SS3 Economics Lesson Note First Term

SSS3 SCHEME OF WORK

WEEK 1: Economic Lessons from Asian Tigers Japan, Europe and America

2: Human capital h Nigerian economy.

1. Manufacturing and Construction
2. Service Industries
3. Agencies that regulate the financial market.
4. Function and roles of regulatory agencies.
5. International Trade.
6. International Trade.
7. Balance of payments.
8. Revision
9. Examination

WEEK1:

Economic Lessons From Asian Tigers Japan,Europe And America

The **Four Asian Tigers** or **Four Asian Dragons** is a term used in reference to the highly free-market and developed economies of Hong Kong, Singapore, South Korea, and Taiwan. These nations and areas were notable for maintaining exceptionally high growth rates (in excess of 7 percent a year) and rapid industrialization between the early 1960s (mid-1950s for Hong Kong) and 1990s. By the 21st century, all four had developed into advanced and high-income economies, specializing in areas of competitive advantage. For example, Hong Kong and Singapore have become world-leading international financial centers, whereas South Korea and Taiwan are world leaders in manufacturing information technology. Their economic success stories have served as role models for many developing countries,[1][2][3] especially the Tiger Cub Economies.

Despite a World Bank report crediting neoliberal policies with the responsibility for the boom, including maintenance of export-led regimes, low taxes, and minimal welfare states, institutional analysis also states some state intervention was involved.[4] The World Bank report acknowledged benefits from policies of the repression of the financial sector, such as state-imposed below-market interest rates for loans to specific exporting industries. However, it also pointed out free trade and less government spending were the driving force. As a result, these economies enjoyed extremely high growth rates sustained over decades. Other important aspects include major government investments in education, non-democratic and relatively authoritarian political systems during the early years of development, high levels of U.S. bond holdings, and high public and private savings rates.[5] However this is highly debated, and many have argued that industrial policy had a much greater influence than the World Bank report suggested.[6]

A period of liberalization did occur, and the first major setback experienced by the Tiger economies was the 1997 Asian financial crisis. While Singapore and Taiwan were relatively unscathed, Hong Kong came under intense speculative attacks against its stock market and currency necessitating unprecedented market interventions by the state Hong Kong Monetary Authority, and South Korea underwent a major stock market crash brought on by high levels of non-performing corporate loans. As a result, and in the years after the crisis, all four economies rebounded strongly. South Korea, the worst-hit of the Tigers, has managed to triple its GDP per capita in dollar terms since 1997.

Prior to the 1997 Asian financial crisis, the growth of these four Asian tiger economies (commonly referred to as, 'The Asian Miracle') has been attributed to export oriented policies and strong development policies. Unique to these economies were the sustained rapid growth and high levels of equal income distribution. A World Bank report[7] suggests two development policies among others as sources for the Asian miracle: factor accumulation and macroeconomic management.

Hong Kong's economy was the first out of the four to undergo industrialization with the development of a textile industry in the 1950s. By the 1960s, manufacturing in the British colony had expanded and diversified to include clothing, electronics and plastics for export orientation.[8] Following Singapore's independence from Malaysia, the Economic Development Board formulated and implemented national economic strategies to promote the country's manufacturing sector.[9] Industrial estates were set up and foreign investment was attracted to the country with tax incentives. Meanwhile, Taiwan and South Korea began to industrialize in the mid-1960s with heavy government involvement including initiatives and policies. Export-orientated industrialization as in Hong Kong and Singapore was followed by both countries.

By the end of the 1960s, levels in physical and human capital amongst the four countries far exceeded other countries at similar levels of development. This subsequently led to a rapid growth in per capita income levels. While high investments were essential to the economic growth of these countries, the role of human capital was also important. Education in particular is cited as playing a major role in the Asian miracle. The levels of education enrollment in the four Asian tigers were higher than predicted given their level of income. By 1965, all four nations had achieved universal primary education.[10] South Korea in particular had achieved a secondary education enrollment rate of 88% by 1987.[10] There was also a notable decrease in the gap between male and female enrollments during the Asian miracle. Overall these progresses in education allowed for high levels of literacy and cognitive skills.

The creation of stable macroeconomic environments was the foundation upon which the Asian miracle was built. Each of the four Asian tiger states managed, to various degrees of success, three variables in: budget deficits, external debt and exchange rates. Each tiger nation's budget deficits were kept within the limits of their financial limits, as to not destabilize the macro-economy. South Korea in particular had deficits lower than the OECD average in the 1980s. External debt was non-existent for Hong Kong, Singapore and Taiwan, as they did not borrow from abroad.[11] Although South Korea was the exception to this - its debt to GNP ratio was quite high during the period 1980-1985, it was sustained by the country's high level of exports. Exchange rates in the four Asian tiger nations had been changed from long-term fixed rate regimes to fixed-but-adjustable rate regimes with the occasional steep devaluation of managed floating rate regimes.[11] This active exchange rate management allowed the 4 tiger economies to avoid exchange rate appreciation and maintain a stable real exchange rate.

Export policies have been the de facto reason for the rise of these four Asian tiger economies. The approach taken has been different among the four nations. Hong Kong, and Singapore introduced trade regimes that were neoliberal in nature and encouraged free trade, while South Korea and Taiwan adopted mixed regimes that accommodated their own export industries. In Hong Kong and Singapore, due to small domestic markets, domestic prices were linked to international prices. South Korea and Taiwan introduced export incentives for the traded-goods sector. The governments of Singapore, South Korea and Taiwan also worked to promote specific exporting industries, which were termed as an export push strategy. All these policies helped these four nations to achieve a growth averaging 7.5% each year for three decades and as such they achieved developed country status.[12]

1997 Asian financial crisis

The 1997 Asian financial crisis had an impact on all of the four Asian tiger economies. South Korea was hit the hardest as its foreign debt burdens swelled resulting in its currency falling between 35-50%.[13] By the beginning of 1997, the stock market in Hong Kong, Singapore, and South Korea also saw losses of at least 60% in dollar terms. However, four Asian tiger nations recovered from the 1997 crisis faster than other countries due to various economic advantages including their high savings rate (except South Korea) and their openness to trade.[13]

2008 financial crisis

The export-oriented economies of the four Asian tiger nations which benefited from American consumption, were hit hard by the financial crisis of 2007–08. By the fourth quarter of 2008, the GDP of all four nations fell by an average annualized rate of around 15%.[14] Exports also fell by a 50% annualized rate.[15] Weak domestic demand also affected the recovery of these economies. In 2008, retail sales fell 3% in Hong Kong, 6% in Singapore and 11% in Taiwan.[15]

As the world recovers from the financial crisis, the four Asian tiger economies have also rebounded strongly. This is due in no small part to each country's government fiscal stimulus measures. These fiscal packages accounted for more than 4% of each country's GDP in 2009.[16] Another reason for the strong bounce back is the modest corporate and household debt in these four nations.[16]

A recent article published in Applied Economics Letters by Financial Economist Mete Feridun of University of Greenwich Business School and his international colleagues investigates the causal relationship between financial development and economic growth for Thailand, Indonesia, Malaysia, the Philippines, China, India and Singapore for the period between 1979 and 2009, using Johansen cointegration tests and vector error correction models. The results suggest that in the case of Indonesia, Singapore, the Philippines, China and India financial development leads to economic growth, whereas in the case of Thailand there exists a bidirectional causality between these variables. The results further suggest that in the case of Malaysia, financial development does not seem to cause economic growth.[17]

Gross domestic product (GDP)

In 2013, the combined economy of the Four Asian Tigers constituted 3.81% of the world's economy with a total Gross Domestic Product (GDP) of 2,366 billion US dollars. The GDP in Hong Kong, Singapore, South Korea and Taiwan was worth 274.01 billion, 297.94 billion, 1,304.55 billion and 489.21 billion US dollars respectively in 2013, which represented 0.44%, 0.48%, 2.10% and 0.79% of the world economy. (Source: tradingeconomics.com) Together, their combined economy is close to United Kingdom's GDP of 4.07% of the world's economy.

Cultural basis

The role of Confucianism has been used to explain the success of the Four Asian Tigers. This conclusion is similar to the Protestant work ethic theory promoted by German sociologist Max Weber in his book *The Protestant Ethic and the Spirit of Capitalism*. The culture of Confucianism is said to have been compatible with industrialization because it valued stability, hard work, and loyalty and respect towards authority figures.[18] There is a significant influence of Confucianism on the corporate and political institutions of the Asian Tigers. Confucianism was taught in Singaporean schools until the 1990s. Confucian seminars were offered by South Korean companies like Hyundai for company management. Prime Minister of Singapore Lee Kuan Yew advocated Asian values as an alternative to the influence of Western culture in Asia.[19] This theory was not without its critics. There was a lack of mainland Chinese economic success during the same time frame as the Four Tigers, and yet China was the birthplace of Confucianism. During the May Fourth Movement of 1919, Confucianism was blamed for China's inability to compete with Western powers.[18]

Territory and region data

Demographics

Country or Area km² Population Population Population of

territory			density per km²	capital city
Hong Kong	1,104	7,219,700	6,540	7,219,700
Singapore	710	5,399,200	7,605	5,399,200
South Korea	100,210	50,423,955	503	10,140,000
Taiwan	36,193	23,386,883	646	2,688,140

Economy

Country or territory	GDP nominal millions of USD (2013)	GDP PPP millions of USD (2013)	GDP nominal per capita USD (2013)	GDP PPP per capita USD (2013)	Trade millions of USD (2011)	Exports millions of USD (2011)	Imports millions of USD (2011)
Hong Kong	274,027	382,529	37,955	52,984	944,800	451,600	493,200
Singapore	297,941	425,251	55,182	78,762	818,800	432,100	386,700
South Korea	1,304,468	1,696,996	25,975	33,791	1,084,000	558,800	525,200
Taiwan	489,089	970,909	20,925	41,539	623,700	325,100	298,600

Quality of life

Country or territory	Human Development Index (2014)	Income inequality by Gini coefficient	Median household income (2013), USD PPP[20]	Median per-capita income (2013), USD PPP[20]	Global Well Being Index (2010), % thriving[21]
Hong Kong	0.891 (15th)	43.4	35,443	9,705	19%
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South Korea	0.891 (15th)	31.1	40,861	11,350	28%
Taiwan	0.882 (2011, 22nd)[22]	34.2	32,762	6,882	22%

Technology

Country or territory	Average Internet connection speed (2014)	Smartphone usage (2013)
Hong Kong	13.3 Mbit/s	62.8%
Singapore	8.4 Mbit/s	71.7%
South Korea	23.6 Mbit/s	73.0%
Taiwan	8.9 Mbit/s	50.8%

Politics

Country or territory	Democracy Index (2012)	Press Freedom Index (2013)	Corruption Perceptions Index (2012)	Current Political Status
Hong Kong	6.42	26.16	77	Special Administrative Region of the People's Republic of China
Singapore	5.88	43.43	87	Parliamentary Republic
South Korea	8.13	24.48	56	Presidential Republic
Taiwan	7.57	23.82	61	Semi-Presidential Republic (but claimed by PR China as a renegade province to be taken back by force if necessary)

Organizations and groups

Country or territory	UN	WTO	OECD	DAC	APEC	ADB	SEACEN	G20	EAS	ASEAN
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Economy

Country o	GDP	GDP PPP	GDP	GDP	Trade	Exports	Imports

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Taiwan	0.882 (2011, 22nd)[22]	34.2	32,762	6,882	22%

Technology

Country or territory	Average Internet connection speed (2014)	Smartphone usage (2013)
Hong Kong	13.3 Mbit/s	62.8%
Singapore	8.4 Mbit/s	71.7%
South Korea	23.6 Mbit/s	73.0%
Taiwan	8.9 Mbit/s	50.8%

Politics

Country or territory	Democracy Index (2012)	Press Freedom Index (2013)	Corruption Perceptions Index (2012)	Current Political Status
Hong Kong	6.42	26.16	77	Special Administrative Region of the People's Republic of China
Singapore	5.88	43.43	87	Parliamentary Republic
South Korea	8.13	24.48	56	Presidential Republic
Taiwan	7.57	23.82	61	Semi-Presidential Republic (but claimed by PR China as a renegade province to be taken back by force if necessary)

Organizations and groups

Country or territory	UN WTO OECD DAC APEC ADB SEACEN G20 EAS ASEAN
Hong Kong	
Singapore	
South Korea	(APT)
Taiwan	

QUESTION

1. State and explain lesson for the Nigeria economy .
2. Highlight five factors that accounte for the economic development of the Asia Tigers

WEEK2: Human capital development.

Human capital is the stock of knowledge, habits, social and personality attributes, including creativity, embodied in the ability to perform labor so as to produce economic value.

Alternatively, *Human capital* is a collection of resources—all the knowledge, talents, skills, abilities, experience, intelligence, training, judgment, and wisdom possessed individually and collectively by individuals in a population. These resources are the total capacity of the people that represents a form of wealth which can be directed to accomplish the goals of the nation or state or a portion thereof.

