Nigeria

2011

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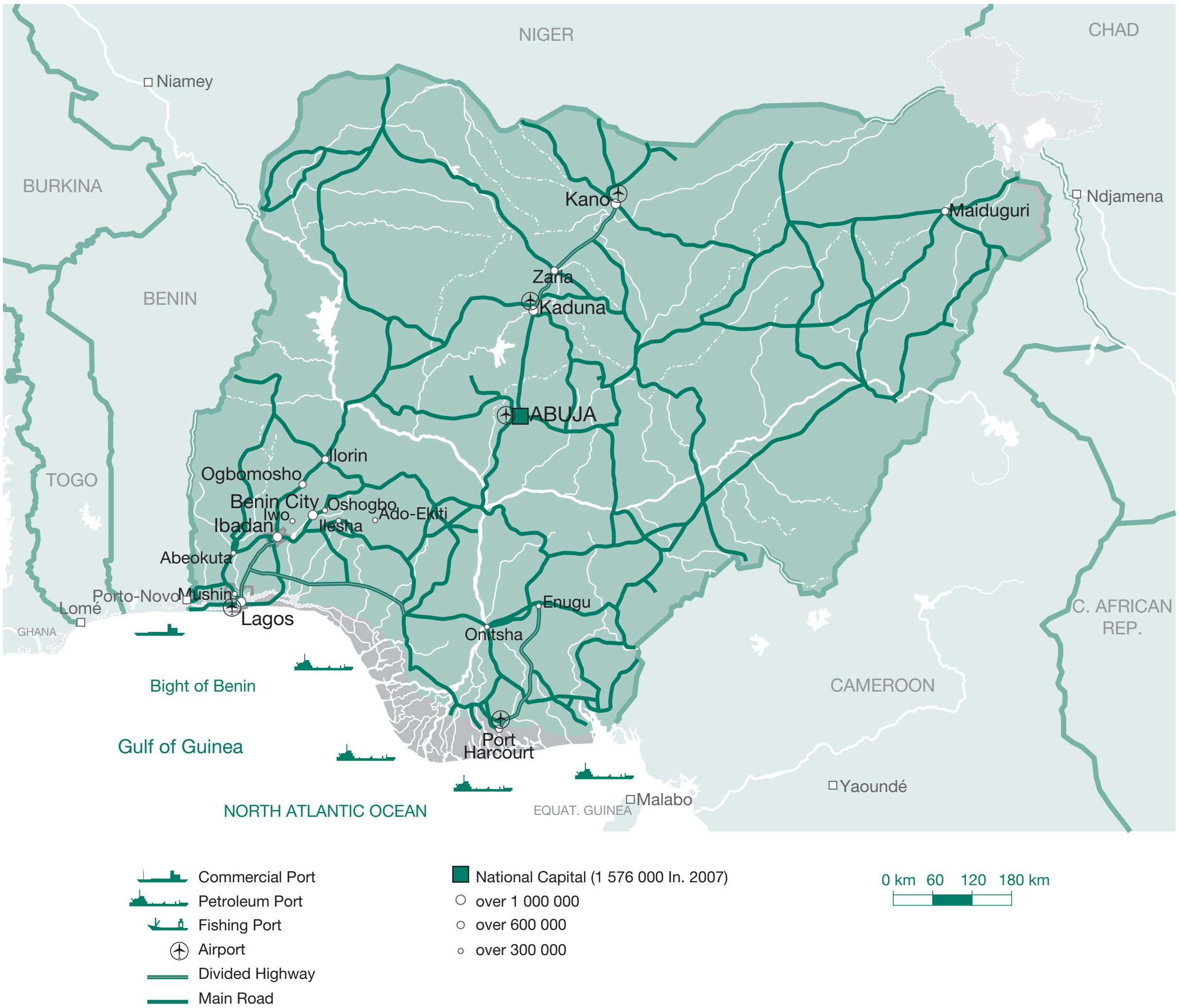

