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NIGERIA'S FOREIGN POLICY GOALS AND DEFICIT FINANCING: INVESTIGATING NIGERIA'S 2015 DEFICIT FINANCING IMPLICATIONS

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ABSTRACT

This research work examined Nigeria's Foreign Policy Goals and Deficit Financing using 2015 Appropriation Act as the case study. The study was necessitated by the fact that budget deficit seems to have become the norm despite criticisms against it. The researcher was worried that despite the fact that successive Nigerian governments resorted to budget deficits without achieving the desired results, the trend persisted. To finance these deficits, Nigerian governments had resorted to borrowings (locally and externally) and appeal for grants. The conditions that normally attend these foreign loans and grants apparently yoke the Nigerian state asymmetrically with the providers of such loans or grants. This is worrisome. It is also attended with debt servicing issues. The researcher therefore set out to examine how the deficit financing affect Nigeria's Foreign Policy Goals. The researcher was interested in finding out how conditions associated with deficit financing especially that of year 2015 budget affected the pursuit of Nigeria's foreign policy goals. The researcher used the Dependency theory as the theoretical framework. Research data were gathered essentially through the use of documentary method while content analysis served as the analytical tool. The study found among other things that Deficit Financing through foreign loans and grants weakens the pursuit of Nigeria's foreign policy goals. The researcher therefore recommended that Nigerian governments should seek alternative means of growing the economy and minimize recourse to foreign loans and grants.

KEYWORDS: Deficit Financing, Foreign Policy Goals, Debt Servicing

INTRODUCTION

Deficit financing, being a natural fallout of budget deficit has been adopted over the years by many countries, Nigeria inclusive, essentially to address planned shortfalls in governments expected revenue to match planned expenditure within the stipulated time

frame. According to Ali, Binta and Ibrahim (2018), “Deficit financing is an important method of promoting economic growth and development”. For CBN (2013), deficit financing can be seen as a practice in which government spends more than it receives as revenue and the difference being made up by borrowing more money into the economy than it takes out by taxation with the expectation that increased business activities will bring enough additional revenue to cover the shortfall. Nwanna & Umeh (2019) noted that deficit financing may also result from government inefficiency, reflecting widespread tax evasion or wasteful spending rather than the operation of a planned countercyclical policy.

Government, military or civilian believes that one way of solving social and economic problems is by increasing spending (Monogbe, Dornubari and Emah; 2015). Nwanna & Umeh (2019) explained that government as an agent of the people requires revenue to provide education, employment, adequate health services, infrastructures and good roads but in the process of discharging this enormous responsibility, that the spending requirements may outstrip the available revenue, hence government’s recourse to deficit financing. Okoro (2013) earlier argued that deficit financing arises largely because of the need to expand the economy.

Budget deficit has its foundation in Nigeria’s colonial history. Even the amalgamation of 1914 was arguably engineered by the need to balance out recurrent budget deficits of the Northern Protectorate with the usual surpluses recorded by the Southern Protectorate. According to Briggs (2017:3), the unification of the Southern and Northern protectorates by the colonial administration was done for economic reasons rather than political. Northern Nigeria protectorate had a budget deficit and the colonial administration sought to use the budget surpluses in the Southern Nigeria to continue to balance out the deficits from the North.

The independent Nigerian state continued in the direction of fiscal deficits for many reasons. The immediate past independent Nigerian government (Tafawa Belewa) adopted fiscal deficit approach as a way of expanding the economy and providing critical infrastructure. Ironsi’s regime lasted for barely six months. The succeeding regime (Gowon)

resorted to fiscal deficits to finance the war and also pursue the post-civil war reconstructions and the maintenance of the growing bureaucratic institutions in the country. Reflecting on this, Oluba (2008) observed that "For 32 out of 43 years calculated from 1965, Nigeria's overall fiscal balance had been in deficits". The scholar explains that during the post independent era, Nigeria depended on fiscal deficits to expand the economy. He argued that the fiscal deficits of the 1970s were justified on the grounds that it was largely for post-civil war reconstruction. It has to be noted that even the intervening streaks of budget surpluses were primarily occasioned by the unexpected oil boom which provided unanticipated increases in government revenue.

