CHAPTER I
INTRODUCTION

A. Background

Structural Adjustment Programme (SAP) is an economic reform policy package which was suggested by IMF and World Bank for developing countries. This program was created to assist developing countries in dealing with economic global economic crisis in 1970s and to assist development program by providing a "conditional lending" (Logan, 2015). The "conditional lending" means to get the loan or receive the debt and the governments of developing countries are obliged to adjust their economic policies. The term of adjusment policy should be implemented through privatization and liberalization economic policies. As result, the recipient countries must open their economy in order to ensure the sustainability of economic progress, economic and trade integrations, and foreign competitiveness in the global market. (Sulaiman, Migiro, & Aluko, 2014, p. 41).

Structural Adjustment Programme is one-fit-all policy which means the programs and policies which are offered always similar regardless area and period. These programs are adapted from developed countries reflects the idea of neo-liberal which urge the developing countries to open market and liberalization.

As mentioned above that the SAP was created under strong influence of neo-liberal ideology, means, the program tries to reduce the government intervention in the market system. The recipient countries have to implement programs that is offered by IMF. The programmes for Structural Adjustments also often referred to as The Washington Consensus include as the following aspects (Greenberg, 1997):

1. Spending cuts and increasing taxes, or also known as Austerity.
2. Focus on economic output on direct exports and resource extraction.
3. Currency devaluation.
4. Trade liberalization, increased imports and export restrictions.
5. Increasing investment stability (complementing foreign direct investment with domestic stock market opening).
6. Balancing budgets and not overspending.
7. Removing price controls and state subsidies.
8. Privatization or releasing of all or parts of state-owned enterprises.
9. Increasing the rights of foreign investments.
10. Improving governance and combat corruption.

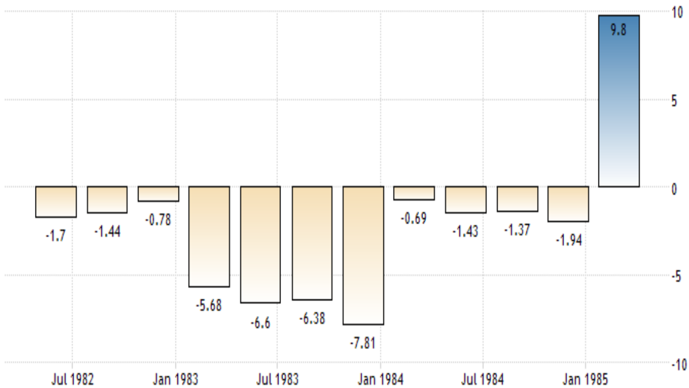
After implementing those programs, IMF believes that the economic growth of developing countries will grow faster and able to chase up the develop countries. These programs are designed for developing countries to be able pay back the debts. Thus, IMF will associate the developing countries along the proces of Structural Adjustment Programme in order to achieve the goals namely economic growth and development.

In this regard, talking about developing countries will also talk about African countries. Africa continent is the biggest continent with the largest number of poor and developing countries. The development of each country in Africa can be mentioned as the lowest development compared with other four continents. One of the developing countries in Africa is Nigeria. Nigeria became politically independent of British Monarch 1st October, 1960, and on October 8, 1960. Nigeria made her first appearance on the international arena when joined United Nations General Assembly and then became the 99th member-nation of the organization (Obasogie, 2015).

The economic development of Nigeria is below average since its independent. Government of Nigeria have pursued structural changes, however it did not much succeed. In fact Nigerian economic performance was weaker compared with the other emerging Asian countries, such as Thailand, Malaysia, China, India and Indonesia that left Nigeria behind in terms of GDP per capita in 1970. Those countries have transformed their economies and became major players on the global economic arena.

Nigeria was hit a serious debt crisis in early 1980s. This crisis was triggered by the declie of oil prices as the country's main export and rised the real international interest rates that was worsening the external debt burden. The domestic policy mistakes was also a major cause of this crisis. (Aigbokhan, Poverty, Growth and Inequality in Nigeria: A Case Study, 2000) It was the worst crisis in its history since the shifting system into the world capitalist system. The Nigerian economy was really underperformed as indicated in the below graph.

