performance by firms in the food, beverage, and tobacco industry, 1988–1989(N'000)

Firms	1988		1989	
	Turnover	Profit before tax	Turnover	Profit before tax
1. Nigerian Breweries	514.992	138.431	811.050	227.040
2. Guinness Nig.	478.600	76.506	1.001.894	162.185
3. Foremost Breweries	10.245	1.933	NA	NA
4. Premier Breweries	56.260	1.465	80.50	10.118
5. Food Specialties Nig.	239.076	42.331	NA	NA
6. Northern Flour Mills	48.485	11.485	18.408	2.189
7. Coca-Cola	526.772	63.121	753.013	77.711
8. Cadbury Nigeria	213.268	16.205	337.012	19.179
9. Nigerian Tobacco	190.475	59.931	295.766	121.322

Source: MAN Reports 1987–89 and NBL Annual Reports.

Table 3: NBL financial summary 1982–1991 in nominal naira values (N'000)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
1. Net Proceeds of Sales	175,301	230,641	234,536	125,326	148,552	272,075	412,399	609,419	887,909	1,275,422
2. Profits before Taxation	53,887	95,652	104,158	41,566	45,387	75,774	138,431	227,040	274,562	422,501
3. Profits after taxation	30,387	49,402	55,368	26,544	27,567	48,651	78,037	124,982	145,369	247,560
4. Shareholders' Fund	18,038	29,574	159,106	161,869	172,848	192,333	207,940	547,774	951,947	1,248,530

Source: Compiled from NBL Annual Report 1982 to 1991.

with further analyses on production levels, profit margins, commodity price adjustment, returns on turnover and the base year factor cost analysis below.

Table 4 gives an indication of the effects of inflation on cost of production and the consequent adjustments in ex-factory prices of products in the manufacturing sector.

Table 4: Percentage increases in average unit cost of production and Ex-Factory Prices in the manufacturing sector 1987–89

	Average unit cost of Production			Average Ex-factory Price		
	1987	1988	1989	1987	1988	1989
Food Beverage and Tobacco Industry	32.95	24.42	70.93	28.64	22.95	59.65
Manufacturing Sector Average	50.14	54.23	76.88	46.67	49.32	62.70

Source: MAN Reports 1987–1989.

Percentage increases in average unit cost of production for the Food, Beverage and Tobacco industry for instance, rose from 33 percent in 1987 (in comparison with the preceding year) to 71 percent in 1989. The increase in average ex-factory prices similarly rose from 29 percent to 60 percent within the same period. The figures for the manufacturing sector are similarly high. Average unit cost of production rose from 50 percent in 1987 to 77 percent in 1989. Average ex-factory prices also rose from 47 percent in 1987 to 63 percent in 1989. These, rather than globalisation policies, largely accounted for the increases in turnover and profits in Food, Beverage and Tobacco industry irrespective of low capacity utilisation.

The high inflation estimated by AFBTE to have risen by about 46 percent in 1992 generally followed from the depreciation of the naira, high interest rates (estimated at 34 percent in 1991 and 65 percent in 1992) and the consequent low exchange rate of the local currency to major international currencies in the globalisation period. In 1982 for instance, the naira exchanged for less than US\$0.7, and throughout the pre-SAP period exchanged for less than \$1.00. With the formal introduction of globalisation in 1986, the official exchange rate of the naira to the US$1.00 rose to N1.7. It exceeded N8.00 in 1990 and more than N20.00 by the end of 1992. In the second half of 1993, the official exchange rate of the naira to the US$1.00 was approximately N30.00 (but was fixed at N22.00 by the General Sanni Abacha administration in January 1994). Table 5 shows the rate of appreciation of the dollar and the pound sterling against the naira between 1970 and 1992. In the absence of current data on increase in the unit cost of production and ex-factory prices for the industry, the above picture suggests that between 1989 and 1992, such increase would have been more than 100 percent – using the exchange rate as the basis for estimation.

