

Sub-Saharan Report

Sub-Saharan Africa is one of the focal regions of Global Challenge 2015.

These reports are by Mr. Kenshi Tsunemine, an expatriate employee working in Johannesburg with a view across the region.

Vol. 7: Nigeria

February 10, 2015

“Nigerian nominal GDP surpasses South Africa”, “Boko Haram kidnapped more than 200 schoolgirls”, “Central bank of Nigeria devaluates Naira”... These were some of the many topics related to Nigeria in 2014. This time, I will introduce Nigeria, which has been gaining a lot of attention from all over the world.

Nigeria is situated in West Africa and is surrounded by the countries of Cameroon in the east, Benin in the west, and Niger and Chad in the north, while facing the Gulf of Guinea in the south. The climate is arid in the north part of the country and tropical in the south. This past January I visited the cities of Lagos, which is located in the southwest corner and is in the most economically active part of Nigeria, and Abuja, the capital, which is located in the center. It was very hot and very sunny, but it was not sultry because it is the dry season.

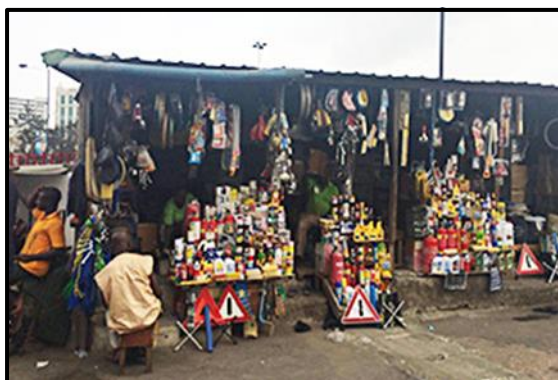
Marubeni Nigeria Ltd. is based in Lagos and the Nigeria Power Project Execution Office is in Abuja, with one expatriate in Lagos and two in Abuja. Marubeni has almost 40 years of history in Nigeria stemming from our EPC power plant business. Marubeni Nigeria Ltd. is also handling transportation machinery, chemical products and steel products (hot roll coils) in the country.

In Marubeni, Nigeria (Lagos, Abuja) has the highest hardship ranking for working overseas and I was apprehensive about going on a business trip there. I didn't run into any big problems while I was there, although the roads and airports were very congested (note 1). I did get the sense though, that living there you might feel some tension over security concerns especially related to terrorism. The city of Lagos, like many emerging country cities, was bustling and a bit squalid, but there was also a feeling of edginess to it. On the other hand, Abuja had a calm atmosphere about it, so the cities, although in the same country, were a case of contrasts (picture 1) (picture 2).



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In order for the Marubeni Research Institute to acquire live information from the field and contribute to the Company's strategy, young Marubeni staff well-versed in economic and industry analysis have been posted to the region.



Picture 1: Roadside stand in Lagos



Picture 2: Nnamdi Azikiwe International Airport in Abuja

In terms of Nigerian food, I had the impression that, like the country's climate, hot food, meaning spicy, is most agreeable with them (picture 3) (picture 4).



Picture 3: Fast food from "Chicken Republic"



Picture 4: Fried rice, white fish and snail

When we talk about Nigeria, we have to mention ethnicity and religion. In Nigeria, there are about 250 different ethnic groups, including the Hausa living in the northern part of the country, the Yoruba living in the western part and the Igbo living in the eastern part. Most of Nigeria's Islamic population can be found in northern part of the country while Christians are dominant in the south.

The Nigerian Civil War, also known as the Biafran War, took place from 1967 to 1970 after the Christian Igbo in the southeast part of Nigeria, which included the oil-rich Niger Delta, declared independence (Biafra). The war, in which 1.5 million people lost their lives, was the result of economic, ethnic, cultural and religious tensions between the north and the south. These differences still plague Nigeria to this day and lead to frequent conflicts.

Regarding the current macro-economic situation in Nigeria, due to revision in GDP calculation standards (note 2), Nigeria's nominal GDP has increased by about 90% and it has become the largest economy on the African continent. In addition, they also have Africa's largest population of about 174 million, making it the number one country in Africa from a market (population) and economic perspective (table 1).