Figure 1.1 Nigeria GDP Annual Growth Rate 1982-1985



Source: TRADINGECONOMICS.COM

The Nigeria annual growth rate in 1982-1985 was really under average that can be seen from the above table. In 1982, the government implemented the Economic Stabilization Policy as the way to stabilize the economic condition. Unfortunately, the Government too focused on maintaining the artificially high value of its currency to contain inflation rather than allowing the exchange rate to depreciate as a way of stimulating economy. Moreover, in late 1985 and early 1986, the world oil markets contracted once again that makes Nigeria's economy was already on the verge of crisis.

Then, in 1986, as the respond of that economic crisis, the Government introduced the Structural Adjustment Program (SAP) as the way to cure the crisis and to solve the new challenges of the further collapse of oil revenues. The objective was to help promoting economic efficiency and private sector development as a basis for improving prospects for long-term growth. Nigeria's SAP combined exchange rate and trade policy reform (aimed at revitalizing the non-oil economy) with stabilization policies (designed to restore equilibrium to the balance of payments and to make prices more stable). The programmes included rapid and sizeable exchange rate devaluation, trade and financial reforms, and budgetary and monetary contractions. (Aigbokhan, Poverty, Growth and Inequality in Nigeria: A Case Study, 2000)

According to World Bank report of SAP on Nigeria, In September 1986, Nigeria adopted a market determined exchange rate and eliminated its longstanding system of import licensing. These systems broke steps that provide controls to the administrative that had led to corruption and behavior of rent-seeking at the expense of productive activity. The second main objective of these systems was to reform tariffs and export policies. In addition, to avoid too much pressure on prices and the exchange rate, Government implemented monetary and fiscal restraint. (The World Bank, 1994)

Specifically, the major objectives derived from the above policy reform consist of (Tackie & Abhulimen, 2001):

a. Restructuring and diversifying the production base of the economy in order to reduce dependence on the crude oil sector and imports.
b. Achieving fiscal and balancing of payment viability over the period.
c. Laying the basis for a sustainable non-inflationary or minimal inflationary growth.
d. Reducing unproductive investments in the public sector, improving the sectors efficiency level and intensifying the growth potentials of the private sector.
e. Reducing government deficit.

Based on the above background, I would like to examine the implication after the implementation of the Structural Adjustment Programme from IMF in Nigeria. The Structural Adjustment Programs was introduced by Nigeria in order to resolve economic crisis that happened in 1980s and expected to overcome the further challenges in oil price revenue.

B. Research Question

Based on the background mentioned, this thesis has one research question:

"How the implication of Structural Adjustment Programmes (SAP) on the economic crisis in Nigeria?"

C. Theoretical Framework

This thesis is using theory of **neo-liberalism**, enlightened by Adam Smith and David Ricardo. The basic assumption of classical liberalism in the nineteenth century is that in time, the profits will be gained by all parties if markets are allowed to work freely with other countries. This is because the market is seen as the most efficient tool for regulating human production and exchange, which works almost like The Invisible Hands that coordinate economic activity. Moreover, in these last years, the economic interdependency has tied countries more tightly because the economies are globalized which is signed by, (1) information is available universally, (2) technology has integrated states, banks, in one network, (3) technology has decreased the limitation in international economic system that will open wider the new world market system, and (4) production and consumption occur globally as well. (Jackson & Sorensen, 2013, p. 213).

Departing from the basic assumptions mentioned above, a few years later, neo-liberal economic theory emerges and is very influential in the practice of developing countries in the world, especially in countries called Third World countries. Neo-liberalism believes that the free-market economy is the most efficient resource provider, and the most effective means of sustaining a country's economic growth. Moreover, the presence of international economic organizations such as the IMF, the World Bank, and the WTO really support this system. So, it will be so costly in the terms of welfare if countries deny this system (Jackson & Sorensen, 2013, p. 213).

Neoliberalism is an understanding of the Economy which prioritizes the system of Free Trade Capitalism, Market Expansion, Privatization / Sale of SOEs, Deregulation /

Disappearance of government intervention, and reduction of state's role in public services such as education, health and so on. Neoliberalism was developed in 1980 by the IMF, World Bank, and US Government (Washington Consensus), which aims to encourage Third World countries to engage in free, international economic competition. The Economic System of Neoliberalism eliminates the role of the state altogether except as a "regulator" or a "stimulus" to help private companies which is going to bankrupt. According to the Adam Smith, the key notion of economy market-place which limits the state interventions is the main source of development progress, cooperation, and economic welfare. In contrast, the state interventions will lead to conflict, retrogressive, and uneconomical (Jackson & Sorensen, 2013, p. 290).