One of the factors responsible for the high rate of inflation that accompanied the depreciation of the naira since the globalisation exercise is the import dependent nature of the industries in Nigeria. This is the product of the import substitution industrialisation of the 1970s. The limited amount of foreign currencies under SFEM, and the operation of the market, based on ability to pay, exacerbated the crisis of inflation in the SAP period. The problem was worsened by poor monitoring of the activities of the banks and financial institutions by the Central Bank of Nigeria (CBN), and the corruption associated with the operation, which was to create the opportunity for the abrogation of the SFEM by the Federal government in March 1992. The cumulative effects on the cost of living led to consumer resistance and high stock of unplanned inventories in the manufacturing sector.

Tables 4 and 6, for instance, show that average unit cost of production for the Food, Beverage and Tobacco industry rose by about 128 percent within the three-year period of globalisation (1987–89), while average ex-factory price rose by 111 percent within the same period. Sales turnover also increased by 100 percent from 1987 to 1989, while unplanned inventories of unsold products rose astronomically by 361 percent within the same period. In 1987 for instance, 31 companies had about N70 million worth or unsold stock in their warehouses (*Business Concord* 7 July 1987). Of 101 respondent firms surveyed on output by the Manufacturers Association of Nigeria (MAN) in 1992, 49 reported the occurrence of unplanned inventory build up amounting to N780.93 million in the first six months of 1992. The inventory accumulation represents 9.6 percent of the total nominal output of the 101 respondent firms amounting to N8, 064.36 million or 19.16 percent of N4, 074.91 million produced by the 49 companies (MAN Report 1992). Even though the performance of the firms indicated remarkable increases in nominal production from N12.928 billion in January–June 1994 to N16,319 billion in July–December showing an

Table 5: Naira Exchange Rates 1970–1992

Year	Dollar	Pound Sterling
1970	0.7142	1.7114
1971	0.6944	1.7156
1972	0.6579	1.6289
1973	0.6579	1.6289
1974	0.6293	1.4795
1975	0.6158	1.3618
1976	0.6266	1.1317
1977	0.6466	1.1671
1978	0.6351	1.2238
1979	0.6027	1.2628
1980	0.5469	1.2647
1981	0.6052	1.2495
1982	0.6731	1.1734
1983	0.7506	1.1216
1984	0.7672	1.0765
1985	0.8924	1.1999
1986	1.7323	2.5554
1987	3.9691.	6.5929
1988	4.5367	8.0895
1989	7.5064	11.8982
1990	8.3469	16.2419
1991	9.8702	17.4384
1992 (1st qtr)	12.4665	22.0023
1992 (2nd qtr)	18.4744	32.9411

Source: Central Bank of Nigeria (1992).

increase of 26 percent, the 1994 MAN Report stated:

> Expectedly, the ravaging inflation and the consequent erosion of purchasing power exerted a depressing effect on market potential. The weak aggregate domestic demand that has been a feature of the Nigerian economy in the last nine years took a more serious dimension during the period

> under review. Of the 182 respondent companies, 62 or 34 percent across the industrial sub-sectors complained of difficulties in sales. At N1,489 billion, unplanned business inventories more than doubled the levels of N548.47 million recorded in the first half of the year (1994). Compared with N747.96 million registered in the last six months of 1993, this meant an increase of 99.2 percent. Clearly, this is a very unhealthy situation and the portents are grim for the future.

By 1995 there was no sign of improvement as unplanned business inventory of about N5.895 billion was recorded in the manufacturing sector representing an increase of 295.7 percent on the June-December 1994 figure, and about 34.3 percent of the total output in the sector.

Hence, while stockpiles of unsold products of the pre-globalisation period were caused mainly by the low disposable income of consumers, those of the globalisation period were, in addition, caused by the high inflationary rate, upward price adjustments of products by manufacturers, and the general high cost of living precipitated by the depreciation of the naira.