It is an aggregate economic view of the human being acting within economies, which is an attempt to capture the social, biological, cultural and psychological complexity as they interact in explicit and/or economic transactions. Many theories explicitly connect investment in human capital development to education, and the role of human capital in economic development, productivity growth, and innovation has frequently been cited as a justification for government subsidies for education and job skills training.[1]

"Human capital" has been and continues to be criticized in numerous ways. Michael Spence offers signaling theory as an alternative to human capital.[2][3] Pierre

Bourdieu offers a nuanced conceptual alternative to human capital that includes cultural capital, social capital, economic capital, and symbolic capital.[4] These critiques, and other debates, suggest that "human capital" is a reified concept without sufficient explanatory power.

It was assumed in early economic theories, reflecting the context, i.e., the secondary sector of the economy was producing much more than the tertiary sector was able to produce at the time in most countries – to be a fungible resource, homogeneous, and easily interchangeable, and it was referred to simply as workforce or labor, one of three factors of production (the others being land, and assumed-interchangeable assets of money and physical equipment). Just as land became recognized as natural capital and an asset in itself, human factors of production were raised from this simple mechanistic analysis to **human capital**. In modern technical financial analysis, the term "balanced growth" refers to the goal of equal growth of both aggregate human capabilities and physical assets that produce goods and services.

The assumption that labour or workforces could be easily modelled in aggregate began to be challenged in 1950s when the tertiary sector, which demanded creativity, begun to produce more than the secondary sector was producing at the time in the most developed countries in the world.

Clark's Sector model the for US economy 1850–2009[5]

Accordingly, much more attention was paid to factors that led to success versus failure where human management was concerned. The role of leadership, talent, even celebrity was explored.

Today, most theories attempt to break down human capital into one or more components for analysis [6][7][8]– usually called "intangibles". Most commonly, social capital, the sum of social bonds and relationships, has come to be recognized, along with many synonyms such as goodwill or brand value or social cohesion or social resilience and related concepts like celebrity or fame, as distinct from the talent that an individual (such as an athlete has uniquely) has developed that cannot be passed on to others regardless of effort, and those aspects that can be transferred or taught: instructional capital. Less commonly, some analyses conflate good instructions for health with health itself, or good knowledge management habits or systems with the instructions they compile and manage, or the "intellectual capital" of teams – a reflection of their social and instructional capacities, with some assumptions about their individual uniqueness in the context in which they work. In general these analyses acknowledge that individual trained bodies, teachable ideas or skills, and social influence or persuasion power, are different.

Management accounting is often concerned with questions of how to model human beings as a capital asset. However it is broken down or defined, human capital is vitally important for an organization's success (Crook et al., 2011); human capital increases through education and experience.[9] Human capital is also important for the success of cities and regions: a 2012 study examined how the production of university degrees and R&D activities of educational institutions are related to the human capital of metropolitan areas in which they are located.[10][11]

In 2010, the OECD (the Organization of Economic Co-operation and Development) encouraged the governments of advanced economies to embrace policies to increase innovation and knowledge in products and services as an economical path to continued prosperity.[12] International policies also often address human capital flight, which is the loss of talented or trained persons from a country that invested in them, to another country which benefits from their arrival without investing in them.

Studies of structural unemployment have increasingly focused on a mismatch between the stock of job-specific human capital and the needs of employers.[1] In other words, there is increasingly a recognition that human capital may be specific to particular jobs or tasks and not general and readily transferable. Recent work has attempted to improve the linkages between education and the needs of the labor market by linking labor market data to education loan pricing

Importance

The concept of Human capital has relatively more importance in labour-surplus countries. These countries are naturally endowed with more of labour due to high birth rate under the given climatic conditions. The surplus labour in these countries is the human resource available in more abundance than the tangible capital resource. This human resource can be transformed into Human capital with effective inputs of education, health and moral values. The transformation of raw human resource into highly productive human resource with these inputs is the process of human capital formation. The problem of scarcity of tangible capital in the labour surplus countries can be resolved by accelerating the rate of human capital formation with both private and public investment in education and health sectors of their National economies. The tangible financial capital is an effective instrument of promoting economic growth of the nation. The intangible human capital, on the other hand, is an instrument of promoting comprehensive development of the nation because human capital is directly related to human development, and when there is human development, the qualitative and quantitative progress of the nation is inevitable.[21] This importance of human capital is explicit in the changed approach of United Nations[22] towards comparative evaluation of economic development of different nations in the World economy. United Nations publishes Human Development Report[23] on human development in different nations with the objective of evaluating the rate of human capital formation in these nations. The statistical indicator of estimating Human Development in each nation is Human Development Index (HDI). It is the combination of "Life Expectancy Index", "Education Index" and "Income Index". The Life expectancy index reveals the standard of health of the population in the country; education index reveals the educational standard and the literacy ratio of the population; and the income index reveals the standard of living of the population. If all these indices have the rising trend over a long period of time, it is reflected into rising trend in HDI. The Human Capital is developed by health, education and quality of Standard of living. Therefore, the components of HDI viz, Life Expectancy Index, Education Index and Income Index are directly related to Human Capital formation within the nation. HDI is indicator of positive correlation between human capital formation and economic development. If HDI increases, there is higher rate of human capital formation in response to higher standard of education and health. Similarly, if HDI increases, per capita income of the nation also increases. Implicitly, HDI reveals that higher the human capital formation due to good standard of health and education, higher is the per capita income of the nation. This process of human development is the strong foundation of a continuous process of economic development of the nation for a long period of time. This significance of the concept of Human capital in generating long-term economic development of the nation cannot be neglected. It is expected that the Macroeconomic policies of all the nations are focussed towards promotion of human development and subsequently economic development. Human Capital is the backbone of Human Development and economic development in every nation. Mahroum (2007) suggested that at the macro-level, human capital management is about three key capacities, the capacity to develop talent, the capacity to deploy talent, and the capacity to draw talent from elsewhere. Collectively, these three capacities form the backbone of any country's human capital competitiveness. Recent U.S. research shows that geographic regions that invest in the human capital and economic advancement of immigrants who are already living in their jurisdictions help boost their short- and long-term economic growth.[24] There is also strong evidence that organizations that possess and cultivate their human capital outperform other organizations lacking human capital (Crook, Todd, Combs, Woehr, and Ketchen, 2011).

Cumulative growth

Human capital is distinctly different from the tangible monetary capital due to the extraordinary characteristic of human capital to grow cumulatively over a long period of time.[25] The growth of tangible monetary capital is not always linear due to the shocks of business cycles. During period of prosperity, monetary capital grows at relatively higher rate while during the period of recession and depression, there is deceleration of monetary capital. On the other hand, human capital has uniformly rising rate of growth over a long period of time because the foundation of this human capital is laid down by the educational and health inputs.[26] The current generation is qualitatively developed by the effective inputs of education and health.[27] The future generation is more benefited by the advanced research in the field of education and health, undertaken by the current generation. Therefore, the educational and health inputs create more productive impacts upon the future generation and the future generation becomes superior to the current generation. In other words, the productive capacity of future generation increases more than that of current generation. Therefore, rate of human capital formation in the future generation happens to be more than the rate of human capital formation in the current generation. This is the cumulative growth of human capital formation generated by superior quality of manpower in the succeeding generation as compared to the preceding generation.

QUESTION:

1. Explain brain drain and its effect on the Nigerian economy.
2. Brain drain is the migration of trained , skilled and experinced persons from one country to another . Discuss .

WEEK3

Petroleum and the Nigerian economy

The petroleum industry in Nigeria is the largest on the African continent. As of 2014, Nigeria's petroleum industry contributes about 14% to its economy. Therefore, though the petroleum sector is important, it remains in fact a small part of the country's overall diversified economy.[1]

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The gates of the oil refinery in Port Harcourt

Oil discovery

Shell-BP and other developers in the pursuit for commercially available petroleum found oil in Nigeria in 1956. Prior to the discovery of oil, Nigeria like many other African countries strongly relied on agricultural exports to other countries to supply their economy. Many Nigerians thought the developers were looking for palm oil. But after nearly 50 years searching for oil in the country, Shell-BP discovered the oil at Oloibiri in the Niger Delta. Wishing to utilize this newfound oil opportunity, the first oil field began production in 1958.

After that, the economy of Nigeria would have seemingly experienced a strong increase. However, competition for the profits that oil produces has created a great level of terror and conflict for those living in the region. Citizens of Nigeria believe that they haven't been able to see the economic benefits of oil companies in the state. Additionally, because Nigerian government officials have remained majority shareholders in the profits created by the production of Nigerian oil, this leads to government capturing of nearly all oil production, and citizens are not seeing socioeconomic benefits, and insist that oil companies should compensate people.

Production and exploration

Satellite image of Niger Delta

As of 2000, oil and gas exports accounted for more than 98% of export earnings and about 83% of federal government revenue, as well as generating more than 14% of its GDP. It also provides 95% of foreign exchange earnings, and about 65% of government budgetary revenues.

Nigeria's proven oil reserves are estimated by the U.S. United States Energy Information Administration (EIA) at between 16 and 22 billion barrels (3.5×10^9 m^3),[4] but other sources claim there could be as much as 35.3 billion barrels (5.61×10^9 m^3). Its reserves make Nigeria the tenth most petroleum-rich nation, and by the far the most affluent in Africa. In mid-2001 its crude oil production was averaging around 2.2 million barrels (350,000 m^3) per day[citation needed]

Nearly all of the country's primary reserves are concentrated in and around the delta of the Niger River, but off-shore rigs are also prominent in the well-endowed coastal region. Nigeria is one of the few major oil-producing nations still capable of increasing its oil output. Unlike most of the other OPEC countries, Nigeria is not projected to exceed peak production until at least 2009[citation needed]. The reason for Nigeria's relative unproductivity is primarily OPEC regulations on production to regulate prices on the international market. More recently, production has been disrupted intermittently by the protests of the Niger Delta's inhabitants, who feel they are being exploited.

Nigeria has a total of 159 oil fields and 1481 wells in operation according to the Ministry of Petroleum Resources.[5] The most productive region of the nation is the coastal Niger Delta Basin in the Niger Delta or "South-south" region which encompasses 78 of the 159 oil fields. Most of Nigeria's oil fields are small and scattered, and as of 1990, these small unproductive fields accounted for 62.1% of all Nigerian production. This contrasts with the sixteen largest fields which produced 37.9% of Nigeria's petroleum at that time.[6]

As a result of the numerous small fields, an extensive and well-developed pipeline network has been engineered to transport the crude. Also because of the lack of highly productive fields, money from the jointly operated (with the federal government) companies is constantly directed towards petroleum exploration and production.

Nigeria's petroleum is classified mostly as "light" and "sweet", as the oil is largely free of sulphur. Nigeria is the largest producer of sweet oil in OPEC. This sweet oil is similar in composition to petroleum extracted from the North Sea. This crude oil is known as "Bonny light". Names of other Nigerian crudes, all of which are named according to export terminal, are Qua Ibo, Escravos blend, Brass River, Forcados, and Pennington Anfan.

As recently as 2010, Nigeria provided about 10% of overall U.S. oil imports and ranked as the fifth-largest source for oil imports in the U.S. However, Nigeria ceased exports to the US in July, 2014 because of the impact of shale production in America; India is now the largest consumer of Nigerian oil.

There are six petroleum exportation terminals in the country. Shell owns two, while Mobil, Chevron, Texaco, and Agip own one each. Shell also owns the Forcados Terminal, which is capable of storing 13 million barrels (2,100,000 m^3) of crude oil in conjunction with the nearby Bonny Terminal. Mobil operates primarily out of the Qua Iboe Terminal in Akwa Ibom State, while Chevron owns the Escravos Terminal located in Delta State and has a storage capacity of 3.6 million barrels (570,000 m^3). Agip operates the Brass Terminal in Brass, a town 113 km southwest of Port Harcourt and has a storage capacity of 3,558,000 barrels (565,700 m^3). Texaco operates the Pennington Terminal.[8]

Offshore

Oil companies in Africa investigate offshore production as an alternative area of production. Deepwater production mainly involves underwater drilling that exists 400 m or more below the surface of the water. By expanding to deep water drilling the possible sources for finding new oil reserves is expanded. Through the introduction of deep water drilling 50% more oil is extracted than before the new forms of retrieving the oil.

Angola and Nigeria are the largest oil producers in Africa. In Nigeria, the deepwater sector still has a large avenue to expand and develop. The amount of oil extracted from Nigeria is expected to expand from 15,000 bbl/d (2,400 m^3/d) in 2003 to 1.27 Mbbl/d (202,000 m^3/d) in 2010.[9] Deepwater drilling for oil is especially attractive to oil companies because the Nigerian government has very little share in these activities and it is more difficult for the government to regulate the offshore activities of the companies.