The theory of neo-liberalism cannot be separated with modernization process. Modernity will create a new life which is better, free from authoritarian government, and the higher level of society welfare. The basic idea of modernization theory is the Third World countries should be expected implement the same developmental path that has been taken by the developed countries in the west, such as like a progressive process from a traditional, pre-industrial, agrarian society into a modern, industrial, and mass-consumption society. Economy liberals underline the need of open market based on the market-place, free from state intervention in order to help generate the large amount of investment required to foster sustained economic growth and development. By implementing modernization, the Third World countries are expected to have the modern sector investment increases minimum 10 per cent of the Gross National Product (GNP). (Jackson & Sorensen, 2013, pp. 328-329)

Figure 1.2 Modernization

Traditional Society →→→→→ Modern Society

→→Modernization→→

Essential modernization factors:

- A market economy, free from political intervention.
- A growing rate of economic interest.
- Foreign Direct Investment.

***Source:* (Jackson & Sorensen, 2013)**

Third World countries are deemed necessary to improve many shortage conditions. The conditions that need to be improved related to: decreasing mortality rate and birth rate, decreasing the influence of the family, opening the system of stratification, changing the feudal system to the bureaucracy, declining the religious influence, shifting the education system from family and community to formal education system, the emergence of mass culture, and the emergence of the market economy and industrialization. (Sunarto, 1993) Thus, those improvements will able to achieve a successful economy in the Third World countries.

A successful economy is an economic condition of countries when they have a rapid economic development. Economic development can be measured by using these three indicators:

a. **Investment.** A health and stable economy of a country will attract foreign direct investment in the states. (Bill R. Shelton)
b. **Agricultural.** The overall increased of agricultural production will as well as increase agricultural exports, and supposed to improve the contribution of agriculture to a positive growth in

real GDP growth rate. (Tackie & Abhulimen, 2001)

c. **Manufacture.** Industrial sector have a big contribution on counties economic development by providing jobs, capitals, and value added creation. (The World Bank, 1994)

The above theories are obviously relevant as instrument to analyze the SAP's implications on Nigeria's political economy. First, the policies that are contained in SAPs reflect the ideology of neo-liberalism. Actually, SAPs are the instrument to over watch and control on Nigeria to avoid abuse from Nigeria. So, Nigeria is obliged to liberalize the trading system, to be more market oriented and capable to produce maximally.

Liberalization activities which are implemented in Nigeria are not only in terms of economy, but also in terms of political economies. The activity is carried out by making fiscal policies that are ready to encourage production activities which are free from intervention from outside or from domestic. The SAPs that implicate the financial structure of Nigeria includes (Greenberg, 1997):

a. Balancing program of state expenditure in order to not overspending
b. Government budget cuts
c. Devaluation of currencies, and programs investment by opening investment capital opportunities.

D. Hypothesis

Based on the above introduction, the implication of SAP towards Nigeria is the Nigeria's economic went successfully in positive trend that indicated by following achievement such as:

1. The massive increase on agricultural production

2. The fair improvement on manufacture sector.

3. The significant improvement on foreign investment.

E. Purpose of Research

1. To examine the implementation of SAP in Nigeria.

2. To assess the economic condition in the post Nigerian economic crisis in 1980s.
3. To scrutinize the positive impacts of SAP implementation in Nigeria.

F. Scope of Research

Limitation of research in a research study is necessary as a step to avoid the breadth of the objects of research deliberations and facilitate the author in conducting research. This matter intended to make the object of research more clear and specific. This Research will be limited to the implications of SAPs towards Nigeria economic crisis in Nigeria from 1986 - 1992.

G. Methodology Research

The research using the library research with secondary data from books, journals, newspapers, and internet sites. The data collected mainly focuses on the SAP, globalization, domestic politics and economic conditions of Nigeria before, during, and after the SAP is implemented, as well as the international political and economics response on SAP in Nigeria.

H. Outline

The outline of this research as follows:

Chapter I	This chapter is introduction consist of the background of the issue, research question, theoretical framework, hypothesis, method of research, and the outline of the research.
Chapter II	This chapter will describe and explain about the SAP as the instrument to solve economic crisis in Third World countries.
Chapter III	This chapter will discuss about Nigeria's economic conditions and the implementation of SAP in Nigeria.
Chapter IV	This chapter will explain the success story of SAP implementation to influence economic development in Nigeria. It will analyze the implication of SAP on agricultural production, foreign investment, and manufacture sector
Chapter V	This chapter is concluding chapter that will summarize the previous chapters to answer the research question.