A remarkable feature of the employment structure in the manufacturing sector in 1994 is that virtually all its sub-sectors recorded significant declines in their workforce reflecting the slowdown in manufacturing activity. Low levels of factory operation, sales declines and the absence of investment were compelling factors for rationalisation and labour retrenchment by companies faced with rising overhead costs. In observing the continued distress of the manufacturing sector after nearly a decade of the implementation of the globalisation programme, the 1994 Report stated that the industrial production continued to stagnate as evidenced by the relative decline in capacity utilization from 37.38 percent in July-December 1991 to 36.36 percent in the period under review. Industrial recovery remained scuttled by an unhealthy business environment characterised among others by persistent depreciation and instability of exchange rate, high rates of interest and crippling inflation; inadequate protection for local industries as a result of uncritical application of trade liberalisation policy, and continued flagging consumer spending which had added to the drag on production and investment (MAN 1992).

Although manufacturing sector industrial capacity utilisation in the second half of 1995 recorded marginal improvements at 28.75 percent, from 27.74 percent recorded in the corresponding period of 1994 and 26.97 per cent in the first six months of 1995, the performance was still patently below expectations from globalisation. But that was the inevitable consequence of the unprecedented official depreciation of the naira exchange rate from N22.00 to N85.00 for US S1.00 in 1995. Hence, the upward pressure on production inputs cost which characterised the previous years worsened, while low purchasing power continued to exert a depressing effect on sales, further accentuating the low level of capacity utilisation and labour shedding (MAN Report 1995). The foregoing supports the view that:

> the success or otherwise of the economic liberalization as a major corner-stone of the structural adjustment programmes implemented by developing countries is related to the behaviour of the real exchange rate. From his study of the Nigerian situation he observed that: all the measures of real effective exchange rates (REER) based on the geometrical average formula showed on the average real depreciation. The magnitude of the real depreciation was largest and most significant during the SAP period. Although the rate of inflation shot up and government fiscal operations expanded tremendously, the nominal exchange rate depreciation was large enough to counteract the inflationary and expansionary effects as to make the REER depreciate substantially. This has however, had negative effects on industrial production which has been heavily dependent on imported input. The huge nominal and real exchange rate depreciation has increased the domestic cost of imported input used for producing both tradable and non-tradable. And so the net effect of the real exchange rates depreciation has been to worsen the domestic inflationary spiral and weaken the international competitiveness of the non–oil exportables. It is hardly surprising therefore that the non-oil trade balance has not improved (Obadan 1994:72).

Obadan therefore concluded that the efficiency of real exchange rate adjustment in an input-import dependent economy like Nigeria was in serious doubt and pointed out the need for caution in relying on real exchange rate changes to achieve external balance without re-directing the production structure away from imported input in a significant manner (Obadan 1994). Similar observations were made by Edwards (1989), Ogwuma (1996) and Ajakaiye (1997).

Closely related to the above crisis is the cost of raw materials - imported and local. While the depreciation of the naira affected the cost of imported raw materials directly, it had a similar effect on local raw materials, albeit indirectly. This is because producers of local raw materials also depend on imported machinery and spare parts for their production. Moreover, they depend on products from imported raw materials for their existence. They, therefore, rationally increase the prices of their own goods (locally produced) to enable them purchase the imported ones. These are some of the internal dynamics of the Nigerian economy that are not reflected in the IMF/Bank diagnosis of the Nigerian crisis.

Table 6: Percentage increases in ex-factory price, sales turnover, and unplanned inventories in the manufacturing sector 1987–89

	Percentage increase in average ex-factory price			Sales turnover N'000			Percentage increase		Unplanned inventories of unsold products N'000			Percentage increase	
				(1)	(2)	(3)	B/W	B/W	(4)	(5)	(6)	B/W	B/W
	1987	1988	1989	1987	1988	1989	1 and 2	2 and 3	1987	1988	1989	4 and 5	5 and 6
FBT Industry	28.64	22.95	59.65	1,012.5	1,478.2	2,287.6	46.00	54.80	2.9	4.8	19.4	63.5	298.4
Manufacturing Sector Average	46.6	49.3	62.7	6,875.6	9,577.9	14,547.5	39.30	51.89	45.0	81.3	235.4	80.5	189.4

Source: Compiled From MAN Reports 1987–1989.