Budget deficits lead to deficit financing which was popularized following the America's depression of the 1930's. It was John Maynard Keynes who in his 'Magnum opus' (great work), developed an economic theory of total spending in the economy and its effects on output and inflation. John Maynard Keynes, a British economist, tried to explain how in the short run, and especially during recessions, economic output is strongly influenced by aggregate demand which he called total spending in the economy (Keynes; 1936). Keynes had argued that the inadequate overall demand could lead to prolonged periods of high unemployment and worsen recession, thus, expansionary fiscal policy is advocated which is expected to increase net public spending and eventually revamp the receding economy.

Apparently, adopting the Keynesian recommendations, many governments across the world, both developing and the developed, take to deficits financing. According to Onwioduokit (1996:2), Nigeria's government expenditure has consistently exceeded her revenue projections for quite more years than not. Akinbola, (2011),Chimobi and Igwe, (2010), and Onwioduokit, (1996)believe that the culture of deficit financing is one single factor primarily responsible for price instability and inflationary tendencies not only in Nigeria but in many other countries of the world. For Uduakobong, (2014), since the free enterprise economic system (the Market Mechanism) was unable to deal with the

worsening unemployment problems of the time, it was necessary that government intervenes through a vigorous use of fiscal policy.

It has to be noted that these deficits were financed through heavy borrowings locally and externally. Nigeria also relies on foreign aids and grants and all of these eventually yoked the Nigerian state, asymmetrically with the foreign donors or lenders. Even in the new millennium, government's efforts to meet the 'Millennium Development Goals' have ensured that the trend of deficits financing continued. Between the year 2000 and the year 2015, it has been a case of one deficit financing after another. Nigeria's foreign debt of $18 billion was agreed to be cancelled/forgiven out of the $30 billion debt to the Paris Club, after years of protracted negotiations with the Paris Club in October 2005. For this to be achieved, Nigeria has to be enlisted in the extremely poor countries of this world. This does not serve Nigeria's image and posture well in the international community.

Nigerian government failed to save during the last oil boom period. Oil prices maintained a relatively steady rise from about $30 per barrel in the year 2000 to 140 in 2008, dropped in 2009 but bounced back to an average of $100 per barrel from 2011to 2014 when it began to drop again. The Excess Crude Account (ECA) created by the Obasanjo regime to save oil revenues above the established budget benchmark was plundered. According to The Nation Newspaper of July 6, 2015; the primary objective of creating the Excess Crude Account (ECA) in 2004 was to shield budget estimates against shortfalls that may arise from volatility in Crude oil prices at the international market. According to Ezeamalu (2017), Nigeria's Excess Crude Account (ECA) has been ranked the most poorly governed sovereign wealth fund among 33 resource-rich countries around the world.

The pursuits of Nigeria's foreign policy goals apparently suffer setbacks on account of these. Nigeria cannot be assertive in pursuit of her foreign policy goals given that Nigeria had given herself to servitude via unequal economic ties with the 'sponsor' nations. Worried by this, the researcher sought to ascertain the extent to which the deficit financing of Nigeria's 2015 appropriation act affected the pursuits of Nigeria's foreign policy goals.

1.2 **Statement of the Research Problem**

Over the years, Nigeria has continued to operate deficit financing. Government deliberately over-bloats expected expenditure over expected income within a given fiscal year. This results to either poor implementation of the budget or 'Deficit financing' which has been described as the practice of seeking to stimulate a nation's economy by increasing government expenditures beyond revenue sources (CBN, 2012). In other words, when government's expenditures exceed public income, the government resorts to 'Deficit financing' to meet the deficits in the budget. This certainly should have implications.

To finance these deficits, the government usually resorts to borrowings. This apparently imposes debt burden on the government, yet this trend has persisted. Virtually every Nigerian government, past and present operated deficit financing despite the apparent negative economic cum socio-political implications. Each time government tries 'Deficit financing, critics have always highlighted its inevitable dire consequences which manifest in serious debt burden and debt servicing issues, lop-sided political cum economic relations, and weakened foreign policy postures. These obviously impacted negatively on Nigeria's political weight within the international community. 'Deficit financing' asymmetrically yoke the Nigerian economy to the imperial powers in a socio-economic relationship that leaves the Nigerian state with the shorter end of the stick.