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Nigeria

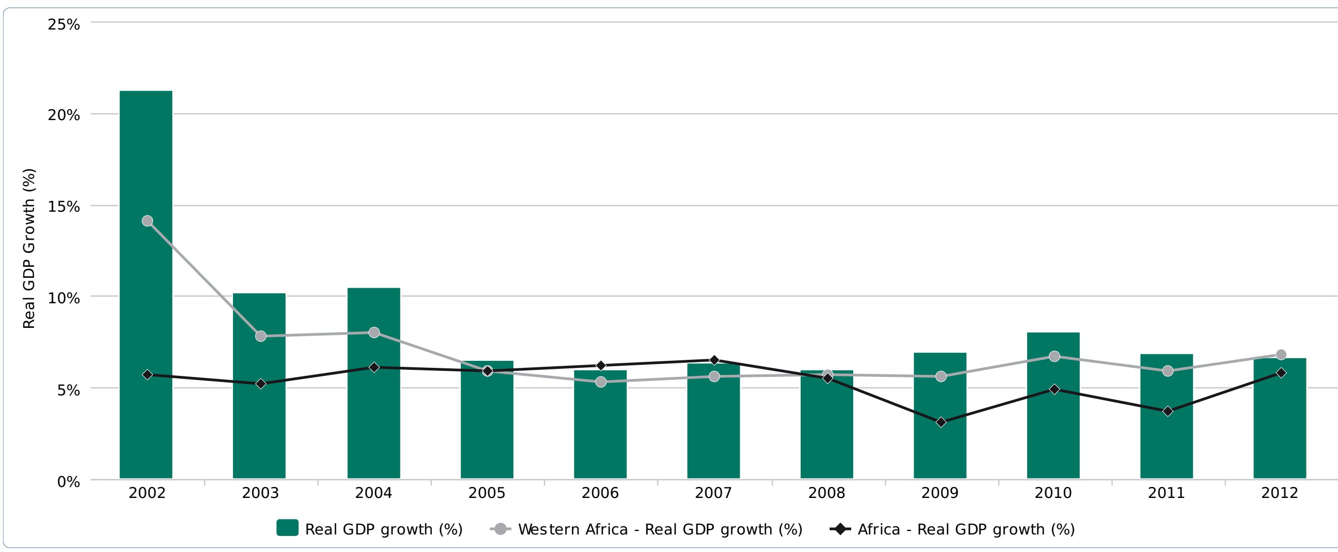
Overview

Nigeria is making progress with economic reforms that are delivering strong economic fundamentals. The government has maintained prudent macroeconomic policies, strengthened financial institutions and, albeit slowly and unevenly, is undertaking reforms to transform the economy structurally. The reform effort, aided by revenue from high oil prices, has led to significantly improved macroeconomic outcomes, including weaker inflation and strong GDP growth. Real GDP growth rose from 7.0% in 2009 to an estimated 8.1% in 2010. The robust growth in 2010, in the aftermath of the global financial and economic crisis, underscored the resilience of the Nigerian economy and to some extent, the prudence of its economic policies. Medium-term prospects are also bright, with real GDP growth projected to remain strong and stable at 6.9% in 2011 and 6.7% in 2012.

Notwithstanding these positive developments, the Nigerian economy remains confronted by many serious challenges. Structural imbalance and lack of diversification – with the economy excessively dependent on oil – is preventing the domestic economy from flourishing. High youth unemployment, poor infrastructure facilities and widespread insecurity are the key challenges the government will have to take on.

Deepening the reform process is clearly necessary. Medium- to long-term prospects hinge on Nigeria's addressing key reforms successfully in order to advance infrastructure development and broaden the economic base through enhanced private-sector participation. In addition, containing political, civil and ethnic unrest, especially in the Niger Delta region, remains a challenge for the political stability that is needed to consolidate the achievements of the past few years.

Figure 1: Real GDP growth (W)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	7	8.1	6.9	6.7
CPI inflation	12.5	13.7	11.1	9
Budget balance % GDP	-10.4	-6.8	-0.7	0.3
Current account % GDP	13.1	13.3	17.6	16.6

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2009
Agriculture, forestry, fishing & hunting	32.8	37.2
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	39	29.8
Mining, manufacturing and utilities	-	-
of which oil	38.9	29.6
Manufacturing	2.8	2.5
of which hydrocarbon	-	-
Electricity, gas and water	0.2	0.3
Electricity, water and sewerage	-	-
Construction	1.5	1.3
Wholesale and retail trade, hotels and restaurants	13.1	17
of which hotels and restaurants	0.3	0.4
Transport, storage and communication	2.9	3.1
Transport and storage, information and communication	-	-
Finance, real estate and business services	5.8	6.7
Financial intermediation, real estate services, business and other service activities	-	-
General government services	1	1
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	0.9	1.1
Gross domestic product at basic prices / factor cost	100	100

Source: National Bureau of Statistics.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink http://dx.doi.org/10.1787/888932407771

The Nigerian government's current economic policies are focused on addressing key infrastructural shortcomings as a crucial element in setting the stage for longer-term stable growth in an effort to break the past 30 years of uncontrolled boom-and-bust cycles. In recent years, the performance of the economy has responded positively to efficiency gains from economic reforms and, with the benefit of high oil prices, has generated strong growth. Economic growth at 7.0% in 2009 and at an even stronger estimated 8.1% in 2010 in the aftermath of the global economic crisis underscored the resilience of the economy and reflected the prudence of economic policies.