The deepwater extraction plants are less disturbed by local militant attacks, seizures due to civil conflicts, and sabotage.[9] These advancements offer more resources and alternatives to extract the oil from the Niger Delta, with hopefully less conflict than the operations on land. An open-air market for illegal crude oil operates off the Niger Delta, called the Togo Triangle.[10]

Natural gas

Natural gas reserves are well over 187 trillion ft^3 (2,800 km^3), the gas reserves are three times as substantial as the crude oil reserves. The biggest natural gas initiative is the Nigerian Liquified Natural Gas Company, which is operated jointly by several companies and the state. It began exploration and production in 1999. Chevron is also attempting to create the Escravos Gas Utilization project which will be capable of producing 160 million standard ft^3 of gas per day. gas reserves. In 2008, the government prepared a Gas Master Plan that was intended to promote natural gas production and encourage the supply of natural gas to domestic power stations so as to help alleviate the country’s electricity shortages. There is also a export gas pipeline, known as the West African Gas Pipeline, in the works but has encountered numerous setbacks. The pipeline would allow for transportation of natural gas to Benin, Ghana, Togo, and Cote d'Ivoire. The majority of Nigeria's natural gas is flared off and it is estimated that Nigeria loses 18.2 million US$ daily from the loss of the flared gas.[11]

Downstream

Nigeria's total petroleum refining capacity is 445,000 barrels per day (70,700 m^3/d), however, only 240,000 bbl/d (38,000 m^3/d) was allotted during the 1990s. Subsequently crude oil production for refineries was reduced further to as little as 75,000 bbl/d (11,900 m^3/d) during the regime of Sanni Abacha. There are four major oil refineries: the Warri Refinery and Petrochemical Plant which can process 125,000 barrels (19,900 m^3) of crude per day, the New Port Harcourt Refinery which can produce 150,000 barrels per day (24,000 m^3/d) (there is also an 'Old' Port Harcourt Refinery with negligible production), as well as the now defunct Kaduna Refinery. The Port Harcourt and Warri Refineries both operate at only 30% capacity.[8]

It is estimated that demand and consumption of petroleum in Nigeria grows at a rate of 12.8% annually.[8] However, petroleum products are unavailable to most Nigerians and are quite costly, because almost all of the oil extracted by the multinational oil companies is refined overseas, while only a limited quantity is supplied to Nigerians themselves.

Current manufacturing

Nigeria is Africa’s largest oil producer and has been a member of the Organization of Petroleum Exporting Countries since 1971. The Nigerian economy is heavily dependent on the oil sector, which, accounts for over 95 percent of export earnings and about 40 percent of government revenues, according to the International Monetary Fund. According to the International Energy Agency, Nigeria produced about 2.53 million barrels per day, well below its oil production capacity of over 3 million barrels per day, in 2011.

Nigeria is an important oil supplier to the United States. For the last nine years, the United States has imported between 9-11 percent of its crude oil from Nigeria; however, United States import data for the first half of 2012 show that Nigerian crude is down to a 5 percent share of total United States crude imports. According to the International Energy Agency, in 2011, approximately 33 percent of Nigeria's crude exports were sent to the United States, making Nigeria its fourth largest foreign oil supplier.

Although total crude imports into the United States are falling, imports from Nigeria have declined at a steeper rate, according to the International Energy Agency. The main reasons underlying this trend are that some Gulf Coast refiners have reduced Nigerian imports in favor of domestically-produced crude, and that two refineries in the U.S. East Coast, which were significant buyers of Nigerian crude, were idled in late 2011.

As a result, Nigerian crude as a share of total United States imports has fallen to 5 percent in the first half of 2012, down from 10 and 11 percent in the first half of 2011 and 2010, respectively, according to the International Energy Agency. According to the CIA World Fact book, Nigeria’s main export partners are the United States, India, Brazil, Spain, France and the Netherlands. Shell has been working in Nigeria since 1936, and currently dominates gas production in the country, as the Niger Delta, which contains most of Nigeria's gas resources, also houses most of Shell's hydrocarbon assets.

History and politics

See also: History of Nigeria and Niger Delta

An Ethno-linguistic map of Nigeria.

Prior to its official amalgamation into the Colony and Protectorate of Nigeria by the military forces of the British Empire in 1914, the territory of Nigeria was a loose collection of autonomous states, villages, and ethnic communities. Many of these established themselves as pillars of art, trade, and politics in West Africa as late as the 19th century; four of these cultural entities, the Hausa-Fulani,the Igbo (sometimes spelled *Ibo*), the Yoruba and the Efik grew extremely prominent in the region before the arrival of foreigners, dictated British colonial policies, and dominate national politics in Nigeria to this day.

The modern Hausa and Fulani societies in northern Nigeria are the cultural successors of the Sokoto Caliphate, a theocratic state founded by Muslim reformer empire-maker Uthman dan Fodio in 1817. Geographically isolated in the north, the Caliphate was governed by Islamic laws as prescribed by dan Fodio's *Kitab al-Farq* and maintained greater links commercially and culturally to North Africa and the Arab states than to West Africa and the Atlantic.

By contrast, the Yoruba, the Igbo and the Efik in the south had regularly experienced contact with Europeans since at least the 16th century. A minority of southerners converted to Christianity even prior to the establishment of permanent British control; the majority followed traditional indigenous religions, worshipping myriad deities with vast domains spanning both cosmic and terrestrial spheres.

Coastal Nigerians established thriving trade both regionally and abroad, fashioning the coast into a hub for products like palm oil, a good sought after by rapidly industrialising Europe, while also serving as key source for the slave trade prior to its international banning (the region came to be known as the Slave Coast as a result).

The Niger Delta region, which is roughly synonymous with the Niger Delta province in location and the contemporary heart of the petroleum industry, is and was a zone of dense cultural diversity and is currently inhabited by roughly forty ethnic groups speaking an estimated 250 dialects. Some of the more relevant ethnic groups in the western part of the Niger Delta region include the Ijaw, Itsekiri, and Ogoni. The Ijaw (sometimes spelled *Ijo*), the fourth most populous tribe in Nigeria and by far the largest in the Delta region, lived during late medieval times in small fishing villages within the inlets of the delta; however by the 16th century, as the slave trade grew in importance, Ijaw port cities like Bonny and Brass developed into major trading states which served as major exporters of fish and other goods regionally. Other states such as the those of Itsekiri domain of Warri sprang up at this time as well.[13]

The eastern Niger Delta region has the Efik people (Annang / Efik / Ibibio who are all related with a common language and ancestors were all referred to as Efik or Calabar people in early Nigerian history). Their capital city at Calabar located at the coastal southeast of Nigeria (eastern Niger Delta) served as the major trading and shipping center during the pre-colonial and colonial period. Calabar also served first capital of Nigeria and the point of entry of Western religion and Western education into southeastern Nigeria. The combined population of the Ibibio, Annang and Efik people is the fourth largest language group in Nigeria.

Colonial legacy (1800s–1960s)

Even before the consolidation of British control over all of present day Nigeria's borders in 1914 from the protectorates of Southern and Northern Nigeria, British forces had begun imposing drastic political and economic policies on the Nigerian people which would lead to important consequences in the future. Originally this was done primarily through the government-owned Royal Niger Company. The company was crucial in securing most of Nigeria's major ports and monopolised coastal trade; this resulted in the severing of ties which linked the area to the flourishing West African regional trade network, in favour of the exportation of cheap natural resources and cash crops to industrialising nations. Most of the population eventually abandoned food production for such market-dependent crops (peanuts and cotton in the north, palm oil in the east, and cocoa in the west). From the beginning divide and rule tactics were employed by both traders and administrators by highlighting ethnoreligious differences and playing groups against one another. After 1914, the north was permitted a system of indirect rule under authoritarian leaders, while in the south the British exercised control directly.[13]

Interest in Nigerian oil originated in 1914 with an ordinance making any oil and mineral under Nigerian soil legal property of the Crown. By 1938 the colonial government had granted the state-sponsored company, Shell (then known as Shell D'Arcy) monopoly over exploration of all minerals and petroleum throughout the entire colony.[13] Commercially viable oil was discovered by Shell roughly 90 km west of the soon-to-be oil capital of Port Harcourt at Oloibiri (now in Bayelsa State) in 1956; initially a 50–50 profit sharing system was implemented between the company and the government. Until the late 1950s concessions on production and exploration continued to be the exclusive domain of the company, then known as Shell-British Petroleum. However, other firms became interested and by the early 1960s Mobil, Texaco, and Gulf had purchased concessions.

In October 1960 Nigeria gained full independence from Britain with the British monarch continuing to preside as Head of State, but the country quickly altered its relationship with its former colonizers by declaring Nigeria a republic of three federated states (the Eastern, Western and Northern Regions). But the flaring of ethnic tensions assured that this new republic would be short-lived, as on 15 January 1966, a small group of army officers consisting mostly southeastern Igbos, staged a successful coup d'état against the civilian government. This federal military government which assumed power under General Aguiyi-Ironsi, was unable to quiet ethnic tensions or produce a constitution acceptable to all sections of the country. In fact, its efforts to abolish the federal structure exacerbated the growing unrest and led to another coup, led by largely northern officers in July of the same year. This second coup established the regime of Major General Yakubu Gowon. Subsequently, the massacre of thousands of Igbo in the north prompted hundreds of thousands to return to the southeast, where increasingly strong Igbo secessionist sentiment emerged under the leadership of the Igbo military governor Lieutenant Colonel Chukwuemeka Odumegwu Ojukwu.

With tensions stoked between the Eastern region and Gowon's federal government, on 4–5 January 1967, in compliance with Ojukwu's desire to meet for talks only on neutral soil, a summit attended by Gowon, Ojukwu and other members of the Supreme Military Council was held at Aburi in Ghana, the stated purpose of which was to resolve all outstanding conflicts and establish Nigeria as a confederation of regions. The outcome of this summit was the Aburi Accord, the differing interpretations of which would soon cause Ojukwu to declare Biafran independence and plunge Nigeria into civil war.

Implications and causes of civil war (1966–1970)

Map showing the location of the secessionist Republic of Biafra within Nigeria.

Biafra and Nigerian Civil War

Igbo secessionism arose in part from the pogroms in the North that were aimed at Eastern people, most specifically, the Igbo. However, since the southeast encompassed most of the petroleum-rich Niger Delta, the prospect emerged of the Eastern Region gaining self-sufficiency and increasing prosperity. The exclusion of easterners from power caused many in the east to fear that oil revenues would be used to benefit areas in the north and west rather than their own. The desire to accrue profits from oil revenues combined with ethnic tensions acted as a catalyst for the Igbo-spearheaded secession. Additionally, despite his denials in later years, it appears that Ojukwu's insistence on secession at the time was heavily influenced by his knowledge of the extent of the area's oil reserves.[*citation needed*]

Recent evidence has suggested a tax battle waged by American oil companies contributed to the regional and ethnic tensions that would lead to the outbreak of war. It was also during this period that, again thanks to the Americans, the opacity and concomitant corruption of Nigerian oil began to crystallise. However, evidence from leaked US State Department documents have proven that Britain, through Shell-BP,[15] still held the most influence over the Nigerian oil industry at the time the war broke out.[] The United States declared neutrality, with US Secretary of State Dean Rusk stating that “America is not in a position to take action as Nigeria is an area under British influence,” but nevertheless provided military assistance to the Nigeria government.[15]

On top of scores of deaths, the war had a largely negative impact on the oil industry. Strife caused production of crude to drop significantly, particularly in Biafra. Total crude output decreased from 420,000 barrels per day (67,000 m^3/d) in 1966 at the start of the war, to only 140,000 bbl/d (22,000 m^3/d) in 1968. Shell alone saw a drop from 367,000 bbl/d (58,300 m^3/d) in 1966, to 43,000 in 1968. And in addition to concerns about production, oil companies began experiencing uncertainty as to the future of their investments depending on who prevailed in the war. This led to relations between oil companies and the federal government becoming strained, with the government at one point accusing the oil company Safrap (now TotalFinaElf, but Elf until 1974) of favouring Biafra and enlisting the aid of France for the Biafran cause. Shell, the other major holder of concessions in the southeast, was concerned but placated and limited politically by Britain's staunch support of the Nigerian government in the war effort.

Despite oil's prominent role in national affairs, up to this time, the Nigerian federal government had only limited involvement in the oil industry, and the government confined its financial involvement in the oil industry to taxes and royalties on the oil companies. The companies were subsequently able to set their own price on the petroleum they extracted, and dominated petroleum to such a point that laws governing the oil sector were having a negative effect on Nigerian interests. However, even during the conflict with Biafra would force changes to the relationship between federal government and the petroleum industry. Gowon's military government instituted the 1969 Petroleum Decree which dismantled the existing revenue allocation system that had divided revenue from oil taxes equally between federal and state government, instead favouring an allocation formula in which the federal government controlled the dispensation of revenues to the states.

After the loss of over 2,000,000 lives, the war concluded in 1970 and resulted in a victory for the Nigerian state, as the secessionist regions were subsequently brought back into the Nigerian fold.[6] However, the former Eastern Region had been split into two new states, Rivers and South-Eastern (now Cross River) in order to discourage lingering ideas of independence. Following the war, Delta peoples and their lands, with their vast petroleum reserves came to be seen by many in the Nigerian government as colonies of sorts. As a result these groups, notably the Igbo, have to an extent been marginalised in Nigerian politics since this time, whilst Nigeria's long lines of military rulers have reaped immense profits from their land. Indeed, Nigeria has not had an Igbo head of state since the war's end.