The following research questions will guide this study:

a) Does Conditions of Foreign loans affect Deficit Financing in Nigeria

b) How did the 2015 Deficit Financing affect Nigeria's Foreign Policy Goals?

Foreign Loans and Nigeria's Diplomatic relations

Foreign loans attract certain conditions which inevitably affect the state in a number of ways. Scholars have shown interest in some of these conditionalities and how they affect aspects of a country's political cum economic development. For instance, Kentikelenis, Stubbs and King (2016) examined IMF conditionality and development policy space, 1985 – 2014 and came up with the conclusion that the IMF's claim that programmes now create policy space by exhibiting responsive design and streamlined conditionality is not an

accurate representation of reality. The scholar further explained that in exchange for financial support, borrowing countries agree to implement a package of obligatory policy reforms (conditionality), phased over one or more years.

Anderson (2009) studied 'New rules of engagement for IMF loans. The study found that when a country borrows from the IMF, its government agrees to adjust its economic policies to overcome the problems that led it to seek financial aid in the first place. Babb and Kentikelenis (2017) investigated International Financial Institutions as agents of Neoliberalism. They found that, IMF and the World Bank in the 1980s, began to enjoy unprecedented influence over the economies of the countries that turned to them for support. Ban (2015) looked at 'Austerity versus Stimulus, an attempt to understand fiscal policy changes at the International Monetary Fund since the great recession. Blattman (2014) conducted a study on International Monetary Fund and Ebola crisis. The study revealed that IMF policies contributed to underfunded, insufficiently staffed and poorly prepared health systems in the three countries that witnessed major outbreaks. The scholar explained that the IMF's insistence on decentralized health care made it difficult to mobilize a coordinated response to Ebola outbreak.

Broome (2014) looked into the 'Great Recession and the Narrowing of IMF Policy Advice'. He discovered that IMF policy advice to borrowers continues to stress the importance of fiscal consolidation, with reduced emphasis on promoting the structural economic reforms associated with the Washington consensus era. Bukovantsky (2010) examined 'Institutionalized hypocrisy and the politics of agricultural trade'. The study contended that many developing countries were obliged to open their markets to imports even though they could not afford subsidy programmes as obtainable in the industrialized countries. Chwieroth (2013) looked at 'Controlling Capital: the International Monetary Fund and transformative incremental change from within international organizations, and was concluded that, "actors within the International organizations are likely to pursue incremental changes by layering new policies on to old ones as a way to build coalitions and to respond to external organizational insecurity imperatives.

Clegg (2014) while studying 'social spending targets in IMF concessional lending: US domestic politics and the institutional foundations of rapid operational change found that the near universal incorporation of social spending targets into concessional lending arrangements adds credence to calls for further empirical work to assess the extent of a post-Washington consensus transition at the IMF. Benedict, Gupta and Nozaki (2013) interrogated what happens to social spending in IMF supported programmes and concluded that IMF supported programmes have a positive and significant effect on social spending in low income countries. Dreher (2009) who studied 'IMF conditionality: theory and evidence', presented theoretical argument for and against the IMF conditionalities. Gabor (2010) delved into The International Monetary Fund and its new economics focusing on the key elements of the IMF's agenda for change. Comparing the conditionalities designed under the new and old policy regimes, he argued that the mainstreaming of inflation targeting reproduces the IMF's function within a neoliberal political economy. In Gallagher and Ocampo (2013), an investigation into IMF's new view on capital controls, it was revealed that the new institutional view is still out of step with country experience and economic thinking in many respects. The scholars further noted that the IMF's recommendations in this regard counter their own findings about the kinds of measures that worked. Goldstein (2001) studied 'IMF structural conditionality and observed that policy implementation in the structural area was not as good as in the macroeconomic area.

Barro and Lee (2005) and Presbitero and Zazzaro (2012) also concurred that political proximity affects fund's decision in granting loans. For Guimaraes and Carlos (2017), many empirical papers find that IMF loans and conditionalities are responsive to the economic interests of the Fund's major shareholders and to the domestic political environment of borrowing countries. Barro and Lee (2005) found that countries with intense trade linkages to the US get more 'bank-friendly' conditions on IMF loans. Dreher and Jensen (2007) tried to find out whether the number of conditionalities in an IMF agreement depends mainly on domestic economic factors such as GDP growth rate; inflation rate; government budget deficit; or on political proximity to the US and G7 countries. The study revealed that

political proximity is the most important determinant for external loans. It was found that countries that are United States allies access loans with much smaller conditions than countries that are not. Liu and Pogach (2017) examined the effect of foreign lending on the domestic lending for US global banks. The scholars argued that greater foreign loan growth complements, rather than detracts from domestic commercial lending.