Table 1: Nigeria Country Information

Basic Data (2014)	
Population	174 million
Land Area	924 thousand km ²
Nominal GDP	\$594 billion
Per Capital GDP	\$3,416
Official Language	English

Source: IMF

When I introduced myself to officials during this trip, I said that I had come from South Africa, the country with the second largest economy after Nigeria. They replied that although the calculation method has changed, nothing has really changed in the economy; but even so, it does feel good to be called number one.

Regarding industry's share of GDP in Nigeria, agriculture makes up 21%, trading has 19.2% and the oil and gas sector contributes 12.9%. The main industry is oil which accounts for more than 70% of Nigeria's export revenues [table 2].

Table 2: Nominal GDP in 2013 by Industry

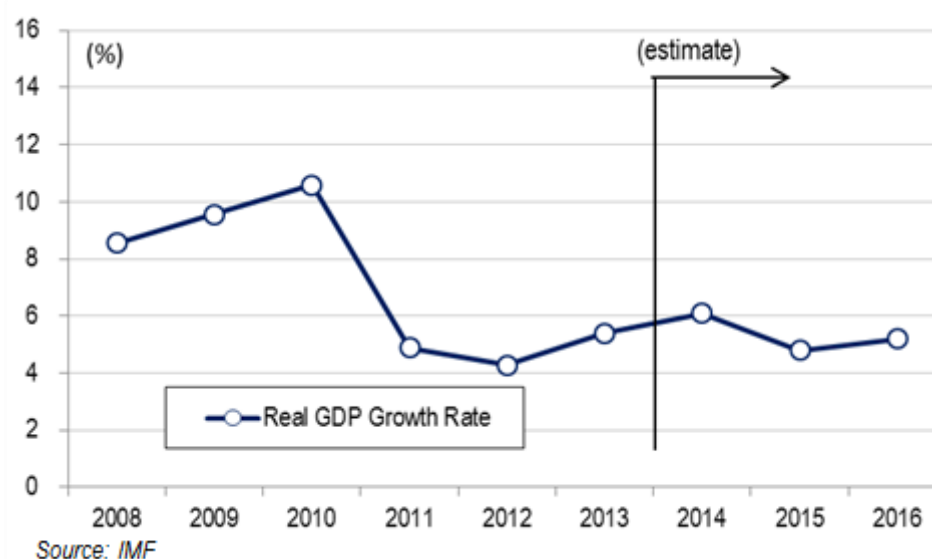
	Amount (billion ₦)	Share (%)
Agriculture	168,166	21.0
Crude Petroleum	102,963	12.9
Mining and Quarrying	846	0.1
Manufacturing	72,333	9.0
Construction, Utilities	32,396	4.0
Trade	154,024	19.2
ICT, Entertainment	85,029	10.6
Financial and Insurance	23,912	3.0
Real Estate, Education, Other Services	161,257	20.1
Total	800,926	100

Source: National Bureau of Statistics

1 ₦ = \$.005362

Nigeria is the number one oil producer in Africa, the number 11th largest in the world and a member of OPEC. The Nigerian economy relies deeply on its oil and gas industry, which is a major problem for Nigeria. The plunge in oil prices is hurting Nigerian revenues and suppressing the economy (note 3). As such, the IMF has reduced its GDP growth rate forecast for Nigeria in 2015 from 7.3% to 4.8% (graph 1).

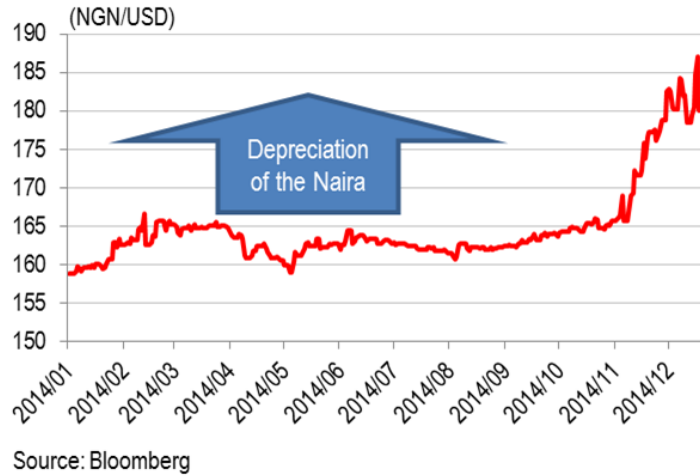
Graph 1: Real GDP Growth Rate



Concern over Nigeria's fiscal situation has led to the accelerated withdrawal of money (foreign currency) from the country. As a result, the central bank of Nigeria couldn't control its managed floating exchange rate system and was forced to depreciate its exchange rate from 155 naira to the US dollar to 168 naira per US dollar [table 4].