Industry nationalisation (1970–1979)

See also: Corruption in Nigeria

In May 1971 the Nigerian federal government, then under the control of General Yakubu Gowon, nationalised the oil industry by creating the Nigerian National Oil Corporation via a decree. Following the war with Biafra, the government felt it necessary to secure and gain more control over the oil industry. Nationalization of the oil sector was also precipitated by Nigeria's desire to join OPEC, which required that member states acquire 51% stake and become increasingly involved in the oil sector. Although the Nigerian government had maintained involvement in the industry prior to 1971, this was accomplished mainly through business deals on concessions of the foreign firms in operation. The creation of the NNOC made government participation in the industry legally binding. The federal government would continue to consolidate its oil involvement throughout the next several decades.

However, it was during the years of Gowon and his successors Murtala Mohammed and Olusegun Obasanjo known officially as the Heads of the Federal Military Government of Nigeria, who ruled amidst the oil boom of the 1970s that the political economy of petroleum in Nigeria truly became characterised by endemic patronage and corruption by the political elites, which plagues the nation to this day. At both state and federal government levels, power and therefore wealth has typically been monopolised by select lobby groups who maintain a strong tendency to 'look after their own' by financially rewarding their political supporters. At the state or community level this means that interest groups in power will reward and protect their own; this is typically based on ethnic/tribal or religious affiliation of the interest group. The heavy patronage based on tribal affiliation has fuelled ethnic unrest and violence throughout Nigeria, but particularly in the Niger Delta states, where the stakes for control of the immense oil resources are very high. At the federal level, political elites have utilised patronage to consolidate power for the ruling government, not only by rewarding their political friends in the federal government, but also by paying off major interest groups at the state or tribal level in order to elicit their cooperation. Inevitably these financial favours are distributed unequally and inefficiently, resulting in concentration of wealth and power in the hands of a small minority.[6] Nigeria is ranked by the Corruption Perceptions Index 136st out of 180 countries total (for comparison, this is the same as Russia).

Following the NNOC's genesis, the Nigerian government persisted in garnering control over oil revenues, in 1972 it declared that all property not currently owned by a foreign entity is legally the property of the government, which gained jurisdiction of the sale and allocation of concessions to foreign investment. The military regime oversaw the implementation of a number of other important milestones related to oil:

1974: Participation in oil industry by government increases to 55%.

1975: Decree 6 increases federal government share in oil sector to 80%, with only 20% going to states.

1976: First exploration and development venture by NNOC undertaken and drills to uncover commercial quantities of petroleum off-shore.

1978: Perhaps most importantly, the federal government created the Land Use Act which vested control over state lands in control of military governors appointed by the federal military regime, and eventually led to Section 40(3) of the 1979 constitution which declared all minerals, oil, natural gas, and natural resources found within the bounds of Nigeria to be legal property of the Nigerian federal government.[13]

1979: In an effort to establish further control over the industry, the government merges and restructures the NNOC and the Ministry of Petroleum to form the Nigerian National Petroleum Corporation, an entity which would exert more power over the allocation and sale of concessions than the NNOC. By 1979, the NNPC had also gained 60% participation in the oil industry.

Attempted democracy and debt (1979–1983)

Despite the vast revenues accrued by Gowon and his heirs, the junta still managed to succumb to the demands of the civilian population, and in 1979 military head of state Olusegun Obasanjo handed over power to elected National Party of Nigeria **(NPN)** candidate Shehu Shagari. This event coincided with the declaration of Nigeria's Second Republic. At this juncture, the oil producing states of the Niger Delta were accounting for 82% of all federal government revenue but the population of these areas received very little compensation and demands for adequate reimbursement for the black gold extracted from their land could be heard at this time. Overall, petroleum accounted for 96% of all government external revenue but a mere 27% of the nation's GDP. However, the conversion to democracy would not improve the situation.

A 1982 Revenue Act implemented by the Shagari government would eventually be modified by yet another military regime in 1984 via Decree 36 which reduced government share of oil revenue from 80% to 55%. 32.5% go to states and 10% to local governments.[17] The remaining 1.5% was earmarked as a special fund to develop oil producing areas, however, it was during the Shagari regime that corruption in Nigerian governance reached its zenith and capital flight out of Nigeria peaked, while the oil-producing peoples continued to receive little to no share of the oil profits Additionally, 1980 saw oil-generated revenues attain an all-time climax of US$ $24.9 billion but Nigeria still managed an international debt of $9 billion.

Shagari's NPN government was viewed by the majority of Nigerians as incorrigibly corrupt by the time the national elections of 1983 came about. Shagari and his subordinates steadily transformed Nigeria into a police state where Nigerian military and police forces were permitted to utilise force quite liberally in order to control the civilian population. Such repressive measures were employed to ensure victory in the forthcoming elections, and this outcome was achieved largely through the bankrupting of the federal government's treasury.[18]

Another disturbing trend had also been gaining steam in Nigeria since the early 1970s: a steep drop in agricultural production correlating roughly with the rise in federal revenues from petroleum extraction. Whereas previously Nigeria had been the world's lead exporter of cocoa, production of this cash crop dropped by 43%, while productivity in other important income generators like rubber (29%), groundnuts (64%), and cotton (65%) plummeted as well between 1972 and 1983.[13] The decline in agricultural production was not limited to cash crops amid the oil boom, and national output of staple foodstuffs fell. This situation contrasts to Nigeria in 1960 just after independence, when despite British underdevelopment, the nation was more or less self-sufficient in terms of food supply, while crops made up 97% of all revenue from exports. The drop in production was so substantial that by the early 1980s the NPN government was forced to implement a now notorious import license scheme which essentially involved Nigeria, for the first time in its history, importing basic food items. However, as Nigerian activist and Nobel Laureate Wole Soyinka asserts, "the import license scam that was used by the party as a reward and enticement for party loyalists and would-be supporters cost the nation billions of dollars...while food production in the country virtually ceased".[18]

Return to military rule and electoral abortion (1983–1993)

For these reasons, seizure of power by General Muhammadu Buhari a short time after the NPN government was fraudulently re-elected was initially perceived as a positive development by civilians. Buhari charged out of the gate in December 1983, declaring himself Head of the Supreme Military Council of Nigeria, he condemned the civilian government's blatant corruption and instituted programs supposedly designed to eliminate the disease of corruption. However, these measures were largely transparent and the looting of federal coffers by Nigeria's rulers continued largely unabated, "as Shagari's officers – both within party and government – left the country, came in and out as they pleased, while Burahi's tribunal sentence opposition figures to spells of between a hundred and three hundred years in prison for every dubious kind of crime" The Buhari government neglected to punish even Shagari himself, a consistent trend in Nigerian's long line of dictariorial rulers, who almost universally been spared any kind of justice.

In 1985, another general, this time General Ibrahim Babangida, stole power and again alleged that his predecessors were corrupt violators of human rights and promised to rectify the situation, committing to a return to democracy by 1990. Nigeria had been saddled with a crushingly large international debt at this point. This was because, despite over 101 billion US dollars having been generated by the oil industry between 1958 and 1983,[13] nearly all of these funds had been siphoned into the private bank accounts and the state sponsored pet projects maintained by the succession of Nigerian governmental elites.

Immediately prior to Babangida's rise to power, which is viewed by some[who?] as having been orchestrated by international oil and banking interests[dubious – discuss], the International Monetary Fund was exerting increasingly acute pressure on the Nigerian government to repay its massive debts, of which 44% of all federal revenue was already servicing. Therefore, it was unsurprising when Babangida implemented the IMF's Structural Adjustment Program in October 1986 in order to facilitate debt repayment. The SAP was extremely controversial while it was in effect between 1986 and 1988. While it did permit Nigerian exports to become more competitive internationally and spurred a degree of economic growth, the SAP also incurred a dramatic drop in real wages for the majority of Nigerians. This, combined with major cuts to important public services, incited public unrest so extreme that Babangida's Armed Forces Ruling Council was obliged to partially reverse the SAP initiatives and return to inflationary economic policies. Babangida's rule also oversaw the annihilation of the Nigerian economic middle class, and Nigeria's entry to the Organisation of the Islamic Conference, despite Muslims accounting for less than 50% of the Nigerian populace.

The 1980s military juntas conducted several attempted re-organisations of the NNPC to increase its efficiency. However, according to most sources by the early 1990s the NNPC was characterised by chronic inefficiency and waste. Red tape and poor organisation are standard, with the NNPC being divided into several sub-entities, each fulfilling a particular function. This is despite the NNPC's growing participation in the industry, including development and exploration of numerous off-shore wells. As a result, the functionality of the industry is dependent on foreign corporations, not the NNPC.[6]

The sudden jump in oil prices caused by the First Gulf War in 1990 and 1991, as most researchers confirm, was at best squandered. The Babangida junta has been widely accused of "mismanaging" the oil windfall from the Gulf War price jump, which accounted for about $12.5 billion in revenues. Another alleges that the federal government siphoned off about $12.2 billion between 1988 and 1994 into private accounts or expenditures, "clandestinely undertaken while the country was openly reeling with a crushing external debt".

Under these circumstances, Babangida eventually allowed for nationwide elections on 12 June 1993. These elections were declared universally free and fair (at least in comparison to past elections) by all major international election monitors, and the eventual winner of the presidential race was the Chief M.K.O. Abiola [of the newly formed SDP]. However, the military regime cynically pronounced the election, in which fourteen million Nigerians participated, to be null and void due to "electoral irregularities". The Nigerian people took to the streets in large numbers to protest the election's annulment. As civil unrest continued, Babangida was forced to cede power to the caretaker government of Ernest Shonekan.

An environment of crisis (1993–present)

Shonekan's interim government would be short-lived, as on date, Babangida's former Chief of Army Staff and Minister of Defence Sani Abacha overthrew the caretaker regime and installed himself as Head of State. Popular opposition to the junta was widespread and public demonstrations were taking place on a regular basis.

Immediately upon taking power, Abacha commenced the brutal repression of these subversive elements which would make his tenure notorious on a global basis.

Throughout the early 1990s such popular unrest grew steadily, particularly in the Niger Delta region, where various ethnic groups began demanding compensation for years of ecological damage as well as control over their land's oil resources. This unrest manifested itself at the outset as peaceful activist organisations that united their members on the basis of ethnicity.

One of the most prominent of these organisations to emerge in the region was the Movement for the Survival of the Ogoni People (**MOSOP**). The group declared that the Ogoni people, a small minority in Rivers state of Nigeria, were slowly being annihilated as the arable terrain of their homeland (known as Ogoniland) was degraded by pollution from oil production by Chevron and primarily Shell.

Main article: Conflict in the Niger Delta

Conflict in the Niger Delta arose in the early 1990s due to tensions between the foreign oil corporations, the Nigerian federal government, and a number of the Niger Delta's ethnic groups who felt they were being exploited, particularly minority groups like the Ogoni as well as the Ijaw in the late 1990s. Ethnic and political unrest has continued throughout the 1990s and persists as of 2006 despite the conversion to a more democratic, civilian federal system under the Obasanjo government in 1999; democracy has to some degree fan the flames as politicians seeking office may now employ militia groups to coerce voters and generally disrupt the election process. Competition for oil wealth has fuelled violence between innumerable ethnic groups, causing the militarisation of nearly the entire region by ethnic militia groups as well as Nigerian military and police forces (notably the Nigerian Mobile Police). Victims of crimes are fearful of seeking justice for crimes committed against them because of growing "impunity from prosecution for individuals responsible for serious human rights abuses, [which] has created a devastating cycle of increasing conflict and violence". The regional and ethnic conflicts are so numerous that fully detailing each is impossible and impractical.

On January 30, 2013, a Dutch court ruled that Shell can be held accountable for the pollution in the Niger Delta.[19]

Joint venture companies

All petroleum production and exploration is taken under the auspices of joint ventures between foreign multi-national corporations and the Nigerian federal government. This joint venture manifests itself as the Nigerian National Petroleum Corporation, a nationalised state corporation. All companies operating in Nigeria obey government operational rules and naming conventions (companies operating in Nigeria must legally be sub-entities of the main corporation, often incorporating "Nigeria" into its name). Joint ventures account for approximately 95% of all crude oil output, while local independent companies operating in marginal fields account for the remaining 5%. Additionally, the Nigerian constitution states that all minerals, oil, and gas legally belong to the federal government. Six companies are operating in Nigeria and are listed with their countries of origin (most of the following is extracted from a Human Rights Watch report):

Royal Dutch Shell (British/Dutch)

Shell Petroleum Development Company of Nigeria Limited (SPDC), usually known simply as **Shell Nigeria**: A joint venture operated by Shell accounts for 50% of Nigerian's total oil production (899,000 bbl/d (142,900 m^3/d) in 1997) from more than eighty oil fields. The joint venture is composed of NNPC (55%), Shell (30%), TotalFinaElf (10%) and Agip (5%) and operates largely onshore on dry land or in the mangrove swamp in the Niger Delta. "The company has more than 100 producing oil fields, and a network of more than 6,000 kilometres of pipelines, flowing through 87 flowstations. SPDC operates 2 coastal oil export terminals". The Shell joint venture produces about 50% of Nigeria's total crude. Shell Nigeria owns concessions on four companies, they are: Shell Petroleum Development Company (SPDC), Shell Nigeria Exploration and Production Company (SNEPCO), Shell Nigeria Gas (SNG), Shell Nigeria Oil Products (SNOP), as well as holding a major stake in Nigeria Liquified Natural Gas (NLNG). Shell formerly operated alongside British Petroleum as Shell-BP, but BP has since sold all of its Nigerian concessions. Most of Shell's operations in Nigeria are conducted through the Shell Petroleum Development Company (SPDC).