Essentially, eternal borrowings come with conditions, and these conditions are designed to serve the interests of the big stakeholders in the international financial institutions. These conditionalities obviously influence the foreign policy decisions of the recipients and weaken their foreign policy stance to serve the critical interests of the dominant players.

Deficit Financing And Nigeria's Foreign Policy Goals

One thing is for states to make laudable foreign policy objectives, another is to see their realization (Eze, 2018). Nigeria's foreign policy obviously requires budgetary provisions. It is therefore only rational to interrogate how deficit financing affected Nigeria's foreign policy objectives over the years. Cervenka cited in Eze (2018) maintain that manipulation starts with the export of capital in the form of either investments, government loans or private credit. Scholars have severally analyzed foreign policy of countries from varying angles. While some scholars take purely realistic approach, some others propagate idealist position. Scholars have equally tried to examine what inspire certain actions and inactions of countries at given periods. But none has tried to find out how deficit financing affect foreign policy goals of countries.

For instance, Nwangwu and Okoye(2014) tried to investigate "Management of External Economic Relations and Crisis of Development in Nigeria". They noted that the Post-cold War international regime has accentuated the convergence of sovereign states as a desideratum for their continued relevance within the locus of contemporary global political economy. Hence, the relative gains derived by a particular state are largely dependent on the structure, content and effective implementation of its economic diplomacy. The scholars also pointed out that the world is increasingly becoming inter-

dependent economically, socio-politically and even militarily, hence the need for strategic foreign policy.

Okolie (2009) looked at the "Fundamental Issues in Foreign policy Making and Implementation in Nigeria, pointing out that "in an increasingly inter-dependent and globalized world, foreign policy actions, inactions and reactions are basically contrasting and converging responses to the needs of the citizens and means of addressing these needs via bilateral and multilateral relations with other states or actors." It is within this context that we conceive deficit financing as an element in a nation's economic diplomacy. In the words of Nwangwu and Okoye (2014:33), "sovereign states do not just compete but also exploit each other in pursuit of their national interests to secure maximum security and prosperity for their citizens". These scholars explain that the diplomatic team of different states usually attempt to exploit or circumvent the international rule in order to appropriate a disproportionate share of the global development dividends to their citizens.

Deficit financing is anchored on borrowing externally, internally or even both. On account of this, Ezeabasili (2006) maintained that borrowing by countries occur as a result of their inability to generate enough domestic savings to carry out productive activities. Also, Ezeabasili, Isu and Mojekwu (2011), noted that a country can borrow in the short term, from external sources to finance current account deficit arising from external disturbances in order to shore up external reserves position and strengthen external liquidity position in the future.

For a country to borrow externally, certain diplomatic relations are involved. Some conditionalities are also expected to be met. Besides, borrowing raises the debt burden of a state and possibly predisposes the state to a number of economic and political pressures. Ezeabasili (2006), and Constanza, (2009) agreed that the rapid growth of external debt stock and debt service payments became clogs on the wheel of national economic growth efforts. The strength of a nation's economy determines the nation's sphere of influence in the international arena. This is why it becomes necessary to ascertain how years of deficit

financing have affected Nigeria's external relations with particular reference to the year 2015.

Theoretical Framework: Dependency Theory

The dependency theory was developed in the late 1950s under the guidance of the director of the united Nations Economic Commission for Latin American, Raul Prebisch (Ferraro; 1996). Proponents argue that economic activities in the richer industrialized countries are usually at the expense of the poorer countries. The theory postulate that given the inherent inequality that usually characterize relations between rich and poor nations and also given the fact that the poor nations can only offer primary commodities to the rich nations who eventually turns the primary commodities to manufactured goods or finished products (ie value addition); the basis of exchange cannot be equal.