In 2009, the government eased the credit crunch by lowering interest rates. In addition, the government recapitalised struggling banks. These policies maintained the confidence of lenders and borrowers in the financial market and stimulated the economy. With the unfolding global economic recovery supporting high oil prices, Nigeria can expect to maintain strong growth in 2011 and 2012. Improved access to credit from the reformed banking sector and enhanced provision of domestic energy supplies are also expected to support continued improved performance of the non-oil sector. Real GDP growth is thus projected to remain robust at 6.9% in 2011 and at 6.7% in 2012.

The strong growth in output recorded in 2010 was supported by the expansion in oil production following relative peace in the Niger Delta region, but the key driver of growth remained the non-oil sector. Non-oil growth averaged 8.3% in 2010 and accounted for 84.8% of total GDP. The main growth drivers in the non-oil sector were telecommunications, general commerce, manufacturing, agriculture and services. The communications sector in Nigeria has boomed in the past five years, with growth averaging around 30% per annum, driven largely by the expansion of the Global System for Mobile (GSM). Large inflows of foreign direct investment (FDI) have played a crucial role. The stock of FDI in telecommunications increased more than 200%, from USD 7.5 billion in 2005 to more than USD 18 billion in 2010. The number of mobile-phone lines has increased from fewer than 19 million in 2005 to nearly 80 million in 2010, with teledensity reaching 54.2 lines per 100 inhabitants. The tremendous progress made in telecommunications has contributed to an overall improvement in the business climate, benefiting in particular the manufacturing sector, which, in 2010, grew by more than 6% even with shortage of electricity and paucity of credit limiting the potential of the sub-sector.

Nigeria's agricultural sector has also performed remarkably well, with an estimated growth rate in 2010 exceeding 6.0%, reflecting the good weather conditions that boosted crop production. The government's effort to address protracted issues of inadequate credit and high interest rates in agricultural lending through the Commercial Agricultural Credit Scheme (CACS) has also benefited agricultural expansion: in 2009/10 the government made 200 billion Nigerian naira (NGN) available at low interest rates to farmers and other practitioners in the agricultural sector.

In the oil sector, the previous five years had been characterised by declining output, due largely to militant activities and the accompanying disruption of oil-producing activities. Before militants began attacks and destruction of oil facilities in 2005, Nigeria had been producing about 2.5 million barrels per day (bpd). By 2008, output had been reduced by about 40% to 1.5 million barrels per day. Production appeared to stop declining in 2009, however, following the federal government's amnesty programme, which brought relative peace to the Niger Delta area. By the end of 2009, petroleum production had increased to more than 2 million bpd, an output level that was maintained in 2010. Oil GDP, comprising crude petroleum and natural gas, grew by 3.9% in 2010. At the same time, oil production remained the dominant activity for export and government revenues. According to government records, in 2010 oil and gas accounted for about 96% of total export receipts and nearly 66% of total government revenues.

In line with the high infusion of funds into the telecom and oil industries, total investment in the economy has remained high. In 2010, a 4.5% increase in the volume of investment represented about 1.7% of real GDP growth. The contribution of investment to GDP growth is expected to increase to about 2.5% in 2011, but to fall slightly to 2.3% in 2012 as investor confidence in the economy wanes in the wake of the political process. Indeed, Nigeria's prospects of enhancing investment contribution to growth will be better served if official policy, which establishes a series of incentives to attract foreign capital, is reconciled with what appears to be popular opposition to the presence of foreign investors in certain sectors of the economy. In 2009, for example, the overturn of several licences and contracts by the government, which it alleged had been improperly awarded by the previous government, dented the country's image amongst international investors.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	**2009**	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Gross capital formation	30.5	28	4.5	6.8	6.2	1.7	2.5	2.3
Public	9.6	8.1	35	7	5	3.8	1	0.7
Private	20.9	19.9	-8	6.7	7	-2.1	1.5	1.6
Consumption	74.6	63.1	6.5	5.6	6.4	5	4.3	4.8
Public	18.3	21	7.4	3.9	5.5	2	1	1.4
Private	56.3	42.1	6	6.5	6.8	3.1	3.2	3.4
External sector	-5.1	8.9	-	-	-	1.4	0.2	-0.4
Exports	32.3	36.9	2.7	3.3	3.7	0.7	0.9	0.9
Imports	-37.4	-27.9	-1.5	1.7	3.6	0.6	-0.7	-1.3
Real GDP growth rate	-	-	-	-	-	8.1	6.9	6.7

Source: Data from National Bureau of Statistics; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink http://dx.doi.org/10.1787/888932408740

Fiscal Policy

Nigeria has maintained prudent macroeconomic policies, with recent fiscal policy focused on increasing the quality and efficiency of spending. In this regard, greater emphasis has been placed on budget implementation and service delivery. The tax system has been reformed through measures including the restructuring of the Federal Inland Revenue Service (FIRS) to improve revenue collection, broaden the tax base and address tax evasion and avoidance. Efforts have also been made to strengthen interagency co-ordination on revenue collection as well as to simplify and harmonise tax procedures. The auditing powers of the FIRS have also been strengthened, and in 2007, a tax-policy unit was also set up in the Ministry of Finance to oversee some of these changes.