Table 7 shows that the cost of imported raw materials for the manufacturing sector rose by 222 percent between 1986 and 1989, with a similar 230 percent rise for the Food, Beverage and Tobacco industry within the same period. Comparable figures for the average cost of local raw materials come to about 208 percent for the manufacturing sector, and a staggering 633 percent for the Food, Beverage and Tobacco industry. While the average cost of local raw materials for the Food, Beverage and Tobacco industry increased by about 76 percent in 1987, it escalated to about 291 percent in 1988, and remained as high as 266 percent in 1989. With the value of the naira depreciating by about 200 percent between 1989 and 1993, the average cost of raw materials can be estimated to have increased by a similar margin.

From Table 4, for instance, it is clear that while the percentage increase in the average unit cost of production in the Food, Beverage and Tobacco industry rose by about 128 percent from 1987 to 1989, the percentage increase in average ex-factory prices rose by only 111 percent. The difference is even expected to be higher from 1992 when the naira was devalued more than 20 times compared with the pre-SAP values. Increases in production and ex-factory prices were however accompanied by aggressive product sales promotions aimed at minimising consumer resistance (AFBTE 1992/93:7).

Table 7: Percentage increase in average cost of imported and local raw materials in the food, beverage and tobacco industry 1987–1989, with manufacturing sector averages

	1987	1988	1989
1. Percentage increase in average cost of imported raw materials in the FBT industry	109.1	70.48	50.69
2. Manufacturing Sector average	70.63	75.62	75.41
3. Percentage increase in average cost of locally sourced raw materials in the FBT industry	75.75	291.33	266.10
4. Manufacturing Sector average	52.68	75.22	79.93

Source: MAN Report 1987–89.

Hence the huge profits declared by firms in the SAP period of globalisation reflect more of the price adjustments due to inflation and high cost of production than real profits. The report of the Manufacturers Association of Nigeria (1987–89) implies this phenomenon as it observes that the sharp rise in the cost of locally sourced raw materials was essentially a reflection of the inflationary spiral that had characterised the economy during the review period.

The above observations were made during a rosy period in the SAP era – not comparable to 1992–1993. The annual report of AFBTE for 1992/93 for instance, estimated the inflationary rate for the period to be about 46 percent, the interest rate about 65 percent from 34 percent in 1991, and interbank rates at between 100 and 200 percent (See AFBTE 1992/93:1–2). In addition, however, the high cost of local raw materials in the Food, Beverage and Tobacco industry in particular may be related to the high demand and competition for local sourcing of raw materials in the brewing sub-sector among others from 1988, following the Federal government's ban on imported grains. The Food, Beverage and Tobacco industry in fact, recorded the highest utilisation of local raw materials in the manufacturing sector during the globalisation period in our study. This increased from 51.07 percent in 1987 to 63.11 percent in 1989 (MAN Report 1989).

Another factor related to the local raw material sourcing and high cost of production is the problem of low technological capacity. Adaptations and modifications of plants and equipment for processing local raw materials in the Food, Beverage and Tobacco industry still had to depend on imports. The implication of the above analysis for the performance of the industry was highlighted by the Executive Secretary of AFBTE in the 1992/93 Annual Report of the Association when he remarked that 'in spite of the over 70 percent increase in turnover (from N9.651 million in 1991 to N16.748 billion in 1992) return on turnover fell from 15.2 percent to 13.73 percent'. As Table 8 indicates, return on turnover has been fluctuating in the globalisation period, despite the steady rise in turnover and profit before tax within the period.

The effect of the cost of production and price adjustment in the SAP period is also evident in the profit margin (ratio of pre-tax profit to sales turnover) of selected firms in the Food, Beverage and Tobacco industry. In contrast with the huge profit picture earlier observed in Table 2 for the firms, the economic performance of most of the firms in the industry expressed in profit margins in Table 8 indicates a downward trend. The high profits of the firms in the SAP era in Table 2, for instance, do not reflect in the globalisation period in Table 8, when performance is expressed in profit margins.