Baran (1957) therefore argued that the industrialized countries of the West were hindering the economic development of the poor societies, thus making it difficult for them to pursue self sustaining development strategy which further complicates their poverty and development. For Gordon (2009), dependency theory is essentially a set of theories which maintain that the inability of the third world countries to attain meaningful level of development resulted from their age-long dependence on the advanced capitalist countries.

Dos Santos (1972) therefore conceived dependency as a situation in which a certain group of countries have their economies conditioned by the development and expansion of another economy, to which the former is subjected. The scholar explained that the relation of interdependency between two or more economies and between these and world trade assume the form of dependence when some countries (the dominant) can expand and give impulse to own development, while other countries (the dependent) can only develop as a reflection of this development. Thinking along this line, Nwoye (2014) observed that dependency theory explain global inequality in terms of the historical exploitation of poor societies by the rich and powerful ones. Accordingly, Eze (2018) pointed out that dependency theory is an offspring of Karl Marx dialectical materialism's approach to

understanding and explaining the relationship between developed and underdeveloped countries. The erudite scholar summarized dependency theory as one which posits that the relationships between the developed nations, (like the United States of America and Britain) and the underdeveloped countries (such as Nigeria), is asymmetrical, subjugatory and exploitative.

Generally speaking, dependency theorists believe that third world underdevelopment is a consequence of the exploitative contact between these third world countries and the industrialized countries of the West. Proponents therefore insist that the third world countries must delink from the exploitative ties with the industrialized countries of the west and workout their own development independent of the advanced countries (Offiong; 1980, Rodney; 1972).This explains the whole implications of external borrowings especially as it concerns foreign policies of developing countries.

Obviously, the historical experience of colonialism of the third world countries established asymmetrical relationships between the colonial powers (industrialized) and the colonies (underdeveloped). Okolie (2005) was apt when he stated that political economy moves under the fulcrum of western capitalism. The world order is essentially a capitalist order. The present world was brought about by the expansionist flair of global capitalism. The mainstream capitalist states influence the direction and intensity of development'. The erudite scholar observed that most states in Africa were hooked to the revolving capitalist orbit via colonialism, neo-colonialism and factors of imperialism. Narrowing down to Nigeria, the scholar rightly noted that Nigeria's economy has been yoked with that of the advanced western capitalist states in a servant master relationship and this has been our albatross. In like manner, Eze (2018) argued that through direct and indirect means (such as via multi-national corporations, unequal trade, compliance-aimed foreign aids, loans with strings attached) the advanced countries perpetuated the exploitation and underdevelopment of the third world countries.

From the time of independence till date, Nigeria's political leadership had always relied on foreign aids and loans to implement our development plans. The western capitalist

countries who perfectly understand what economic cum political advantages this master-servant relationship portends do not hesitate to cash in on such opportunities to establish linkages with the peripheral countries (Nigeria inclusive). The first Nigeria's development plan was anchored on foreign loans and aids. Eze (2018) pointed out that president J.F Kennedy of the United States, in response to Nigeria's clamour for foreign aid, announced an offer of $225 million as a long term development aid for Nigeria on December, 12, 1961. At the launch of the first National development plan, Nigeria's prime Minister, Tafawa Balewa left no one in doubt as regards the intended sources of fund for the development plan. According to his speech (in Onigg, 1964:307), "the national plan we have proposed will cost $676,500.00 of which we expect to finance about 50% from domestic source, leaving a gap of about $338,800,00.

The government of Nigeria therefore recognizes the importance of contributions, which the private sector of the economy and foreign capital can make towards the national economic growth". Eze (2018) explained that for the execution of the 1962 – 1968 National development plan, Nigeria relied on external loans and grants from the United States, Britain, IBRD and other Western donors and financial agencies. Obviously, these had covert and overt strings attached.The end of Nigeria's civil war in the 1970 coincided with a phenomenal growth in Nigeria's economy occasioned by the oil boom. This significantly reduced Nigeria's reliance on foreign aids for the prosecution of her development plans. The second National development plan therefore anticipated 20% funding from the foreign aids and loans (Olajide, 1981). Nigeria relied on the United States and Britain for military trainings and supplies. Alavi (in Milliband and Savilla (eds), 1964:25) noted that "an army tied to the metropolitan state through a net-work of aid operations and a proliferation of foreign advisers who infiltrate the government, help to perpetuate imperialism". These foreign aids and loans are obviously used to montage the political cum economic future of the recipient as the imperialists push their interests. This made Ejiofor (1981:62) to aver that "the best seller of diplomacy was aid". According to Eze (2018), gifts tend to have preconditioning effects and when they are made to a country like Nigeria, the effects

become immediately evident as she complies with the wishes of the donor as long as repayment was not made. Eze rightly argued that given the extensive aid from the Western countries, Nigerian leaders (from independence to date) woefully exhibit pervasive – salutary client mentality towards her Western overlords.