In 2010, the government conducted a review of the Import Prohibition List and Tariff Structure in light of existing best practices in order to assess the impact of these prohibitions on government revenue and on local industry.

Several measures were pursued in 2010 to block revenue leakages. These included a forensic audit of the Nigerian National Petroleum Corporation (NNPC) and process audits of internally generated remittances from ministries, departments and agencies (MDAs). The government also required MDAs and parastatals to submit their revenue and expenditure estimates. It has enhanced these measures in 2011 by issuing the directive to more than 32 parastatals – including the Nigeria National Petroleum Corporation (NNPC), the Central Bank of Nigeria (CBN), the Federal Inland Revenue Service and other revenue-generating agencies – to submit their budget to the National Assembly, in line with the provision of the Constitution and the Fiscal Responsibility Act.

These policy measures have contributed to improving domestic-revenue mobilisation. In 2009, tax revenue rose to 6.9% of GDP and is estimated to have remained stable at about 6.4% of GDP in 2010. Earlier, however, substantial improvement in 2008 of the overall budget position thanks to the oil windfall had quickly come undone as a result of weaker prices and the declining output associated with regional unrest. The consolidated overall budget surplus was thus substantially reversed in 2009 to become a deficit amounting to 10.4% of GDP, which was then reduced to about 6.8% of GDP in 2010 thanks to a robust economy performance and revenues associated with high oil output. The outlook for the budget is one of relative stability in 2011 and 2012 as expenditures and revenues also remain at stable levels.

There is still some concern, however, about the government's continued drawdown from the stabilisation fund to finance the budget. Nigeria is expected to save oil revenues above the benchmark price – set at USD 67 per barrel in 2010 – into an "excess crude account" (to be replaced by a sovereign wealth fund). Nonetheless, since 2006 the government has continuously had to tap into the fund to finance the budget. In 2009, about NGN 20 billion was utilised for this purpose. Use of the stabilisation fund to finance the budget is a matter of concern at a time of high oil prices. It emphasises the need for the social crisis in the Niger Delta region to be permanently resolved in order to curtail the disruption of oil production. It also underscores the need for increased domestic-revenue mobilisation from the non-oil sector, particularly through value added taxes (VAT) and company income taxes (CIT).

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	28.8	28.4	32.8	19.9	23.6	27.1	26.1
Tax revenue	7	5.4	5.8	6.9	6.4	6.2	6.1
Oil revenue	20.8	21.9	26.6	12.7	17	20.6	19.6
Grants	-	-	-	-	-	-	-
Other revenues	1	1.2	0.5	0.3	0.3	0.3	0.3
Total expenditure and net lending (a)	32.1	28.7	28.2	30.4	30.4	27.8	25.8
Current expenditure	12.8	12	10.4	13.4	12.7	12.3	12
Excluding interest	7.7	11	8.8	12.4	11.6	11	11
Wages and salaries	5.2	4.2	4.4	4.6	4	3.8	3.7
Goods and services	1.5	1.8	1.9	2.2	2.2	2.1	2.1
Interest	5.1	1	1.6	1	1.1	1.3	1
Capital expenditure	8.6	6.4	6.1	4.6	5.2	5.1	5.1
Primary balance	1.7	0.7	6.2	-9.4	-5.7	0.7	1.3
Overall balance	-3.3	-0.4	4.6	-10.4	-6.8	-0.7	0.3

a. Only major items are reported.

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink http://dx.doi.org/10.1787/888932409709

Monetary Policy

The CBN has pursued a policy of quantitative easing in the aftermath of the global financial and economic crises in order to lessen the impact of the crises on the Nigerian economy. Nonetheless, there is continuing underperformance of key monetary aggregates – a factor that had underpinned the CBN's decision to implement the quantitative easing policy. The major challenges are still negative growth in credit to the private sector, high lending rates and a widening interest-rate spread despite declining interbank rates and a relative surplus liquidity in the banking system.

As part of its quantitative easing policy, the CBN guaranteed interbank transactions. This has contributed to a downward slide in interest rates. For example, the weighted average interbank call rate, which stood at 2.89% at end-2009, declined to 1.50% at end-2010, compared with the monetary policy rate (MPR) of 6.00%. The low and declining interbank rate was evidence of surplus of funds in the banking system. Notwithstanding the declining interbank rates, the interest-rate structure of commercial banks showed high lending rates. The average lending rate increased slightly to 23.3% at end-2010 from 23.1% at end-2009. In addition, deposit rates declined from an average 6.13% in 2009 to an average 5.53% in 2010. Thus, the spread between the average lending rate and the average deposit rate widened in 2010, reflecting inefficiencies in cost management, and unrealistic profit expectations and targets in commercial banks.