Table 8: Profit margin in selected firms in the food, beverage, and tobacco industry 1985–1989 (%)

Firms	1985	1986	1987	1988	1989
Nigerian Breweries	33	31	28	34	37
Guinness Nig.	26	22	13	15	16
Foremost Dairies Nig.	18	(NPM)		3	(NPM)

A more realistic picture of the economic performance of firms in the SAP era further emerges with the 1982 base year factor cost analysis for organisations presented in Table 9. This involves expressing the 10 years financial summaries of the firms in the SAP period in their respective pre-SAP values. It therefore accounts for the depreciation in the value of the naira, and reflects the economic performance of the organisations in real terms. We will do this once again by using the most impressive firm in the industry on the basis of which we may generalise.

From Table 9, it is observed that for NBL, profit before tax rose steadily in the pre-globalisation years until 1985 – at the peak of the raw material crisis in NBL and the FBT industry, when it recorded a fall of about 68 percent. The fall in profit before tax continued through the SAP period until 1988 when local raw material sourcing was largely achieved. Hence, profit before tax rose by more than 65 percent in 1988, from about N12 million in 1987 to about N20 million in 1988. The increase continued marginally up to 1991.

More significantly, Table 9 indicates that the average profit before tax for the four year pre-globalisation period in NBL was about N65 million, in comparison with approximately N18 million for the immediate four year period of the globalisation programme. Furthermore, the most difficult period for NBL (1985) – which recorded the poorest performance in the pre-globalisation period – was better than all the years in the globalisation period except 1991.

Table 9: Financial summary 1982–1991 at 1982 factor cost (N'000)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Net Proceeds of Sales	175,301	206,827	205,769	94,528	57,721	46,131	61,186	55,696	74,355	95,387
Profits before taxation	53,887	86,673	91,382	31,343	17,635	12,845	20,538	20,749	22,992	31,598
Profits after taxation	30,387	44,301	48,576	20,021	10,711	13,233	11,578	11,422	12,173	18,514
Shareholders' Fund	180,038	26,520	139,591	122,091	67,161	32,616	30,851	19,526	79,717	93,376

Source: Computed from Tables 2a and b.

The analysis so far tends to confirm the argument that globalisation as expressed in the Structural Adjustment Programme could not address the industrial crisis of the previous era, but worsened it – particularly due to the massive depreciation of the naira under SAP.

The structure of the Food, Beverage and Tobacco industry was affected in the globalisation era – especially in terms of industry-wide contraction or expansion. Firms in the industry at this period were pre-occupied with research into local raw materials sourcing and the problem of high costs of production. These led to structural changes in the industry that were evident in production technology, price structure and market structure – as earlier highlighted. In terms of size, the Food, Beverage and Tobacco industry experienced contraction in its structure in the SAP era, from 80 companies in 1986 to 69 in 1992 as shown in Table 1 – with intermittent rises and falls. Commenting on the viability of the industry in 1992, the Executive Secretary lamented that of the 69 member companies of AFBTE, only 26 were identified as thriving on account of their after-tax profit and return on capital employed (AFBTE 1992/93). Hence SAP tends to 'de-industrialise' the Food, Beverage and Tobacco industry. In the industry, the beverage sub-sector was worse hit with the survival of 25 companies in 1992 compared with 40 in 1986.

Ironically, the total number of employees in the industry according to the 1992/93 annual report increased from 41,150 in 1986 when AFBTE had 80 member companies to 42,669 in 1992 when the number of companies in the association fell to 69. This further confirms our earlier observation – that some of the surviving firms were expanding irrespective of the contraction at the FBT industry level – taking advantage of the reserve army of labour and the disparate impact of SAP even on the same subsectors of the economy.