Chevron (American)

Chevron Nigeria Limited (CNL): A joint venture between NNPC (60%) and Chevron (40%) has in the past been the second largest producer (approximately 400,000 bbl/d (64,000 m^3/d)), with fields located in the Warri region west of the Niger river and offshore in shallow water. It is reported to aim to increase production to 600,000 bbl/d (95,000 m^3/d).

Exxon-Mobil (American)

Mobil Producing Nigeria Unlimited (MPNU): A joint venture between the NNPC (60%) and Exxon-Mobil (40%) operates in shallow water off Akwa Ibom state in the southeastern delta and averaged production of 632,000 bbl/d (100,500 m^3/d) in 1997, making it the second largest producer, as against 543,000 pbd in 1996. Mobil also holds a 50% interest in a Production Sharing Contract for a deep water block further offshore, and is reported to plan to increase output to 900,000 bbl/d (140,000 m^3/d) by 2000. Oil industry sources indicate that Mobil is likely to overtake Shell as the largest producer in Nigeria within the next five years, if current trends continue, mainly due to its offshore base allowing it refuge from the strife Shell has experienced onshore. It is headquartered in Eket and operates in Nigeria under the subsidiary of Mobil Producing Nigeria (MPN).

Agip (Italian)

Nigerian Agip Oil Company Limited (NAOC): A joint venture operated by Agip and owned by the NNPC (60%), Agip (20%) and ConocoPhillips (20%) produces 150,000 bbl/d (24,000 m^3/d) mostly from small onshore fields.

Total (French)

Total Petroleum Nigeria Limited (TPNL): A joint venture between NNPC (60%) and Elf (now Total) produced approximately 125,000 bbl/d (19,900 m^3/d) during 1997, both on and offshore. Elf and Mobil are in dispute over operational control of an offshore field with a production capacity of 90,000 bbl/d (14,000 m^3/d).

Texaco (now merged with Chevron)

NNPC Texaco-Chevron Joint Venture (formerly Texaco Overseas Petroleum Company of Nigeria Unlimited): A joint venture operated by Texaco and owned by NNPC (60%), Texaco (20%) and Chevron (20%) currently produces about 60,000 bbl/d (9,500 m^3/d) from five offshore fields.[17]

Current situation

Estimates suggest that 1,000 people are still killed every year. While Nigeria's oil revenue has totaled $340 billion in exports since the 1970s and it is the fifth largest producer, 70% of its population lives on less than $1 a day, and 43% have no access to clean water. Though Nigeria is a major oil exporter, it imports most of its gasoline, and when fuel subsidies were lifted in January 2012, fuel increased from roughly $1.70 per gallon to $3.50. Nigeria seems to be well set up – it produces a form of oil ideal for the United States, has huge reserves, and has increased its production to 2.8 million barrels of oil a day. But this, some say, is all a resource curse that is hurting Nigeria and disadvantaging her people.

Oil theft

A report analyzing the effect of oil theft in Nigeria revealed in July 2013 that Nigeria lost out on $10.9 billion in potential oil revenues between 2009 and 2011.

Environmental impact

See also: Environmental issues in Nigeria

Map of vegetation in Nigeria

The Niger Delta comprises 70,000 km² of wetlands formed primarily by sediment deposition. Home to 20 million people and 40 different ethnic groups, this floodplain makes up 7.5% of Nigeria's total land mass. It is the largest wetland and maintains the third-largest drainage area in Africa. The Delta's environment can be broken down into four ecological zones: coastal barrier islands, mangrove swamp forests, freshwater swamps, and lowland rainforests.

This incredibly well-endowed ecosystem, which contains one of the highest concentrations of biodiversity on the planet, in addition to supporting the abundant flora and fauna, arable terrain that can sustain a wide variety of crops, economic trees, and more species of freshwater fish than any ecosystem in West Africa. The region could experience a loss of 40% of its inhabitable terrain in the next thirty years because of extensive dam construction in the region. The carelessness of the oil industry has also precipitated this situation, which can perhaps be best encapsulated by a 1983 report issued by the NNPC in 1983, long before popular unrest surfaced:

We witnessed the slow poisoning of the waters of this country and the destruction of vegetation and agricultural land by oil spills which occur during petroleum operations. But since the inception of the oil industry in Nigeria, more than twenty-five years ago, there has been no concerned and effective effort on the part of the government, let alone the oil operators, to control environmental problems associated with the industry.

Oil spills and water contamination

Oil spills in Nigeria are a common occurrence; it has been estimated that between 9 million to 13 million barrels have been spilled since oil drilling started in 1958.[27] The government estimates that about 7,000 spills occurred between 1970 and 2000.[27] Causes include corrosion of pipelines and tankers (accounts for 50% of all spills), sabotage (28%), and oil production operations (21%), with 1% of the spills being accounted for by inadequate or non-functional production equipment. A reason that corrosion accounts for such a high percentage of all spills is that as a result of the small size of the oilfields in the Niger Delta, there is an extensive network of pipelines between the fields. Many facilities and pipelines have been constructed to older standards, poorly maintained and outlived their estimated life span.[28][29] Sabotage is performed primarily through what is known as "bunkering", whereby the saboteur taps a pipeline, and in the process of extraction sometimes the pipeline is damaged. Oil extracted in this manner can often be sold for cash compensation.

Oil spillage has a major impact on the ecosystem. Large tracts of the mangrove forests, which are especially susceptible to oil (this is mainly because it is stored in the soil and re-released annually with inundation), have been destroyed. An estimated 5–10% of Nigerian mangrove ecosystems have been wiped out either by settlement or oil. Spills take out crops and aquacultures through contamination of the groundwater and soils. Drinking water is also frequently contaminated, and a sheen of oil is visible in many localised bodies of water. If the drinking water is contaminated, even if no immediate health effects are apparent, the numerous hydrocarbons and chemicals present in oil represent a carcinogenic risk. Offshore spills, which are usually much greater in scale, contaminate coastal environments and cause a decline in local fishing production.

Nigerian regulations are weak and rarely enforced allowing oil companies, in essence, to self-regulate.[27]

Natural gas flaring

See also main article: Environmental issues in the Niger Delta

Nigeria flares more natural gas associated with oil extraction than any other country, with estimates suggesting that of the 3.5 billion cubic feet (99,000,000 m^3) of associated gas (AG) produced annually, 2.5 billion cubic feet (71,000,000 m^3), or about 70% is wasted via flaring. Statistical data associated with gas flaring is notoriously unreliable, but AG wasted during flaring is estimated to cost Nigeria US

$2.5 billion on a yearly basis.[30] Companies operating in Nigeria harvest natural gas for commercial purposes, however prefer to extract it gas from deposits where it is found in isolation as non-associated gas. It is costly to separate commercially viable associated gas from oil, hence gas flaring to increase crude production.

Gas flaring is discouraged by the international community as it contributes to climate change. In fact, in western Europe 99% of associated gas is used or re-injected into the ground. Gas flaring in Nigeria releases large amounts methane, which has very high global warming potential. The methane is accompanied by carbon dioxide, of which Nigeria is estimated to have emitted more than 34.38million tons in 2002, accounting for about 50% of all industrial emissions in the country and 30% of the total CO_2 emissions. As flaring in the west has been minimised, in Nigeria it has grown proportionally with oil production. While the international community, the Nigerian government, and the oil corporations seem to agree that gas flaring need to be curtailed, efforts to do so have been slow and largely ineffective.

Gas flares release a variety of potentially poisonous chemicals such as nitrogen dioxides, sulphur dioxide, volatile organic compounds like benzene, toluene, xylene and hydrogen sulfide, as well as carcinogens like benzapyrene and dioxins. Often gas flares are often close to local communities, and lack adequate fencing or protection for villagers who may risk nearing the heat of the flare in order to carry out their daily activities. Flares which are often older and inefficient are rarely relocated away from villages, and are known to coat the land and communities in the area with soot and damage adjacent vegetation.

In November 2005 a judgment by, "the Federal High Court of Nigeria ordered that gas flaring must stop in a Niger Delta community as it violates guaranteed constitutional rights to life and dignity. In a case brought against the Shell Petroleum Development Company of Nigeria (Shell), Justice C. V. Nwokorie ruled in Benin City that the damaging and wasteful practice of flaring cannot lawfully continue."

Human rights impact

Repression of protest and government corruption

One of the greatest threats facing the people of the Niger River Delta has actually been their own government. The Nigerian government has total control over property rights and they have the authority to seize any property for use by the oil companies. A majority of every dollar that comes out of the ground in the delta goes to the government of Nigeria. As a result of the enormous amounts of sweet light crude that comes out of the delta every day Nigeria has the second largest GDP in Sub-Saharan Africa.

Despite the wealth flowing into the nation from oil revenues many of Nigeria’s socio-economic factors are worse now than they were 30 years ago[33] According to the World Bank, most of Nigeria’s oil wealth gets siphoned off by 1% of the population.[34] Corruption in the government is rampant, in fact since 1960 it is estimated that 300 to 400 billion dollars has been stolen by corrupt government officials. The corruption is found at the highest levels as well. For example a former inspector general of the national police was accused of stealing 52 million dollars. He was sentenced to six years in prison for a lesser charge.[34]

Nigerians have on many occasions engaged in protests against oil-related corruption and environmental concerns, but are frequently met with harsh suppression by government forces. One example of this occurred in February 2005. There was a protest at Chevrons Escravos oil terminal in which soldiers opened fire on the protestors. One man was killed and 30 others were injured. The soldiers claim that the protestors were armed, a claim the protestors deny. Another, more extreme example happened in 1994. The Nigerian military moved into a region called Ogoniland in force. They razed 30 villages, arrested hundreds of protestors, and killed an estimated 2,000 people.

One of the protestors they arrested was a man named Ken Saro-Wiwa. Ken Saro-Wiwa was a Nigerian TV producer, writer and social activist. In 1990 he founded the Movement for the Survival of the Ogoni People (MOSOP). Ken wrote and spoke out about the rampant corruption in the Nigerian government and he condemned Shell and British Petroleum. He was arrested by the Nigerian Government and imprisoned for 17 months. Then in a show trial Ken and eight others were condemned to death. He and the others were hung in 1995 and he was buried in an unmarked common grave.

Poverty and chronic underdevelopment

Previous pipeline explosions in Nigeria

City	Date	Casualties[37]
Lagos	26 December 2007	at least 40
Lagos	26 December 2006	at least 260
Lagos	12 May 2006	at least 150
Lagos	December 2004	at least 20
Lagos	September 2004	at least 60
Abbia	June 2003	at least 105
Warri	July 2000	at least 300
Abbia	March 2000	at least 50
Jesse	October 1998	at least 1000

The people of the delta states live in extreme poverty even in the face of great material wealth found in the waters by their homes. According to Amnesty International 70% of the six million people in the Niger River Delta live off of less than $1 US per day.[35] For many people this means finding work in a labour market, which is in many instances hostile to them. Much of the labour in the past has been imported. To a growing degree the labour force for the oil companies is more and more coming from Nigeria. But discrimination is rampant and for the most part locals are discriminated against.[32]

This leads to a situation where the men in the community have to search for temporary employment. This has two negative effects on the community. First it takes the men out of the community as they go in search of work. The second is the nature of temporary employment sets up unsustainable spending habits). They earn some money and spend it thinking it will be easy to earn more, when in many cases this does not turn out to be the case.

As the government official's siphon off all the money generated from oil sales the infrastructure suffers. Most of the villages do not have electricity or even running water). They do not have good access to schools or medical clinics. For many, even clean drinking water is difficult to come by.[34] The deterioration of the infrastructure in the delta states is so severe it is even a problem in the more urban areas. One example of this is the airport at Port Harcourt. Part of a fence was not properly maintained and an Air France flight hit a herd of cattle on the runway. The airport was closed and is still not open.

The leadership of the Niger Delta region are responsible for most of the underdevelopment in the region. There is large scale corruption amongst the elected leaders especially governors and the leaders have helped sponsor the militants groups kidnapping innocent people and sabotaging efforts by the federal government for any infrastructure development Indicted corrupt leaders are also cheered by the Niger Delta people.

History

NNPC was established on April 1, 1977 as a merger of the Nigerian National Oil Corporation and the Federal Ministry of Mines and Steel. NNPC by law manages the joint venture between the Nigerian federal government and a number of foreign multinational corporations, which include Royal Dutch Shell, Agip, ExxonMobil, Chevron, and Texaco (now merged with Chevron). Through collaboration with these companies, the Nigerian government conducts petroleum exploration and production. In 2007, the head of the Nigerian wing of Transparency International said salaries for NNPC workers were too low to prevent graft.