In 2010, the CBN instructed commercial banks to publish and submit their risk-based interest-rate pricing model to the CBN on a regular basis. The banks will also be required to provide a statement showing the relationship between the MPR and their prime and maximum lending rates. They will be required as well to disclose the maximum rate they charge to their customers. The pricing model would thus also disclose the basis for the spread and provide visibility on the relative efficiency of banks.

Although aggregate domestic credit in the Nigerian economy continues to grow, its composition suggests that the private sector is being crowded out. In 2010, (net) aggregate domestic credit grew by 15.96% and reversed the sharp decline of about 55.6% recorded in 2009. (Net) credit to government, which grew by 17.84%, was the major contributor to the growth in (net) aggregate credit in 2010, while credit to the private sector declined by about 10.0%. The substantial growth of (net) credit to government reflects the risk aversion of Deposit Money Banks and suggests a possible crowding out of private-sector credit.

On the other hand, the monetary authorities have been successful in maintaining stability in domestic prices. The rate of inflation decreased in 2010 to the annual average of 13.7% from 12.5% in 2009. The stability in domestic prices in 2010 can be attributed to a number of factors, including the continuing monetary contraction, the delay in the passage of the 2010 federal budget and the improvement in the supply of petroleum products. There is nonetheless a real threat of inflationary pressure in the near-to-medium term, in particular, an inflation risk due to high energy prices as the economy rebounds.

The exchange rate of the naira has remained relatively stable in all segments of the Nigerian foreign-exchange market. Towards the end of 2008, the naira had plunged in value by about 20%. This sharp decline required the CBN to enact currency controls. Relative stability in the exchange rate of the naira was restored in 2009, and the CBN returned to its policy stance of a liberalised foreign-exchange market. At an average exchange rate of NGN 146.87 to the US dollar at end-2009, the naira depreciated by only 2.05% in 2010 to NGN 149.87 to the US dollar.

External Position

Nigeria's external position is heavily influenced by developments in the international oil market. The country is both a major exporter of crude oil and a major importer of petroleum products. Nigeria is the world's eighth largest exporter of crude oil but imports almost 90% of domestically consumed petroleum products.

Total exports rose in 2010 as a result of higher oil prices and increased output. At the same time, a fall in infrastructure outlays brought about a decline in imports, leading to a sharp rise in the trade account. This improvement in the trade account was however offset by higher factor income and lower current transfers. According to the CBN, increased divestment, on the one hand, and repatriation of dividends, portfolio engagements and foreign-investment capital on the other, have exacerbated pressure on the current account. In addition, inward remittances plummeted as a consequence of the lingering effects of the global financial crisis. Accordingly, the current-account surplus was largely unchanged at 13.3% of GDP from 13.1% of GDP in 2009. The outlook on the current account is improvement as merchandise trade surpluses continue to outweigh deficits in services. The current-account surplus is projected to remain at an annual average of around 17.0% between 2011 and 2012.

Past debt relief and buybacks facilitated by oil windfalls are estimated to have substantially reduced Nigeria's external debt to about 6% of GDP at end-2010. This, along with a significant build-up in foreign-exchange reserves, has contributed to keeping Nigeria's external position quite healthy. The total external debt stock at end-2010 was USD 4.534 billion, out of which USD 4.152 billion was from concessional sources. The government has also approved a set of external borrowing guidelines for Nigeria, the main objective of which is to borrow only for projects that will yield positive economic or social returns.

The gross external reserves stood at USD 40.68 billion at end-March 2010, representing about 17 months of imports. The rising price of crude oil in the international market in recent months, coupled with the improvement in output thanks to peace in the Niger Delta region, is likely to bring about an improvement in the level of foreign-exchange reserves in the near term.

Table 5: Current account (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Trade balance	3.2	23	22.7	17.5	22.4	23.7	22.5
Exports of goods (f.o.b.)	24.5	40.1	40.6	35.6	37.6	38.1	36.3
Imports of goods (f.o.b.)	21.2	17.2	17.9	18.1	15.3	14.4	13.7
Services	-7.5	-7.9	-10.4	-9.2	-9.2	-7.8	-6.9
Factor income	-10.8	-7.2	-6	-6	-8	-6.5	-6.3
Current transfers	2.4	10.9	9.1	10.8	8.1	8.2	7.2
Current account balance	-12.7	18.7	15.4	13.1	13.3	17.6	16.6