The fact that these foreign loans/aids often times rail-road the recipient country into serving not only political but economic interests of the donor capitalist countries cannot be over emphasized. For instance, Eze (2018) was unequivocal when he stated that the implication of American aids to Nigeria is not only significant in the growth of domestic economy of America, but also of great significance to the foreign policy of the countries. Besides shaping Nigeria's foreign policy to favour Western capitalism, capital projects, sales of equipments and provision of technicians are usually awarded to imperialist agents of the country.

In line with this, "the oil refinery, the Nigeria security and minting plant, the paper mill and sugar mill complex, the Nigeria dam and bridge and also port extensions were completed by Western multinational corporations" (Eze; 2018:106). The international monitoring fund and the International Bank for Reconstruction and Development (IBRD) are obvious instruments of domination in the hands of the leading western capitalist countries. Their conditions for granting aids or loans to poor countries will always be such that would predispose the poor countries to the exploitative tendencies of the Western capitalist countries. Foreign loans and aids obtained from these pro-western international financial institutions or donor agencies readily make the recipient country vulnerable to acceding to the interests of the Western capitalist countries.

To further support this, "In 2015, Nigeria ranked third in the Global Terrorism index, trailing Iraq and Afghanistan" (Punch, 28 May, 2016). The paper reported that Boko Haram and Fulani herdsmen killed over 3000 people within the first year of Buhari's administration (ie between May, 2015 – May, 2016). This created a lot of instability in the system and scared investors. Xenophobic attacks on Nigerians in South Africa continued unabated. These exemplified government's inability/helplessness to protect its citizens both locally

and internationally.The volume of bilateral trade between Nigeria and Germany decreased from 5.4 billion Euros in 2014 to 2.9 billion Euros in 2015 (Punch, Oct. 10, 2016). Nigeria's bilateral trade with India during the year 2015 -2016 recorded 12.17 billion USD as against 16.36 billion USD recorded during the year 2014 -2015 (High Commission of India, Abuja, 2016). These represent a significant drop in Nigeria's trade balance sheet with those countries.

These also show that Nigeria's foreign policy goals suffered noticeable setbacks during this period. It was also at this period that the government decided to shut down some foreign missions as a way of cutting down government spending.

CONCLUSION

This study concludes that Nigeria's 2015 budget affected negatively, the pursuit of her foreign policy goals. This is primarily evident in Nigeria's shutting down of some of her foreign missions as a way of cutting cost. Abdullateef (2016), on the Daily Trust newspaper of July 28, 2016 noted that "the Federal Government approved the closure of nine foreign missions and their conversion to non-residency representation or concurrent accreditation". The Nigeria's Minister for Foreign Affairs explained that the closure was part of measures to reduce the cost of running Nigeria's foreign representations in line with the economic situation. Obviously, the closure was a response to the challenging economic situation in the country meaning that Nigeria's budget could not support all of the subsisting foreign missions.

Undoubtedly, these missions were established in pursuit of Nigeria's foreign policy goals. The closure of these missions would naturally hamper or derail the attainment of these goals especially with respect to the host countries. Some of these goals include bilateral diplomatic relations with the host countries which entails the protection of Nigeria's political and economic interests in the host countries, protection and care for the Nigerian community in the host countries etc. Besides, the closure dealt a severe blow on Nigeria's image within the international community, thereby calling to question, Nigeria's

stance as the largest economy in Africa. This study therefore concluded that Nigeria's year 2015 budget affected negatively, the pursuit of her foreign policy goals.

This study therefore recommends that Nigeria needs to reposition itself diplomatically to boost bilateral relations with other players in the international arena for political and economic gains. Nigeria also needs to show capacity in managing its affairs without betraying such weaknesses that could diminish her stature and respect within the international community.

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