The contradictions in the SAP period are related to our discussions on structure above, and emanate from the socio-economic policies of globalisation that are not compatible with the realities of the economic crisis. The devaluation of the naira against the background of the import-dependent economic structure of Nigeria is a major aspect of the contradictions. The stated motivation for devaluation was to increase the volume of exports, improve the balance of payment position and possibly attract foreign investment. In the case of Nigeria however, the economy is mainly dependent on oil exports while the production of most commodities is rarely adequate for the internal market. Oil production and exports, moreover, are subject to OPEC's regulations – which have little relevance to devaluation. In their analysis of the contradictions apparent in the implementation of neo-liberalism in peripheral states, Gwynne and Kay (2000), observed that by the uncritical integration of these economies into the global economy, the neo-liberal model had consequently made them more dependent on, and hence, vulnerable to, global economic shifts – with adverse consequences in unemployment rates, real minimum wage, real wages, welfare of the poor, and the urban informal sector.

The steep devaluation of the naira during globalisation introduced high rates of inflation, which adversely affected industrial operation – especially in the manufacturing sector (including the Food, Beverage and Tobacco industry). Hence in the 1992/93 report, the AFBTE president lamented:

> Quite expectedly inter-bank rates jumped from about 50 percent in 1991/92 to between 100 and 200 percent in 1992/93. The operating environment was also characterized by a continued decline in the value of the Naira with adverse consequences on the purchasing power of the consumer. At the same time, the income of the consumer was ravaged by inflationary spiral... Manufacturers had to contend with weak demand and unimpressive turnover as a result of the erosion of the purchasing power of the consumer... Inflation is not galloping; it is zooming (AFBTE 1992/93:2,4).

According to Crotty (2000), neo-liberal globalisation evident in the spread of IMF 'austerity' programmes and the World Bank's Structural Adjustment Programmes across the globe creates both chronic sluggish aggregate demand growth and chronic excess aggregate supply and these tendencies reinforce one another in a vicious circle. Chronic excess capacity in many global industries is a fact of life in the neo-liberal era. According to Business Week, 'supply outpaces demand everywhere sending prices lower, eroding corporate profit and increasing lay off' (January 25, 1999: 118). The combination of reduced aggregate demand due to lower wages rates, and increased supply due to 'coercive competition' in a global free market has led to overcapacity in world markets and low profits (Wolfson 2000). Some of these account for the reason why the benefits of globalisation are by-passing most developing countries. While the average annual growth rate of world output stood at 1.9 percent in the period 1990-1995, the corresponding figure for Africa was 1.1 percent. By 1997 when the world rate rose to 3.3 percent that of Africa stood at 2.7 percent (UNCTAD 1999). Since the 1990s, and earlier for many countries, these marginalised economies have been implementing economic policy reforms with particular reference to trade liberalisation, predicted to increase their ability to share in globalisation. But while policy barriers to trade have been reduced, other barriers evolve that constrain the capacity of the marginalised countries to benefit from globalisation. These include the fact that liberalisation has a tendency to expose domestic firms to competition from imports long before they develop the capacity to increase efficiency and competitiveness (Morrissey and Filatotchev 2000).

Africa and neo-liberal globalisation: Some conclusions

Contrary to the claims in World Bank quarters (World Bank 1989, 1994; Zanini 1994), this study confirms the position that the globalisation programmes that aim at the structural economic transformation of modern capitalist relations in Africa, foisted on the continent by the Bretton Woods Institutions, have been associated with a process of de-industrialisation (Adesina 1991, 1994; Bangura 1991; Obi 1991; Chikhi 1991; Thomas 1995; Onyeonoru 1994). The reform programmes have not been successful. Instead they have adversely affected the industrial and economic performance of the countries (Onimode 1989; Streeten 1997; Sawyerr 1998). Rather than acknowledge this failure as a mark of the inadequacy of its globalisation project, the World Bank takes the escapist route by attributing it to such factors as poor governance, stop-go implementation syndrome (or irregularity in the taking of the adjustment 'medicine'), as well as political and bureaucratic corruption (Hussain 1995; Pleskovic and Stiglitz 1997).