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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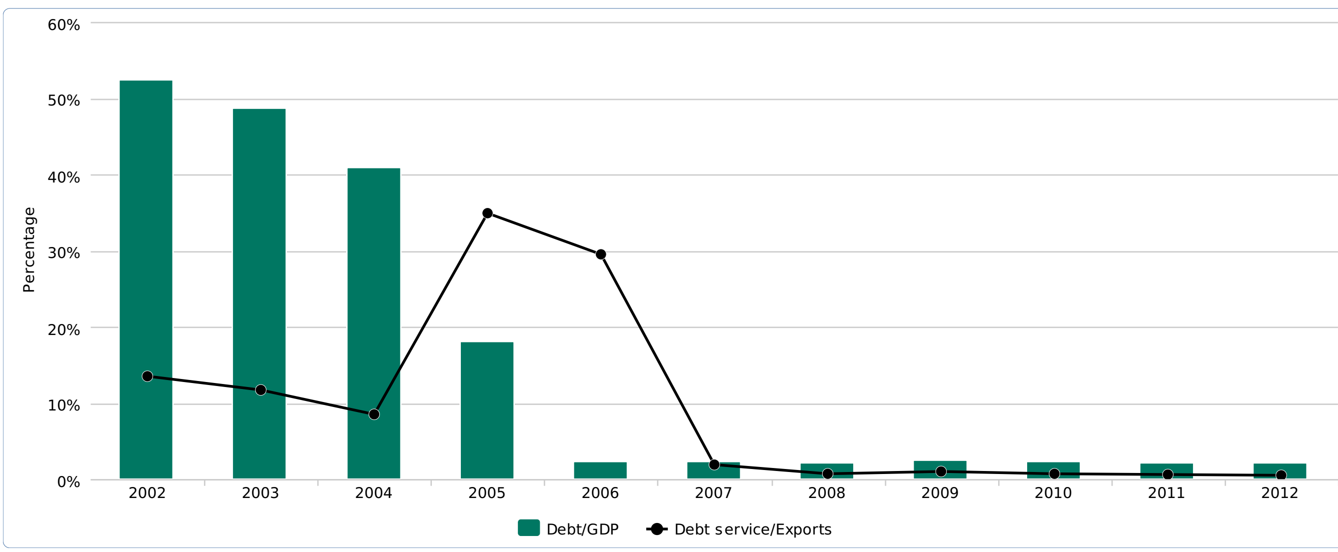
Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink http://dx.doi.org/10.1787/888932404446

Structural Issues

Private Sector Development

Nigeria's progress in the structural transformation of its economy has been slow and uneven. The economy remains structurally imbalanced with lack of diversification – the economy depending largely on crude oil – constituting a major impediment to the flourishing of the domestic economy. Years of reforms have not succeeded in improving the investment environment. The World Bank's *Doing Business 2011* shows Nigeria's general rank to have deteriorated to 137 out of 183 countries, from 134 in the 2010 ranking. Deterioration is also recorded in this latest ranking for most of the key indicators, including Starting a Business (110), Dealing with Construction Permits (167), Registering Property (179), Getting Credit (89), Protecting Investors (59), Paying Taxes (134) and Closing a Business (99). Nigeria's performance remained unchanged for only two indicators – Trading Across Borders (146) and Enforcing Contracts (97) – and there was no improvement in any of them. Ongoing reform to diversify the economy clearly needs to be fast-tracked. In the banking sector, an adequate flow of credit to the real sector needs to be ensured. In addition, reforms in the power and other economic-infrastructure sectors need to be stepped up to promote private-sector/foreign investment and employment-generating growth.

Corruption within public agencies continues to be a major obstacle for foreign investors. Nigeria had been making progress in the Transparency International Corruption Perception Index since 2002, culminating in its best score of 2.7 in 2009. In 2010, however, Nigeria's rating fell to 2.4. Although the country's legal, accounting and regulatory systems meet international standards, enforcement is inconsistent and often appears arbitrary.

Other Recent Developments

In response to the failure of past efforts to infuse greater transparency and accountability in the oil and gas industry, the government introduced the Petroleum Industry Bill in 2009. The Bill provided for an Act to establish the legal and regulatory framework, as well as institutions and regulatory authorities for Nigeria's oil industry. It is also to establish guidelines for the operations of the upstream, midstream and downstream sectors of the industry.

The government has also focused attention on accelerating real-sector reforms. The power sector is leading the way. In 2010, the government unveiled a roadmap for power-sector reform, which is designed to attract the private sector to power generation and distribution. The roadmap outlines the plan to privatise the generation and distribution of power as well as create an enabling environment for investment. The plan is expected to be legislated in 2011.

Following the recent banking-sector reform of 2005 (the consolidation exercise), the Nigerian banking sector has become stronger and sounder. Banking dominates capitalisation in the Nigerian Stock Exchange (NSE) and is responsible for the recent phenomenal growth of the NSE. The NSE All Share index increased by more than 30%, from 20 827.17 at end-2009 to 27 216.03 on 7 April 2010. Market capitalisation also increased by more than 32%, from NGN 4.98 trillion at end-December 2009 to NGN 6.58 trillion on 7 April 2010.