In order to regulate the outflow of foreign currency, the central bank has been allocating foreign currency by auction. This means that securing foreign currency at the central bank rate of 168 naira is limited, so that much of the currency has to be purchased at even lower rates (interbank rate is \$1 = 190 naira). This situation is hitting importers especially hard.

Table 3: Exchange Rate



Following independence from the UK in 1960, Nigeria went through a military government, the Biafra War, and then a series of military coups. It was a very uncertain era until 1999 when a new constitution was created and Mr. Obasanjo from the People's Democratic Party (PDP) became the new president through a democratic election leading the country to civilian rule.

President Obasanjo worked at rebuilding the dormant economy and was re-elected in 2003. In the 2007 election, Mr. Yar'Adua, also of the PDP, succeeded Mr. Obasanjo, however he died in office in May 2010. After his death, Mr. Jonathan, who was vice president at the time, was sworn in as president. President Jonathan was elected in the ensuing election in 2011 for a 4-year term. In terms of the economy President Jonathan appointed Ms. Okonjo, who was a managing director of the World Bank, as the Minister of Finance to try and reconstruct the country's finances through such reforms as cutting fuel subsidies among other measures.

On the other hand, President Jonathan and the government have come under criticized for not being able to contain the Boko Haram terrorist group (note 4). Furthermore, people are upset with the continuing corruption, as well as with the fact that the long string of presidents that have governed the country (since 1999) have come from the southern part of Nigeria.

Presently, presidential and general elections are scheduled to take place in in Nigeria on February 14 2015. There are two strong candidates: President Jonathan from the current ruling party (PDP) and Mr. Buhari from the All Progressive Congress or APC, the largest opposition party. Mr. Buhari is a former major-general and Supreme Military Council member and enjoys a clean image. Many people are hoping that Mr. Buhari can suppress the terrorism and eliminate the corruption plaguing the country. As the APC has also become more unified, support is rising and some are predicting that this will be a close election. If the results are very close or the opposition party wins, it could lead to some turmoil, so we should pay particular attention to the outcome of the election (picture 5).



Picture 5: There are many campaign posters in the cities

As I mentioned before, there are many uncertain factors affecting Nigeria such as the “drop in oil prices”, the “terrorism of Boko Haram”, the upcoming “presidential election” and so on. Thus, people may have cold feet about doing business in Nigeria at this time. However, some major companies are undeterred and are targeting Nigeria because it is the largest market in Africa. For example, GE and Glaxo Smith Kline have decided to increase their exposure in the country, while YAMAHA and Sanyo Foods are building production bases there.

If the election goes off without any problems, and if the risk of terrorism goes down, these type of investments will accelerate in Nigeria. As such, we need to keep a close eye on Nigeria as it is Africa's largest market.

Note 1: *Due to the crowded airports and traffic congestion there is risk of not arriving to your destinations on time. For example, in some cases it is recommended that you leave Marubeni's office 5 hours before your flight leaves.*

Note 2: *In addition to changing the base year for comparison from 1990 to 2010, the number of items used in calculating GDP has risen from 33 to 46. As a result such sectors as banking and telecommunications have been added to the economic activities counted, accounting for the 90% increase in Nigeria's GDP.*

Note 3: *It is not only lower oil prices that are suppressing the economy; depressed consumption due to feeling of uncertainty over the upcoming election are among other factors.*

Note 4: *Boko Haram is a terrorist organization from the northern part of Nigeria that was founded in the early 2000s with the aim of establishing an Islamic state in Nigeria based on Sharia Law. Bombings and other terroristic activities have escalated since 2010. The Nigerian government declared a state of emergency in its 3 northeastern provinces due to Boko Haram's indiscriminate terroristic acts that have killed more than 1,500 people since the beginning of 2014 alone. They have also intensified their terroristic activities across Nigeria's borders.*

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