A major problem with the globalisation programmes is that they were introduced into Africa as debt-settling projects rather than development programmes, and worse still, with little regard to market imperfections in the African domestic economies. The result is that the expectations from globalisation are not being realised. Economic globalisation is not so beneficial to Africa – it is on balance counter-productive (Gibbon 1990, 1995; Olukoshi 1998).

The conclusions from this study, for instance, show that the adverse economic performance of the manufacturing sector in general and the food, beverage and tobacco sub-sector in particular that became evident in Nigeria in the early 1980s was not substantially modified by the globalisation structures introduced by the Structural Adjustment Programme in 1986 – contrary to the predictions of the advocates. Instead there were tendencies towards de-industrialisation that have continued unabated. This applies to our analyses both at the firm, industry and sectoral levels and confirms conclusions from similar studies elsewhere. According to Thomas (1995:13), 'labour market research in Africa shows dramatic falls in real wages for a workforce which is shrinking rapidly due to the privatization of public enterprises as well as actual de-industrialization'.

In particular, the real naira value analysis of the net proceeds of sales and profit before taxation of the most viable firm in the FBT industry during the globalisation period, suggests that the industry performed better in the pre-globalisation period. Given the fact that the firm in question (Nigeria Breweries Plc) was one of the most highly rated firms in terms of economic performance under the globalisation process in Nigeria, firms not so highly rated would not have performed as well. This picture may, therefore, reflect the broader economic scenario - the overall poor performance of firms, and the extent of de-industrialisation, as a result of the pressures of globalisation.

Part of our observation is that the huge profits declared by firms in the globalisation period in our study were cosmetic and do not represent a brilliant industrial performance. The real picture emerges with the analysis of performance based on base year factor costs that approximated the real naira values. The globalisation process anchored on the structural adjustment programme, therefore, has not favoured the economic performance of the food, beverage and tobacco industry in Nigeria - and by inference, the industrial sector in general.

The foregoing conclusions have noteworthy policy implications, especially when viewed from the perspective of the high economic performance of the East Asian countries. There is now abundant evidence that the economic reforms that led to the celebrated economic 'miracles' of this zone were in many ways remarkably different from the typical IMF/World Bank open-economy, market-driven, non-interventionist model premised on Adams Smith's 'invisible hand' which emphasises the rolling back of the state and reduced social spending. Instead, the East Asian countries employed a purposively strong interventionist approach to the labour market rather than the wholesale market determined model. Governments of these high growth adjusters provided implicit and explicit subsidies to strategic industries, undertook the promotion of high-wage skill-intensive development strategies, especially in the medium phase of adjustment with performance based reward structures which provided strong growth-oriented incentives and served as a basis for awarding government subsidies (Loxley 1995; Stiglitz 1996; Ito 1997).

Moreover, East Asian Countries diversified their economies in favour of the production of manufactured export goods with economic management sharply different from that characteristic of African countries' structural adjustment. The former embodied export-led growth secured by a system of domestic incentives in combination with degrees of trade liberalisation and social spending (Demery and Squire 1996). The achievement of the high-growth East Asian state-guided model is remarkable irrespective of the financial crisis that followed. Lessons abound not only from an exceptionally successful alternative development model of the past two decades (Crotty 2000), but also from its flaws. The financial crisis for instance is traceable among other things to an under-regulated financial environment – the adoption of premature financial liberalisation without adequate safeguards (Onis and Aysan (2000). Most importantly, contrary to the conventional wisdom, far from revealing a 'hands off' market determined approach, government in the high growth adjusting countries deliberately promoted both low wage labour-intensive and high wage skill-intensive development strategies at different times (Loxley 1995:18).

A major problem with the globalisation process in Africa is that many of the programmes being implemented derive from the agenda of the international financial institutions rather than from the voluntary policies of the adjusting countries - whose interests the programmes do not reflect. This underscores the observation that the expression of globalisation in terms of deregulation and liberalisation of African economies has been achieved not through the self-propelling activities of market forces and the persuasive power of the rationality of the market but rather through the powers of compulsion and pressure available to international creditors and financial institutions (Aina 1997:68).

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