



# UNIVERSITY OF LAGOS, NIGERIA

## Inaugural Lecture Series 2016

**TOPIC:**

**THE INTERNATIONAL MONEY GAME:  
A ZERO-SUM GAME OR WINNER  
TAKES ALL**

By

**PROFESSOR JOHN EMEKA EZIKE**

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# THE INTERNATIONAL MONEY GAME: A ZERO-SUM GAME OR WINNER TAKES ALL

An Inaugural Lecture Delivered at the University of Lagos  
Main Auditorium on Wednesday 20th April, 2016

By

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ISSN: 1119-4456

Published by

**University of Lagos Press and Bookshop Ltd**

Works and Physical Planning Complex

P.O. Box 132

University of Lagos

Akoka, Yaba

Lagos, Nigeria

E-mail: [press@unilag.edu.ng](mailto:press@unilag.edu.ng)

“God and nature first made us what we are, and then out of our own created genius we made ourselves what we want to be. Follow always that great law. Let the sky and God limit and Eternity our measurement”.

- Marcus Garvey

“God governs in the affairs of men.  
And if a sparrow cannot fall to the ground without His notice  
Is it probable that an Empire can rise without His aid?”

- Benjamin Franklin

## DEDICATION

To the Almighty, Eternal, Omniscient and Omnipresent God,  
Who Governs in the affairs of men, and to my immediate  
family – my wife and children, who show me love and  
unwavering support.

## **PROTOCOL**

The Vice-Chancellor, Sir,  
Deputy Vice-Chancellor (Academic & Research)  
Deputy Vice-Chancellor (Management Services)  
The Registrar,  
The Bursar,  
The Librarian  
The Provost College of Medicine,  
Other Principal Officers of the University,  
The Dean Faculty of Business Administration  
Other Deans of Faculties, here present  
Members of Senate of the University of Lagos,  
Distinguished Academic Colleagues and Administration Staff,  
Your Royal Majesties and Highnesses,  
My dear Students,  
Gentlemen of the Press, Distinguished Guests – Ladies and gentlemen;

## **PREAMBLE**

I consider it a great honour and privilege for me to stand before this great assembly, today, to deliver my inaugural lecture in this citadel of learning, the University of First Choice and the Nation's Pride.

Mr. Vice-Chancellor, Sir, my choice of the University of Lagos for academic pursuit was an act of God. Let me crave your indulgence to expatiate a little on my background to justify this assertion. During my early education, my uncle/guardian, late Chief Peter Ofozor Ezike (Who I call father, having lived with him since the age of four), gave me the impression that teacher's training education was nobler and safer than grammar/secondary school education. As he puts it, the products of the former, graduate and have to become teachers (a noble profession), while the products of the latter, end-up as civil servants or work in companies where there is bigotry, rivalry and even diabolical elimination of an individual. Consequently, I went in pursuit of teacher education and part-financed my academic progression as I alternated between teaching and college education.

When it was time to go to the University, myself and my academic compatriot (my sparring partner) Augustine Eboatu, (now Professor of Chemistry) got counsel from a mentor, late Chief Alfred Onuora. He reasoned that Augustine was to study Medicine while I was to study Accountancy.

Vice-Chancellor, Sir, following this advice, I applied for Accountancy at the University of Nigeria Nsukka (UNN), to the University of Lagos; I applied for Finance which was advertised in the brochure as a new course. I had no idea what it meant. However something curious occurred. Before the admission process, I had visited my uncle, late Chief Okafor-Mbah on holidays in Lagos. That was my first time in Lagos, and one of the places of interest he took me for sight-seeing was the University of Lagos, Akoka, Yaba. It was an awe-inspiring experience. I was overly impressed with what I saw, and marveled inwardly how great it would be, studying at such a place. Thus, when the admission offers were released, I got offers from both UNN and the University of Lagos for Accountancy and Finance respectively. I had no difficulty in making the choice for the University of Lagos; and the rest is history as the saying goes. It was an act of God.