The NNPC Towers in Abuja is the headquarters of NNPC. Consisting of four identical towers, the complex is located on Herbert Macaulay Way, Central Business District Abuja. NNPC also has zonal offices in Lagos, Kaduna, Port Harcourt and Warri. It has an international office located in London, United Kingdom.

QUESTION:

1. Explain contributions of petroleum to the Nigerian economy {positive and negative}
2. What is Petroleum Information Bill
3. Discuss its shortcomings

WEEK4. Manufacturing and Construction

Manufacturing

Textile factory (Germany, circa 1975).

Manufacturing is the production of merchandise for use or sale using labour and machines, tools, chemical and biological processing, or formulation. The term may refer to a range of human activity, from handicraft to high tech, but is most commonly applied to industrial production, in which raw materials are transformed into finished goods on a large scale. Such finished goods may be used for manufacturing other, more complex products, such as aircraft, household appliances or automobiles, or sold to wholesalers, who in turn sell them to retailers, who then sell them to end users – the "consumers".

Manufacturing takes turns under all types of economic systems. In a free market economy, manufacturing is usually directed toward the mass production of products for sale to consumers at a profit. In a collectivist economy, manufacturing is more frequently directed by the state to supply a centrally planned economy. In mixed market economies, manufacturing occurs under some degree of government regulation.

Modern manufacturing includes all intermediate processes required for the production and integration of a product's components. Some industries, such as semiconductor and steel manufacturers use the term *fabrication* instead.

The manufacturing sector is closely connected with engineering and industrial design. Examples of major manufacturers in North America include General Motors Corporation, General Electric, Procter & Gamble, General Dynamics, Boeing, Pfizer, and Precision Castparts. Examples in Europe include Volkswagen Group, Siemens, and Michelin. Examples in Asia include Sony, Huawei, Lenovo, Toyota, Samsung, and Bridgestone.

History and development

Assembly of Section 41 of a Boeing 787 Dreamliner

A female industrial worker amidst heavy steel semi-products

A modern automobile assembly line.

- In its earliest form, manufacturing was usually carried out by a single skilled artisanwith assistants. Training was by apprenticeship. In much of the pre-industrial world, the guild system protected the privileges and trade secrets of urban artisans.

- Before the Industrial Revolution, most manufacturing occurred in rural areas, where household-based manufacturing served as a supplemental subsistence strategy to agriculture(and continues to do so in places). Entrepreneurs organized a number of manufacturing households into a single enterprise through the putting-out system.
- Toll manufacturing is an arrangement whereby a first firm with specialized equipment processes raw materials or semi-finished goods for a second firm.
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Industrial policy

Economics of manufacturing

According to some economists, manufacturing is a wealth-producing sector of an economy, whereas a service sector tends to be wealth-consuming.[1][2] Emerging technologies have provided some new growth in advanced manufacturing employment opportunities in the Manufacturing Belt in the United States. Manufacturing provides important material support for national infrastructure and for national defense.

On the other hand, most manufacturing may involve significant social and environmental costs. The clean-up costs of hazardous waste, for example, may outweigh the benefits of a product that creates it. Hazardous materials may expose workers to health risks. These costs are now well known and there is effort to address them by improving efficiency, reducing waste, using industrial symbiosis, and eliminating harmful chemicals.[3] The increased use of technologies such as 3D printing also offer the potential to reduce the environmental impact of producing finished goods through distributed manufacturing.[4]

The negative costs of manufacturing can also be addressed legally. Developed countries regulate manufacturing activity with labor laws and environmental laws. Across the globe, manufacturers can be subject to regulations and pollution taxes to offset the environmental costs of manufacturing activities. Labor unions and craft guilds have played a historic role in the negotiation of worker rights and wages. Environment laws and labor protections that are available in developed nations may not be available in the third world. Tort law and product liability impose additional costs on manufacturing. These are significant dynamics in the ongoing process, occurring over the last few decades, of manufacture-based industries relocating operations to "developing-world" economies where the costs of production are significantly lower than in "developed-world" economies.

Manufacturing and investment

Capacity utilization in **manufacturing** in the FRG and in the USA

Surveys and analyses of trends and issues in manufacturing and investment around the world focus on such things as:

- the nature and sources of the considerable variations that occur cross-nationally in levels of manufacturing and wider industrial-economic growth;

- competitiveness; and
- attractiveness to foreign direct.

In addition to general overviews, researchers have examined the features and factors affecting particular key aspects of manufacturing development. They have compared production and investment in a range of Western and non-Western countries and presented case studies of growth and performance in important individual industries and market-economic sectors.[5][6]

On June 26, 2009, Jeff Immelt, the CEO of General Electric, called for the United States to increase its manufacturing base employment to 20% of the workforce, commenting that the U.S. has outsourced too much in some areas and can no longer rely on the financial sector and consumer spending to drive demand.[7] Further, while U.S. manufacturing performs well compared to the rest of the U.S. economy, research shows that it performs poorly compared to manufacturing in other high-wage countries.[8] A total of 3.2 million – one in six U.S. manufacturing jobs – have disappeared between 2000 and 2007.[9] In the UK, EEF the manufacturers organisation has led calls for the UK economy to be rebalanced to rely less on financial services and has actively promoted the manufacturing agenda.

Countries by manufacturing output using the most recent known data

Data is provided by Worldbank.[10][11] It shows the total value of manufacturing in US dollars for its noted year.

Rank	Country/Region	(Millions of $US)	Year
	World	**11,917,240**	**2013**
1	China	2,922,520	2013
	European Union	2,312,723	2013
2	United States	1,943,810	2013
	Eurozone	1,793,895	2013
3	Japan	904,590	2013
4	Germany	771,183	2014
5	South Korea	389,581	2014
6	India	325,246	2014
7	Italy	299,017	2014
8	France	283,663	2014
9	Russia	267,591	2013
10	United Kingdom	246,900	2014
11	Brazil	218,802	2014
12	Mexico	216,066	2014
13	Indonesia	186,743	2014
14	Spain	168,995	2014
15	Canada	162,074	2010

16	Turkey	126,344	2014
17	Switzerland	123,855	2013
18	Thailand	121,677	2014
19	Netherlands	96,953	2014
20	Australia	92,768	2014

Construction

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Construction is the process of creating and building infrastructure or a facility.[1] It differs from manufacturing in that manufacturing typically involves mass production of similar items without a designated purchaser, while construction is typically done on location for a known client.[2] Construction as an industry is six to nine percent of the gross domestic product of developed countries.[3] Construction starts with planning, design, and financing and continues until the project is built and ready for use.

Large scale construction is a feat of human multitasking. A Project manager normally manages the job, and a construction manager, design engineer, construction engineer or project architect supervises it. For the successful execution of a project, effective planning is essential. Those involved with the design and execution of the infrastructure in question must consider the zoning requirements, the environmental impact of the job, the successful scheduling, budgeting, construction site safety, availability and transportation of building materials, logistics, inconvenience to the public caused by construction delays and bidding, etc.

Types of construction

In general, there are three sectors of construction: buildings, infrastructure and industrial. Building construction is usually further divided into residential and non-residential (commercial/institutional). Infrastructure is often called heavy/highway, heavy civil or heavy engineering. It includes large public works, dams, bridges, highways, water/wastewater and utility distribution. Industrial includes refineries, process chemical, power generation, mills and manufacturing plants. There are other ways to break the industry into sectors or markets.

Engineering News-Record (ENR) is a trade magazine for the construction industry. Each year, ENR compiles and reports on data about the size of design and construction companies. They publish a list of the largest companies in the United

States (Top-400) and also a list the largest global firms (Top-250, by amount of work they are doing outside their home country). In 2014, ENR compiled the data in nine market segments. It was divided as transportation, petroleum, buildings, power, industrial, water, manufacturing, sewer/waste, telecom, hazardous waste plus a tenth category for other projectsIn their reporting on the Top 400, they used data on transportation, sewer, hazardous waste and water to rank firms as heavy contractors.

The Standard Industrial Classification and the newer North American Industry Classification System have a classification system for companies that perform or otherwise engage in construction. To recognize the differences of companies in this sector, it is divided into three subsectors: building construction, heavy and civil engineering construction, and specialty trade contractors. There are also categories for construction service firms (e.g., engineering, architecture) and construction managers (firms engaged in managing construction projects without assuming direct financial responsibility for completion of the construction project).

Building construction

Building construction is the process of adding structure to real property or construction of buildings. The vast majority of building construction jobs are small renovations, such as addition of a room, or renovation of a bathroom. Often, the owner of the property acts as laborer, paymaster, and design team for the entire project. However, all building construction projects include some elements in common – design, financial, estimating and legal considerations. Many projects of varying sizes reach undesirable end results, such as structural collapse, cost overruns, and/or litigation. For this reason, those with experience in the field make detailed plans and maintain careful oversight during the project to ensure a positive outcome.

The National Cement Share Company of Ethiopia's new plant in Dire Dawa.

Commercial building construction is procured privately or publicly utilizing various delivery methodologies, including cost estimating, hard bid, negotiated price, traditional, management contracting, construction management-at-risk, design & build and design-build bridging.

Residential construction practices, technologies, and resources must conform to local building authority regulations and codes of practice. Materials readily available in the area generally dictate the construction materials used (e.g. brick versus stone, versus timber). Cost of construction on a per square meter (or per square foot) basis for houses can vary dramatically based on site conditions, local regulations, economies of scale (custom designed homes are often more expensive to build) and the availability of skilled tradespeople. As residential construction (as well as all other types of construction) can generate a lot of waste, careful planning again is needed here.

Residential construction

The most popular method of residential construction in North America is wood-framed construction. Typical construction steps for a single-family or small multi-family house are:

- Develop floor plansand obtain government building approval if necessary
- Clear the building site
- Pour a foundationwith concrete
- Build the main load-bearing structure out of thick pieces of wood and possibly metal I-beamsfor large spans with few supports. *See framing (construction)*
- Add floor and ceiling joistsand install subfloor panels
- Cover outer walls and roof in OSBor plywood and a water-resistive barrier.
- Install roof shinglesor other covering for flat roof
- Cover the walls with siding, typically vinyl, wood, or brick veneerbut possibly stone or other materials
- Install windows

Framing

- Frame interior walls with wooden 2x4s
- Add internal plumbing, HVAC, electrical, and natural gasutilities
- Building inspector visits if necessary to approve utilities and framing
- Install insulationand interior drywall panels (cementboard for wet areas) and to complete walls and ceilings
- Install bathroomfixtures
- Spackle, prime, and paint interior walls and ceilings
- Additional tiling on top of cementboard for wet areas, such as the bathroom and kitchen backsplash
- Install final floor covering, such as floor tile, carpet, or wood flooring
- Install major appliances
- Unless the original owners are building the house, at this point it is typically sold or rented.

QUSTION:

1. State and explain four types of manufacturing and Construction.
2. Discuss five problems associated with local craft industry

WEEK5: SERVICE INDUSTRIES

Service industry

An industry that provides services, such as transport or entertainment, rather than goods.

Service industry definition

An industry that produces services rather than goods. Examples include transportation, banking, retail trade, and entertainment.

Main Groups of Industries in the Services Division

· **Some agricultural services (including landscaping and horticulture)**

· **Hotels and other places of lodging**

· **Personal services (including dry cleaning, tax preparation, and hair cutting)**

· **Business services (including temporary agencies and business software developers)**

· **Automotive services**

· **Miscellaneous repairs**

· **Motion pictures**

· **musements and recreation**

· **Healthcare**

· **Legal services**

· **Private education**

· **Social services**

· **Museums, zoos, and botanical gardens**

· **Membership organizations (including houses of worship and clubs)**

· **Engineering and management services (including consulting)**

· **Other miscellaneous services**

Question

List and explain five features of a service industry .

WEEK6&7: Agencies that regulate the financial market.

The **Securities and Exchange Commission** (SEC) is the main regulatory institution of the Nigerian capital market. It is supervised by the Federal Ministry of Finance.[1] The Nigerian Stock Exchange (NSE) is privately owned and self-regulating, but the SEC maintains surveillance over it with the mandate of ensuring orderly and equitable dealings in securities, and protecting the market against insider trading abuses

Formation and early years

The Commission originates from the ad hoc, non-statutory Capital Issues Committee established in 1962 as an arm of the Central Bank of Nigeria. The committee became the Security Exchange Commission in 1973, and then the Securities and Exchange Commission was chartered with SEC Decree No. 71 of 1979. The commission is now chartered by the Investments and Securities Act No 45 of 1999.[1]

A second-tier securities market was established in 1985, and the market grew as the government followed a program of privatization of public sector enterprises. With market capitalization of N4.46 billion in 1980, by the end of 1997 the Nigerian securities market had a market capitalization of N281.8 billion. The market appeared to be operating efficiently, although it was depressed by low personal incomes in Nigeria and political instability deterring foreign direct investment.[3]

Bottom of Form

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The Deposit Insurance Scheme (DIS) being implemented by the NDIC was designed as a Risk Minimiser, with the following mandate:

The Deposit Insurance Scheme (DIS) being implemented by the NDIC was This is perhaps the most significant and distinct activity of the Corporation. As an insurer, NDIC guarantees the payment of deposits up to the maximum limit in accordance with its statue in the event of failure of an insured financial institution.