Nonetheless, while Nigeria's financial markets have shown considerable improvement, financing conditions, especially for businesses and firms, remain weak as financial institutions continue to maintain a cautious approach to credit extension. In 2010, the government passed the Asset Management Corporation Bill to enhance recovery in the capital markets.

Emerging Economic Partnerships

Nigeria's emerging economic relations revolve around its role in supplying other economies with oil and natural gas, even as the country seeks to diversify its exports, harmonise tariffs in line with a potential customs union sought by the Economic Community of West African States (ECOWAS) and encourage inflows of foreign portfolio and direct investment. Over the past decade, the makeup of Nigeria's donors and investors has changed significantly, with new entrants from countries of the South playing an increasingly important role. China, India, Brazil and other developing countries are providing Nigeria with new sources of financing, enabling Nigeria to lessen its dependence on traditional donors from countries of the North.

China-Nigeria relations date back to 1972, when diplomatic relations were established between the two countries. Today, China-Nigeria relations span a wide spectrum of areas including politics, trade, investment, aid, technology, science, culture, education, health and military. China is now one of Nigeria's top-ten trading partners. In addition, China has shown interest in investing in all sectors of the Nigerian economy. The growing economic ties between China and Nigeria are such that, today, Nigeria has become China's third biggest trading partner in Africa after South Africa and Egypt. The value of bilateral trade between China and Nigeria accounts for more than 14% of the total trade between China and Africa.

China and Nigeria have entered into several bilateral agreements since 2001. Economic ties between the two countries gained momentum following the April 2006 visit to Nigeria by Chinese President Hu Jintao. Nigeria and China signed four Agreements and three Memoranda of Understanding (MoUs) in a range of programmes intended to enhance their economic ties. Most significantly, Nigeria contracted to sell China 50 000 bpd of crude oil and China signed contracts to explore at least four oil blocks in the country and repair the Kaduna refinery. China's investments in the oil sector will also result in the building of a power-generation station that is expected to add substantial megawatts of electricity to Nigeria's power sector. Other agreements covered: concessionary export grants to support the development of infrastructure; the training of Nigerian officials and medical personnel in comprehensive malaria prevention and control; the supply of anti-malaria drugs in support of Nigeria's Roll Back Malaria programme; setting up a team of experts for a Nigeria-China friendship cultural project; and an MoU between the Federal Ministry of Science and Technology and Huwaei Technologies on the provision of National Information Communication Technology Infrastructure Backbone.

As part of efforts to help Nigeria diversify its economy, China has recently increased its volume of agricultural imports from Nigeria. By end-2010, Nigeria had exported about 80 000 tonnes of cassava to China, with orders to supply another 102 000 tonnes. China is also importing sesame seed from Nigeria and has indicated willingness to buy more Nigerian agricultural produce. In addition, there are currently over 400 Chinese agricultural experts in Nigeria involved in the construction of small earth dams.

By the end of 2010, China had set up more than 30 solely funded companies and joint ventures in Nigeria. The notable projects executed by China in Nigeria include the Abuja All-Africa Games village and the rehabilitation of the Nigerian railway system. The 2009 fifth Session of the Nigeria-China Joint Commission for Economic and Technical Cooperation has provided the roadmap for future co-operation between the two countries in the following directions: Chinese banks are encouraged to establish their presence in Nigeria; Chinese investors are encouraged to participate in the development of the Nigerian gas sub-sector and to increase crude-oil import from Nigeria; China is to speed up the development and completion of free trade zones, such as the Lekki and Ogun/Guangdong Free Trade Zones; and China is to co-operate with Nigeria in the area of capacity building.

India's relations with Nigeria were originally built upon historical and political considerations. Economic links between the two countries are now stronger, with Nigeria being India's biggest trading partner in Africa. Bilateral trade between the two countries was estimated at about USD 8.7 billion in March 2010, with Nigeria's exports to India at around USD 7.3 billion. In 2010, Nigeria was the largest African crude-oil supplier to India, at about 400 000 bpd.

Indian investments in Nigeria cover areas such as manufacturing, pharmaceuticals, plastics, engineering, information technology and communication. Indian companies have invested in the Ajaokuta Iron and Steel Industry, as well as the Aladja Steel complex in the Delta state. Nigeria has actively encouraged Indian companies to invest and expand Nigeria's mining and development of coal, gold, iron, ore, chrome, lead and other mineral resources.

Nigeria's other significant emerging economic relations are with Brazil. Nigeria is a major supplier of petroleum to Brazil. In 2005, Nigeria and Brazil also signed an agreement to develop ethanol fuel. The ethanol-fuel programme is expected to benefit Nigeria to the tune of USD 100-130 million per year.

