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EXTERNAL DEBT AND NIGERIA'S FOREIGN POLICY IN THE FOURTH REPUBLIC (1999 – 2017)

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ABSTRACT

This study identified and examined the linkages, if any, between external debt and Nigeria's foreign policy from 1999 to 2017. It also examined the politics that surrounded external debt relief and established the extent that external debt burden and debt servicing had impacted on the content and direction of Nigeria's foreign policy during the period. It further ascertained the level of success, or otherwise, of the various mechanisms adopted to tackle Nigeria's external debt crisis in the period under review. These were with a view to enhancing understanding of the nexus between external debt and Nigeria's foreign policy.

The study adopted the descriptive research design and dependency theory in explaining the connection between external debt and Nigeria's foreign policy. Furthermore, primary and secondary data were used in the study. The primary data were sourced through in-depth interviews from 12 respondents. The study areas included the Ministry of Foreign Affairs, Debt Management Office and the Central Bank of Nigeria, all located in Abuja. Descriptive analysis was utilised to analyse the data collected.

The results established a clear linkage between external debt and Nigeria's foreign policy by showing how indebtedness weakened the country's capacity to forcefully pursue national interests and project influence in the international arena. Secondly, the results revealed that the debt relief and Paris Club debt exit were highly politicised, as Nigeria was accorded unequal treatment in comparison with other countries with similar debt sustainability parameters and per capita income level. However, the study revealed that Nigeria's foreign policy did not change in content within the period under review (1999 to 2017) despite the country's external debt

profile. Rather, there were slight changes in the style of implementation of external relations with the outside world. Finally, the results revealed that the various external debt management strategies that were employed in the period under review did not produce the required effect of putting the Nigeria external debt profile in check, as her debt profile continued to witness a steady increase.

The study concluded that the nexus between external debt and foreign policy had no considerable changes in the substance and contents of the Nigeria's foreign policy.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The foreign policy of any nation is said to be the objectives that direct the activities and relationships with other states in the international environment. And it is always determined by the domestic policy of such a country, especially the interests of the competing groups that control the machinery of the state (Ebegbulem, 2004). To put differently, how countries see the world, their position in it and their reactions to issues in the international arena is highly dependent on factors ranging from economy to geography, history and leadership quality (Nwakanma, 2004).

Paramount among these factors is the economy, as it determines, to a large extent a country's ability to exercise political, diplomatic and military influence worldwide. It is to this end many countries are referred to as developed, developing or underdeveloped. This argument that a sound economy is the bedrock for a vibrant foreign policy is unarguably in line with Karl Marx assertion that economic system constitutes the foundation i.e., the substructure of society (Karl Marx, 1970). In most instances, foreign policy decision-makers are influenced by the amount of economic resources their countries could boast of in the international environment. According to Osoba,

> "The economic structure of any political system is an important factor in the processes and behavioural pattern both in the domestic and international environment" (1980: 208).

It is a usual practice that countries, facing paucity of economic opportunities, including finance will embark on external borrowing, to support domestic needs. (Pattillo et al, 2002; Safdari and Mehrizi, 2011; Monogbe, 2016). The impact of such borrowing are, in turn influence by terms and conditions attached to them.

Nigeria's debt is of two types, external and domestic debts. The debt that is basically owed to external creditors is known as external debt. These external creditors are further divided into multilateral agencies and bilateral sources. The major multilateral bodies, for instance, are the Africa Development Bank, the World Bank and the IMF, or the Islamic Development Bank while the bilateral sources include the Japanese Aid Agencies, the French Development Bank or the China Exim Bank. For the most part, external loans are typically utilized to supplement the deficit budget in order to boost domestic expenditures. Nigeria's quest for foreign borrowing can be traced to the early 1960s, when African countries, on the attainment of independence, had to approach IMF and the World Bank for development assistance. Routinely, since then, successive the Nigerian governments have developed what seems to be an insatiable quest for more external loans until the mid – 1980s when repayment suddenly became a problem. Situation like this is commonly known as the "debt crisis"; a situation of irredeemable indebtedness in which heavily indebted countries find it difficult, or impossible, to pay the principal on debts they owe. The basic objective of this study is on the nexus between Nigeria's external debt and foreign policy.

Nigeria's desire for external borrowing increased in the 1970s when the desire for development grew to an unprecedented level. Between 1979/1980, Nigeria witnessed a glut in the oil market which subsequently raised the country's foreign exchange earnings. However, oil export income reduced dramatically by over 50 percent within the early 1980s from US$24.9 billion to US$11.9 billion and then by half in 1986 to the sum of US$6.4 billion. The thought that the decline would be for a short period of time motivated the government to engage in massive borrowing from the International Capital Market to meet all kinds of developmental projects. As a result, Nigeria's external debt profile increased at a faster rate from $9.0 billion in 1980 to $25.6 billion and $35.95 billion in 1986 and 2005 respectively, as succeeding regimes and administrations engaged in spurious external borrowings (Federal Ministry of Finance, 1996). Faced with such situation, a larger percentage of the nation Gross Domestic Product (GDP) was used to servicing of these debts with only a fraction left to meet other developmental needs. This is the beginning of what is popularly referred to as "evergreen loans," in the indebted countries. This situation made the debtor countries to seek for more external funding to provide for the basic demands of their people thereby entrapping them even further. In 1999, the Obasanjo administration solicited for debt pardon, due to the fact that over $3 billion was annually utilised to service these debt. The relief initiative became successful when on June 29, 2005, the Paris Club and the Nigerian government agreed on an US$18 billion debt relief package in exchange for $12 billion in payment (Iweala, 2005, Onwuamaeze, 2012). After the debt relief, the nation's over-all external debt stock dropped dramatically to a total of US$3.5 billion. Surprisingly, Nigeria is back to the lender for another round of borrowing. Currently, the nation over-all external debt, as of 30th June, 2017, has dramatically risen to $15.05 billion (Vanguard Sept. 20, 2017).

Countries that found themselves in foreign indebtedness do have some common symptoms; not the least that the representatives of the creditor institutions begin to play more active role in their financial institutions such as the Central Bank and the Ministry of Finance, with the aim to ensure that resources of such countries are well utilised for servicing the external loans. This made Ajayi to posit that,