Banking Supervision

The Corporation supervises banks so as to protect depositors; foster monetary stability; promote an effective and efficient payment system; and promote competition and innovation in the banking system.
Banking supervision is an essential element of the Nigeria deposit insurance scheme as it seeks to reduce the potential risk of failure and ensures the unsafe and unsound banking practices do not go unchecked.

One of the primary roles of the NDIC is to ensure that failing and failed institutions are resolved in a timely and efficient manner

Bank Liquidation

The bank liquidation option is always adopted by the corporation for banks that fail to respond to failure resolution measures. Liquidation process involves orderly and efficient closure of the failed institutions with minimum disruption to the banking system, cost-effective realisation of assets and settlement of claims to depositors, creditors and where possible, shareholders.

Functions

Section 2 of the Nigeria Deposit Insurance Corporation Act2006 stipulates the functions for the Corporation as follows:

- Insuring all deposit liabilities of licensed banks and such other financial institutions(hereinafter referred to as "insured institutions") operating in Nigeria within the meaning of Sections 16 and 20 of this Act so as to engender confidence in the Nigerian banking system;
- Giving assistance to insured institutions in the interest of depositors, in case of imminent or actual financial difficulties of banks particularly where suspension of payments is threatened, and avoiding damage to public confidence in the banking system;
- Guaranteeing payments to depositors, in case of imminent or actual suspension of payments by insured institutions up to the maximum as provided for in section 20 of this Act;

- Assisting monetary authorities in the formulation and implementation of policies so as to ensure sound banking practice and fair competition among insured institutions in the country; and
- Pursuing any other measures necessary to achieve the functions of the Corporation.
- CBN
- provided such NIGERIA [CBN] derives from the provisions of the CBN decree No 24, 1991 as amended includeIssuance of legal tender currency notes and coins in Nigeria, maintenance of Nigeria External reserves to safeguard the international value of the legal tender currency, promotion and maintenance of monetary stability, sound and efficient financial system in Nigeria, and acting as banker and financial adviser to the federal government they organize and provide for development finance. They conduct development of research and the procumbent of monetary data and statistics on the economy and acting as an agent of the government. For the achievement of its core objective, the Central Bank of Nigeria undertakes certain functions which are detailed below: 1. CURRENCY ISSUE AND DISTRIBUTION In Nigeria, economic transactions are to a large extent, cash oriented. The bank currency issue function which involves distribution, safe custody of stocks and management of orders, constitutes a vital part of the day – to –day regular supply of currency, economic activities would be restricted. The bank by law, is the only bank of issue in the country , it started by issuing the Nigeria pound in 1959, which was in circulation until January 1973 when decimalised currency, the Naira was introduced in four major demonstrations, 50k , #5 , and #10. In February 1976, a higher denomination, the #20 note was introduced in response to the growth in economic transactions. A currency exchange exercise was carried out from 25 Aprils 6 may 1984. It involved the replacement of the #1, #10 and 20 note with one's of similar design but different color. The purpose of the exercise was to render worthless the nefarious activities of those had taken the currency notes outside the Nigeria border illegally, demonetize the notes in the hands of those who acquired them illegally and nullify the effect of forged currency notes. A total of # 4.9 billion out # 5.3 billion of the currency in circulation was retrieved and exchanged. In 1999 December, # 100 was introduced and it became the highest denomination in circulation. Its introduction was to enhance the payment system th th Recent Posts Accounting as a Language of Business An Effective Managerial Control –A Gift to Organisational Control Categories Accounting Agriculture Banking and Finance Business Administration Economics Economy Education Estate Management Health Law Management Marketing Mass Comm Philosophy Piblic Administration Political Political Science Purchasing and Supply Sciences Secretarial Studies Social Technology Uncategorized zimbio Hotvsnot.com Internet Directory Listing ArticlesNG The expert provider of custom articles,essays,termpapers, project materials and information. Privacy Policy Payment Contact Us Home 11/20/2015 Central Bank of Nigeria Its Objectives and Functions ArticlesNG http://articlesng.com/centralbank-nigeriaobjectivesfunctions/ 2/6 and substantially reduce the volume and cost of production of legal tender notes. In the year 2000 and 2001, N200 and N500 notes were introduced. The bank's note and coins are commissioned for printing and minting company [NSPMC] under condition of top security and using higher technical devices and designs to make counterfeiting very difficult. 1. BANKER TO OTHER BANKS The banks promote confidence in the system through its activities as banks to other banks within and outside Nigeria and may seek the cooperation of other banks in pursuit of this objective [CBN decree No 24 of 1991. Sections 37 and 38]. The purpose is for the bank to promote and sustain reasonable banking services for the public and to ensure a high standard of conduct and professionalism in the banking activities. The CBN as banker to other issues directives on cash reserve and liquidity rations, prudential requirement and on other activities of the banks. This is done through its monetary policy circular, which is issued at the beginning of each fiscal year. Sanctions are usually imposed on banks for noncompliance with monetary guidelines. C BANKER TO THE GOVERNMENT The Central Bank of Nigeria as banker to the federal government undertakes most of the federal government's banking business within and outside Nigeria. The bank also provides banking services to the state and local government and it may act as banker to institutions. Funds or corporations set up by the federal state and local government. However a new directives has been issued by the federal government that these accounts be

transferred to the commercial and merchant banks to relieve the central bank of retail banking activities. The CBN is required by law to provide temporary financial accommodation to the federal government when there is a shortfall in revenue through the granting of ways and means advances and at rates determined by it. The statutorily, the total amount of such temporarily accommodation should not exceed 12.5 percent of the estimated recurrent budget revenue of the federal government for the fiscal year. The Central Bank of Nigeria mobilizes funds for the federal government through the issuance of short and long term government securities. The short term securities are mainly treasury bills and certificates while the long term debt instrument are referred to as federal government development stocks. D DEBT MANAGEMENT The CBN also manages its domestic debt and services external debt on the instruction of the federal ministry of finance. The CBN is empowered to issue debt instrument and manage federal government domestic debt in term and conditions agreed upon by the government and the bank. I DOMESTIC DEBT Domestic debt management involves advising the federal government as the timing and size of new debt instrument, advertising for public subscription to new issues and collecting proceeds of issues for and on behalf of the federal government. It also includes payment of interest, redeeming matured stocks, and sensitizing the government on the implication of the size of debt and budget deficit. Owing to the federal government extra budgetary expenditures, fiscal deficits have persisted. Domestic debt outstanding increased from #404, 101.6 billion in 1998 to #794,806.3 billion in 1999, indicating an increase of #390,704.7 million or 96.7 percent. EXTERNAL DEBT: The CBN also cooperate with other agencies to manage the country, external debt. The federal ministry of finance is in change of multilateral and bilateral debts, while the CBN is responsible for short-term trade debts. Draw – down on fresh loans, capitalization of some unpaid interest, changes on debt outstanding, explain the huge size of Nigeria's external debt. However since 1996 the debt stock has trended downwards, it has dropped from its $ 32.6 billion in 1995 to us $ 28.04 billion at end – 1999. Debt management by the bank involves debt service payment and participation in debt restructuring through rescheduling and debt refinancing, as well as debt conversion to ensure that the debt is reduced to a manageable size. PROMOTION OF MONETARY STABILITY. The effectiveness of the central bank is executing its functions hinges crucially on its ability to promote monetary stability. Price stability is indispensable for money to perform its role of medium of exchange, store of value, standard of deferred payments and units of account. Attainment of monetary stability rest on the central bank's ability to involve effective monetary policy and implement it efficiency. FOREIGN EXCHANGE MANAGEMENT foreign exchange management involves the acquisition and deployment of foreign exchange resources in order to reduce destabilizing short – term capital flow. The CBN monitors the use of scarce foreign exchange resources to ensure that foreign exchange disbursement and utilization are in vine with economic priorities and within the foreign exchange resource to ensure that foreign exchange disbursement and utilization are in vine with economic priorities and within the foreign exchange budget. G FACILITIES TO ENTERTAIN PUBLIC COMPLAINTS The CBN tries to ensure that banks do not take undue advantage of their customers. For this purpose, the bank maintains a public complaints desk at its head office and in each of its branches and currency centers. Instances where banks are found to be unfair to the customers, appropriate sanctions are imposed on such banks. SOME DEVELOPMENTAL ACTIVITIES OF THE `CBN 1. PROMOTION OF THE GROWTH FINANCIAL MARKETS. A major function of the bank is the promotion of the growth of the financial markets, which comprises the money and capital markets. The money market is the market for mobilizing short – term funds while capital market deals with long – term funds. 2. PROMOTION OF AND SUPPORT FOR SPECIALISED 11/20/2015 Central Bank of Nigeria Its Objectives and Functions ArticlesNG http://articlesng.com/centralbanknigeriaobjectives-functions/ 4/6 Another way in which the Central Bank of Nigeria has influenced. The development of the Nigerian financial system is through the promotions of and continued assistance to the development of banks and institutions. These include: 1. The Nigeria industrial development bank [NIBD]. The major shareholders in the NIDB are CBN [40 percent] and the federal government [60 percent]. 2. The Nigerian bank for commerce and industry [NBCI]. The NBCI'S authorized capital 50 million was contributed by the CBN [40 percent]. And the federal government [60 percent]. 3. The Nigerian Agricultural and co-operative bank [NACB]. The CBN own 40 percent of the equity capital of the NACN, while the federal government owns 60 percent. 4. The federal mortgage bank of Nigeria [FMBN]: out of the FMBN'S equity capital of # 150 million, the CBN subscribed 40 percent and federal government 60 percent. 5. The Nigerian export – import bank [NEXIM]. The NEXIM has a share capital of #500 million held equally by the CBN and the federal government. OTHER PROMOTIONAL ACTIVITIES OF THE BANK The CBN has promoted growth in various sectors of the economy. These include: 1. Small – scale enterprises. 2. They encourage rural banking habit nation wide and channel funds into rural development They encourage agricultural and manufacturing activities. 1. The bank has been very active in promoting special scheme, funds to enhance economic development by the agricultural credit guarantee scheme [ACGS], The refinancing and rediscounting facility [RRF and the foreign input facility [FIF], by the small and medium scale enterprises [SMES] apex unit loan scheme and by the national economic reconstruction fund [NERFUND]. MONETARY POLICY, MEANING, OBJECTIVES AND INSTRUMENTS. Monetary policy can be used to influence economic activities, and achieve economic objectives of the government. It is however difficult to achieve some economic objectives of the government simultaneously using monetary policy alone. To minimize the conflict between objectives, it is usual for government to combine both monetary and fiscal policies. The onus of formulating monetary policies in Nigeria rests on central bank. The ministry of finance formulates fiscal politics in collaboration with the presidency. What is monetary policy? Monetary policy is simply put as a government policy about money. It is a deliberate manipulation of cost and availability of money and credit by the government as a means of achieving the desired level of prices, employment, output and other economic o0bjectives. The government of each country of the world embarks upon policies that increases or reduces the supply of money because of the knowledge that money supply and cost of money affected every aspect of the economy. By affecting the aggregate demand, money supply affects 11/20/2015 Central Bank of Nigeria Its Objectives and Functions ArticlesNG http://articlesng.com/centralbanknigeriaobjectivesfunctions/ 5/6 « Ef ects of Modern Technology on the Secretarial Profession Physical Distribution – Its Nature and Operation » the level of prices and employment. It also affects investment level, consumption , and the rate of economic growth. An increase or reduction in the cost of money [interest rate] affects all these variables too. Monetary policy is defined in the central bank of Nigeria brief as '' the combination of measure designed to regulate the value, supply and cost of money in an economy, in consonance with expected level of economic activity". Monetary policy focuses on money supply as a means of achieving economic measures and actions are not repugnant to the objects of the Corporation.

WEEK8&9:

International trade

International trade is the exchange of capital, goods, and services across international borders or territories, which could involve the activities of the government and individual. In most countries, such trade represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history (see Silk Road, Amber Road, salt road), it's economic, social, and political importance has been on the rise in recent centuries. It is the presupposition of international trade that a sufficient level of geopolitical peace and stability are prevailing in order to allow for the peaceful exchange of trade and commerce to take place between nations.

Trading globally gives consumers and countries the opportunity to be exposed to new markets and products. Almost every kind of product can be found on the international market: food, clothes, spare parts, oil, jewelry, wine, stocks, currencies and water. Services are also traded: tourism, banking, consulting and transportation. A product that is sold to the global market is an export, and a product that is bought from the global market is an import. Imports and exports are accounted for in a country's current account in the balance of payments

Advantages and Disadvantages of International Trade

Advantages of International Trade:

(i) Optimal use of natural resources:

International trade helps each country to make optimum use of its natural resources. Each country can concentrate on production of those goods for which its resources are best suited. Wastage of resources is avoided.

(ii) Availability of all types of goods:

It enables a country to obtain goods which it cannot produce or which it is not producing due to higher costs, by importing from other countries at lower costs.

(iii) Specialisation:

Foreign trade leads to specialisation and encourages production of different goods in different countries. Goods can be produced at a comparatively low cost due to advantages of division of labour.