Political Context

Nigeria goes to the polls in both presidential and parliamentary elections in April 2011. If elections are successful, this will mark another milestone in the country's growing democratic dispensation. In January 2011, President Goodluck Jonathan, who in May 2010 had been sworn in as the new president after the death of President Umaru Yar'Adua, won the ruling PDP party's nomination as its presidential candidate and is therefore the leading candidate for the presidency.

The political violence that had been caused by intra-party disruption within the PDP and has been a bane on Nigeria's democratic process took a back seat as a result of President Jonathan's convincing win in securing the ruling party's presidential ticket with over 66% of the vote, which reduces the chances of violence fostered from within the PDP. This argues favourably for the forthcoming April 2011 polls. Ethnic violence, however, remains endemic throughout the oil-producing Niger Delta region, where militants are involved in regular hostage taking, extortion and destruction of property, primarily targeting foreign oil firms.

There is also sectarian violence, which continues to flare up on a regular basis across northern Nigeria. Violence between groups competing for scarce land and water resources in the Plateau State killed hundreds in early 2010. In 2009, a Muslim sect, Boko Haram, launched attacks against government targets in northern Nigeria. While alarming, this sectarian violence does not threaten Nigeria's overall stability, nor does it carry with it the same degree of adverse economic impact as does the violence in the Niger Delta area.

Social Context and Human Resource Development

Nigeria's progress in human-development indicators is rather mixed, and suggests that more needs to be done in all areas. The 2010 Human Development Index gave Nigeria a score of 0.423, ranked the country 142 out of 169 countries and placed Nigeria in the Low Human Development category. Nigeria's low ranking reflected slow progress in health indicators such as infant mortality rate, under-five mortality rate and the HIV/AIDS prevalence rate.

The government's success in addressing the HIV/AIDS pandemic is dampened by the fact that in 2010, an estimated 3.6% of the population were living with HIV/AIDS. Although HIV prevalence is lower in Nigeria than in other African countries such as South Africa and Zambia, the size of Nigeria's population (around 150 million) means that by the end of 2009, there were between 2.9 and 3.6 million people living with HIV/AIDS. Moreover, between 170 000 and 260 000 people died from AIDS in Nigeria in 2009. The pandemic, which is claiming so many lives, is at the same time rolling Nigerians back in terms of average life expectancy, which declined in 2009 to 48 years for women and 46 years for men, versus in 1991, when the average life expectancy was 54 years for women and 53 years for men.

In the effort to address the health needs of Nigerians, in December 2010 the government launched the 2010-2015 National Strategic Health Development Plan (NSHDP) and signed a compact with Health Development Partners. The NSHDP is a successor to the previous Health Sector Reform Programme (2003-2007) and ensures alignment and harmonisation of efforts between the government and its development partners. The NSHDP has eight priority areas: Leadership and Governance for Health; Health Services Delivery; Human Resources for Health; Financing for Health; National Health Information System; Community Participation and Ownership; Partnerships for Health; Research for Health.

In order to meet its health goals, however, Nigeria needs to tackle such socio-cultural factors as poverty, ignorance, harmful religious practices and biases. To achieve the desired results, there is a need for proper sensitisation of the population on health issues and for the involvement of traditional institutions. For example, the 2009 resistance of parents to the government's polio-immunisation efforts, especially in the northern part of the country, was finally tackled with the involvement of traditional institutions.

In the education sector, the government is addressing some of the problems that have bedevilled the education system by increasing spending on education, especially through Universal Basic Education (UBE), aimed at providing free education for all pupils at the primary and junior secondary school levels. The UBE has been successful in increasing the primary-school enrolment rate from 84% in 2000 to 90% in 2009. The total secondary-school enrolment rate has also risen, from 34 to 38% during the same period.

Nonetheless, Nigeria's education system is currently facing considerable disarray. The country's state universities have tended to be closed for months on end as a result of strikes. In 2009, Nigerian universities were shut down for five months, affecting an estimated 10 million students. In the same year, only 25% of Nigerian students passed the Senior Schools Certificate Examination.

Unemployment continues to be a major problem despite recent strong economic growth. According to the Finance Ministry, unemployment in Nigeria stands at about 19.7%, but according to analysts, the real unemployment figure might be higher if rural and urban joblessness amongst Nigerian youths were factored into the equation. Underemployment is also a serious problem in Nigeria. Total underemployment in 2009 was estimated at 21.3%; the figures for the rural areas and the southern region being 20.5% and 26.2%, respectively.

The government aims to undertake some direct action to generate employment. A Public Works Programme is scheduled to commence across the 36 states and the federal capital territory in 2011. This programme will engage private-sector contractors to implement simple, labour-intensive public works in areas such as the renovation and maintenance of buildings: schools, hospitals, road rehabilitation, etc.