God had not finished with me, as it turned out. Being pioneer students of Finance, (Thirty of us were admitted but two later dropped out leaving twenty eight of us), the university wanted to build-up staff for the new department. Thus, we were informed that the two best graduating students of the Department would be offered University scholarship to pursue further studies and appointment as academic staff of the Department.

By the special Grace of God, I was one of the two beneficiaries of that award, and here I am today delivering my inaugural lecture as a Professor of Finance, in this great citadel of learning. May the name of God be praised!

This inaugural lecture is the 294<sup>th</sup> in the University of Lagos, 17<sup>th</sup> in the Faculty of Business Administration, the 7<sup>th</sup> in the

Department of Finance and 9<sup>th</sup> in the 2015/2016 academic year.

Vice-Chancellor Sir, it is a miracle to come from a social background where one cannot go to secondary school owing to poverty and to rise to the position where one can dine with kings of academics; I therefore have no illusions that there is a **STRONG ARM OF THE LORD** in the affairs of men – in this case, my humble self. I bow in honour and adoration to the Almighty God.

## **INTRODUCTION**

Vice-Chancellor, Sir, the title of my lecture today is “**THE INTERNATIONAL MONEY GAME: A ZERO-SUM GAME OR WINNER TAKES ALL**”

We are now living in a highly **GLOBALISED** and integrated World Economy. We are all exposed to the subject-area of International Finance.

Vice-Chancellor, Sir, the shoe you are wearing may be produced in Italy, your watch may be from Switzerland and the car you drive may be from Japan. The fuel to drive the car is mined as crude oil in the Nigerian Niger-Delta and refined in Brazil. Each time we consume foreign goods or sell domestic products abroad, we are involved in the international money game.

Like consumption, production has become highly globalised owing to the activities of multinational companies (MNCs) who relentlessly look for low cost locations and imports for their products which they market elsewhere for higher profits. Also, in recent times financial markets have become highly integrated. Investors now have the opportunity to diversify their portfolios internationally as the Euro-currency and Euro-bond markets make cross-border investments and sourcing of funds possible for individuals, business firms and governments. As a vivid illustration, SEPLAT Oil Company of Nigeria was able to Cross-list its shares in the UK Stock Exchange, and GTB, First

Bank and UBA, all issued bonds in the international capital market.

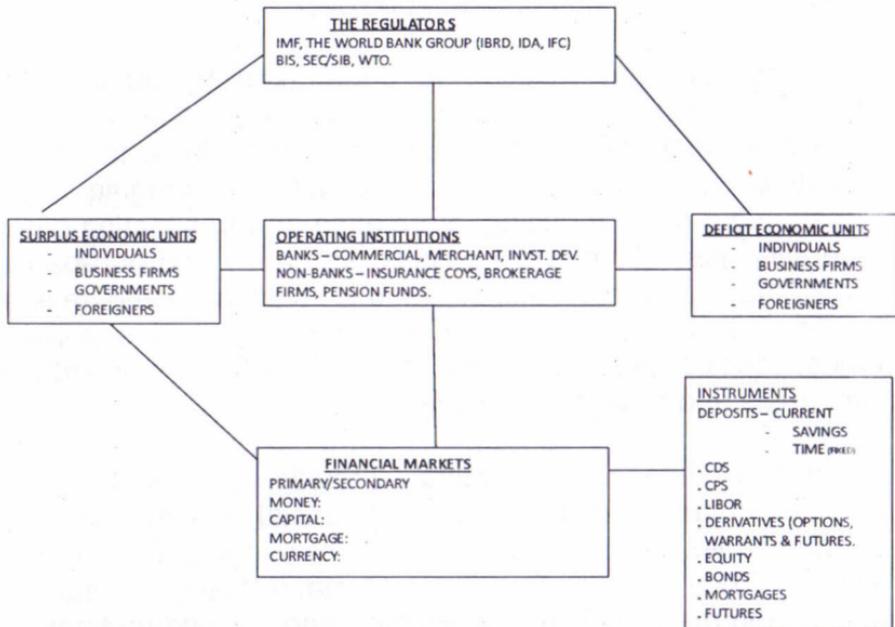
Buying or selling goods and services internationally requires the acquisition of international money. There are no free lunches. If you desire/want foreign goods, you have to pay in foreign money. We may not realise it when we buy an imported item at a Nigerian store in naira, but at the end of the transaction somebody – either Sanusi, Emefiele or whoever is the Central Bank Governor must see to the international money aspect of our domestic money expenses. Our taste for foreign goods and services creates major payments problems for the monetary authorities.