(iv) Advantages of large-scale production:

Due to international trade, goods are produced not only for home consumption but for export to other countries also. Nations of the world can dispose of goods which they have in surplus in the international markets. This leads to production at large scale and the advantages of large scale production can be obtained by all the countries of the world.

(v) Stability in prices:

International trade irons out wild fluctuations in prices. It equalizes the prices of goods throughout the world (ignoring cost of transportation, etc.)

(vi) Exchange of technical know-how and establishment of new industries:

Underdeveloped countries can establish and develop new industries with the machinery, equipment and technical know-how imported from developed countries.

This helps in the development of these countries and the economy of the world at large.

(vii) Increase in efficiency:

Due to international competition, the producers in a country attempt to produce better quality goods and at the minimum possible cost. This increases the efficiency and benefits to the consumers all over the world.

(viii) Development of the means of transport and communication:

International trade requires the best means of transport and communication. For the advantages of international trade, development in the means of transport and communication is also made possible.

(ix) International co-operation and understanding:

The people of different countries come in contact with each other. Commercial intercourse amongst nations of the world encourages exchange of ideas and culture. It creates co-operation, understanding, cordial relations amongst various nations.

(x) Ability to face natural calamities:

Natural calamities such as drought, floods, famine, earthquake etc., affect the production of a country adversely. Deficiency in the supply of goods at the time of such natural calamities can be met by imports from other countries.

(xi) Other advantages:

International trade helps in many other ways such as benefits to consumers, international peace and better standard of living.

Disadvantages of International Trade:

Though foreign trade has many advantages, its dangers or disadvantages should not be ignored.

(i) Impediment in the Development of Home Industries:

International trade has an adverse effect on the development of home industries. It poses a threat to the survival of infant industries at home. Due to foreign competition and unrestricted imports, the upcoming industries in the country may collapse.

(ii) Economic Dependence:

The underdeveloped countries have to depend upon the developed ones for their economic development. Such reliance often leads to economic exploitation. For instance, most of the underdeveloped countries in Africa and Asia have been exploited by European countries.

(iii) Political Dependence:

International trade often encourages subjugation and slavery. It impairs economic independence which endangers political dependence. For example, the Britishers came to India as traders and ultimately ruled over India for a very long time.

(iv) Mis-utilisation of Natural Resources:

Excessive exports may exhaust the natural resources of a country in a shorter span of time than it would have been otherwise. This will cause economic downfall of the country in the long run.

(v) Import of Harmful Goods:

Import of spurious drugs, luxury articles, etc. adversely affects the economy and well-being of the people.

(vi) Storage of Goods:

Sometimes the essential commodities required in a country and in short supply are also exported to earn foreign exchange. This results in shortage of these goods at home and causes inflation. For example, India has been exporting sugar to earn foreign trade exchange; hence the exalting prices of sugar in the country.

(vii) Danger to International Peace:

International trade gives an opportunity to foreign agents to settle down in the country which ultimately endangers its internal peace.

(viii) World Wars:

International trade breeds rivalries amongst nations due to competition in the foreign markets. This may eventually lead to wars and disturb world peace.

(ix) Hardships in times of War:

International trade promotes lopsided development of a country as only those goods which have comparative cost advantage are produced in a country. During wars or when good relations do not prevail between nations, many hardships may follow.

WEEK: 10

Balance of payments

The difference in total value between payments into and out of a country over a period.

The **balance of payments**, also known as **balance of international payments** and abbreviated BoP, of a country is the record of all economic transactions between the residents of the country and the rest of the world in a particular period (over a quarter of a year or more commonly over a year). These transactions are made by individuals, firms and government bodies. Thus the balance of payments includes all external visible and non-visible transactions of a country. It represents a summation of country's current demand and supply of the claims on foreign currencies and of foreign claims on its currency. These transactions include payments for the country's exports and imports of goods, services, financial capital, and financial transfers. It is prepared in a single currency, typically the domestic currency for the country concerned. Sources of funds for a nation, such as exports or the receipts of loans and investments, are recorded as positive or surplus items. Uses of funds, such as for imports or to invest in foreign countries, are recorded as negative or deficit items.

When all components of the BOP accounts are included they must sum to zero with no overall surplus or deficit. For example, if a country is importing more than it exports, its trade balance will be in deficit, but the shortfall will have to be counterbalanced in other ways – such as by funds earned from its foreign investments, by running down central bank reserves or by receiving loans from other countries.

While the overall BOP accounts will always balance when all types of payments are included, imbalances are possible on individual elements of the BOP, such as the current account, the capital account excluding the central bank's reserve account, or the sum of the two. Imbalances in the latter sum can result in surplus countries accumulating wealth, while deficit nations become increasingly indebted. The term **balance of payments** often refers to this sum: a country's balance of payments is said to be in surplus (equivalently, the balance of payments is positive) by a specific amount if sources of funds (such as export goods sold and bonds sold) exceed uses of funds (such as paying for imported goods and paying for foreign bonds purchased) by that amount. There is said to be a balance of payments deficit (the balance of payments is said to be negative) if the former are less than the latter. A BOP surplus (or deficit) is accompanied by an accumulation (or decumulation) of foreign exchange reserves by the central bank.

Under a fixed exchange rate system, the central bank accommodates those flows by buying up any net inflow of funds into the country or by providing foreign currency funds to the foreign exchange market to match any international outflow of funds, thus preventing the funds flows from affecting the exchange rate between the country's currency and other currencies. Then the net change per year in the central bank's foreign exchange reserves is sometimes called the balance of payments surplus or deficit. Alternatives to a fixed exchange rate system include a managed float where some changes of exchange rates are allowed, or at the other extreme a purely floating exchange rate (also known as a purely *flexible* exchange rate). With a pure float the central bank does not intervene at all to protect or devalue its currency, allowing the rate to be set by the market, and the central bank's foreign exchange reserves do not change, and the balance of payments is always zero.

Components

The current account shows the net amount a country is earning if it is in surplus, or spending if it is in deficit. It is the sum of the balance of trade (net earnings on exports minus payments for imports), factor income (earnings on foreign investments minus payments made to foreign investors) and cash transfers. It is called the *current* account as it covers transactions in the "here and now" – those that don't give rise to future claims.

The capital account records the net change in ownership of foreign assets. It includes the reserve account (the foreign exchange market operations of a nation's central bank), along with loans and investments between the country and the rest of world (but not the future interest payments and dividends that the loans and investments yield; those are earnings and will be recorded in the current account). If a country purchases more foreign assets for cash than the assets it sells for cash to other countries, the capital account is said to be negative or in deficit.

The term "capital account" is also used in the narrower sense that excludes central bank foreign exchange market operations: Sometimes the reserve account is classified as "below the line" and so not reported as part of the capital account.

Expressed with the broader meaning for the *capital account*, the BOP identity states that any current account surplus will be balanced by a capital account deficit of equal size – or alternatively a current account deficit will be balanced by a corresponding capital account surplus:

current account + broadly defined capital account + balancing item = 0.
{\displaystyle {\text{current account}}+{\text{ broadly defined capital account}}+{\text{balancing item}}=0.\,}

The *balancing item*, which may be positive or negative, is simply an amount that accounts for any statistical errors and assures that the current and capital accounts sum to zero. By the principles of double entry accounting, an entry in the current account gives rise to an entry in the capital account, and in aggregate the two accounts automatically balance. A balance isn't always reflected in reported figures for the current and capital accounts, which might, for example, report a surplus for both accounts, but when this happens it always means something has been missed – most commonly, the operations of the country's central bank – and what has been missed is recorded in the statistical discrepancy term (the balancing item).[4]

An actual balance sheet will typically have numerous sub headings under the principal divisions. For example, entries under **Current account** might include:

- *Trade*– buying and selling of goods and services
  - *Exports*– a credit entry
  - *Imports*– a debit entry
    - *Trade balance*– the sum of Exports and Imports
  - *Factor income*– repayments and dividends from loans and investments
    - *Factor earnings*– a credit entry
    - *Factor payments*– a debit entry
      - *Factor income balance*– the sum of earnings and payments.

Especially in older balance sheets, a common division was between visible and invisible entries. Visible trade recorded imports and exports of physical goods (entries for trade in physical goods excluding services is now often called the *merchandise balance*). Invisible trade would record international buying and selling of services, and sometimes would be grouped with transfer and factor income as invisible earnings.

The term "balance of payments surplus" (or deficit – a deficit is simply a negative surplus) refers to the sum of the surpluses in the current account and the narrowly defined capital account (excluding changes in central bank reserves). Denoting the balance of payments surplus as BOP surplus, the relevant identity is

B O P s u r p l u s = current account surplus + narrowly defined capital account surplus. {\display style BOP\ surplus= {\text{current account surplus}} + {\text{narrowly defined capital account surplus}}.\,}

Variations in the use of term "balance of payments"

Economics writer J. Orlin Grabbe warns the term *balance of payments* can be a source of misunderstanding due to divergent expectations about what the term denotes. Grabbe says the term is sometimes misused by people who aren't aware of the accepted meaning, not only in general conversation but in financial publications and the economic literature.[4]

A common source of confusion arises from whether or not the *reserve account* entry, part of the *capital account*, is included in the BOP accounts. The reserve account records the activity of the nation's central bank. If it is excluded, the BOP can be in surplus (which implies the central bank is building up foreign exchange reserves) or in deficit (which implies the central bank is running down its reserves or borrowing from abroad).

The term "balance of payments" is sometimes misused by non-economists to mean just relatively narrow parts of the BOP such as the trade deficit, which means excluding parts of the current account and the entire capital account.

Another cause of confusion is the different naming conventions in use. Before 1973 there was no standard way to break down the BOP sheet, with the separation into invisible and visible payments sometimes being the principal divisions. The IMF has their own standards for BOP accounting which is equivalent to the standard definition but uses different nomenclature, in particular with respect to the meaning given to the term *capital account*.

The IMF definition of Balance of Payment

The International Monetary Fund (IMF) use a particular set of definitions for the BOP accounts, which is also used by the Organisation for Economic Co-operation and Development (OECD), and the United Nations System of National Accounts (SNA).

The main difference in the IMF's terminology is that it uses the term "financial account" to capture transactions that would under alternative definitions be recorded in the *capital account*. The IMF uses the term *capital account* to designate a subset of transactions that, according to other usage, form a small part of the overall capital account. The IMF separates these transactions out to form an additional top level division of the BOP accounts. Expressed with the IMF definition, the BOP identity can be written:

current account + financial account + capital account + balancing item = 0.
{\displaystyle {\text{current account}}\,+\,{\text{financial account}}\,+\,{\text{capital account}}\,+\,{\text{balancing item}}\,=\,0.\,}

The IMF uses the term *current account* with the same meaning as that used by other organizations, although it has its own names for its three leading sub-divisions, which are:

- The *goods and services account*(the overall trade balance)
- The *primary income account*(factor income such as from loans and investments)
- The *secondary income account*(transfer payments)

Balance of payments is also known as "balance of international trade"

Imbalances

While the BOP has to balance overall, surpluses or deficits on its individual elements can lead to imbalances between countries. In general there is concern over deficits in the current account. Countries with deficits in their current accounts will build up increasing debt and/or see increased foreign ownership of their assets. The types of deficits that typically raise concern are

- A *visible trade deficit*where a nation is importing more physical goods than it exports (even if this is balanced by the other components of the current account.)
- An overall *current account deficit*.
- A *basic deficit*which is the current account plus foreign direct investment (but excluding other elements of the capital account like short terms loans and the reserve account.)

As discussed in the history section below, the *Washington Consensus* period saw a swing of opinion towards the view that there is no need to worry about imbalances. Opinion swung back in the opposite direction in the wake of *financial crisis of 2007–*

2009. Mainstream opinion expressed by the leading financial press and economists, international bodies like the IMF – as well as leaders of surplus and deficit countries – has returned to the view that large current account imbalances do matter. Some economists do, however, remain relatively unconcerned about imbalances and there have been assertions, such as by Michael P. Dooley, David Folkerts-Landau and Peter Garber, that nations need to avoid temptation to switch to protectionism as a means to correct imbalances.

Current account surpluses are facing current account deficits of other countries, the indebtedness of which towards abroad therefore increases. According to Balances Mechanics by Wolfgang Stützel this is described as surplus of expenses over the revenues. Increasing imbalances in foreign trade are critically discussed as a possible cause of the financial crisis since 2007.Many keynesian economists consider the existing differences between the current accounts in the eurozone to be the root cause of the Euro crisis, for instance Heiner Flassbeck, Paul Krugmanor Joseph Stiglitz.

Causes of BOP imbalances

There are conflicting views as to the primary cause of BOP imbalances, with much attention on the US which currently has by far the biggest deficit. The conventional view is that current account factors are the primary cause – these include the exchange rate, the government's fiscal deficit, business competitiveness, and private behaviour such as the willingness of consumers to go into debt to finance extra consumption. An alternative view, argued at length in a 2005 paper by Ben Bernanke, is that the primary driver is the capital account, where a global savings glut caused by savers in surplus countries, runs ahead of the available investment opportunities, and is pushed into the US resulting in excess consumption and asset price inflation.