### **BACKGROUND: The Platform for the International Money Game**

Vice-Chancellor, Sir, every nation state has an economy and the mutual relations among national economies constitute the international economic system. With the exception of gifts (unrequited transfers), international economic relations result from trade and investment transactions, that is, the exchange of assets having market values.

The sum of a nation's economic transactions with the rest of the world over a given time period (usually one year), is recorded in the **BALANCE OF PAYMENTS (BOP)**. The overall financial environment in which governments, and multinational corporations operate, constitutes the international monetary system. In consequence, the international monetary system may be defined as the institutional framework within which international payments for trade and investment are made, movements of capital are accumulated and exchange rates among currencies are determined. This is the platform where the international money game is played.

# DIAGRAMATIC STRUCTURE OF THE INTERNATIONAL MONETARY SYSTEM



**Figure 1: International Financial System**

*Source: Author's Configuration*

Vice-Chancellor, Sir; the most basic function of the international financial system is to facilitate the flows of payments for trade and investment globally, and how efficiently it performs these services affects the smooth functioning of the global economy.

There are five broad components of any financial system namely: Financial regulators, financial Institutions and Intermediaries (or Operating Institutions), Financial markets and instruments, savers or Surplus economic units and Borrowers or deficit economic units, (these constitute the ultimate users of the system)

The most important components of the system are the savers and borrowers, referred to as the “ultimate users of the system, for whom the system exists. These are categorised as individual’s business firms and governments (domestic and foreign). The separation of the act of savings from the act of

investment, as well as the differing and conflicting requirements of savers and borrowers create opportunities for financial intermediation (Ezike, 2003).

The intermediation function is undertaken by international financial institutions. As operating institutions they perform a variety of functions including – mobilising savings, facilitating investments, transforming maturities, averaging and transforming risks, reducing information and transaction costs. Operating institutions are classified as banks and non-banks. Banks include commercial, merchant, Investment and savings banks, while non-banks include insurance companies, pension funds, Stock Brokerage Firms, Mutual Funds, Investment and Unit trusts and private Equity firms.

Organised financial markets provide alternative and complementary mechanisms to financial institutions, and intermediaries for meeting the needs of users of the financial system. They provide liquidity and marketability of financial assets and are classified into Primary and Secondary financial markets; money markets and capital markets, futures markets. Other classifications are Eurodollar markets, Euro-Currency, Euro-bond, and Global Equity markets. The products in the financial markets are variously called – Financial Assets, Financial Securities or Financial Instruments.

The fifth category is the financial system regulators. Regulation is necessary to ensure that operators follow the rules of the game; that institutions honour their obligations to their customers and that dealings in the securities markets are fair. Different regulatory institutions are established to control different aspects of the money game.

The prominent regulatory institutions are the International Monetary Fund (IMF), The World Bank Group (IBRD, IDA, IFC), Bank for International Settlements (BIS), Securities and Exchange Commission (SEC/SIB), World Trade Organisation (WTO replacing GATT) and International Organisation of Securities Commissions (IOSCO).

## **The International Money Game**

Vice-Chancellor, Sir, It was Robert Z. Aliber (1973) who first coined the phrase: "The International Money Game" as an introduction into the world money issues. The Subject-matter of international finance sounds like a mystery to most people – whether learned or not so learned. It is our objective in this lecture to unravel the mystery and make the subject-matter meaningful and relevant to everybody. As is evident, International Finance is often viewed as ESOTERIC and only meaningful to a few skilled professionals in banks and the academia. Generally, the mystery stems from the use of common place terminologies in specialised forms – e.g.: "Snake in the tunnel", Crawling Peg, Special Drawing Rights (SDRs), Eurocurrencies, Foreign Exchange Exposure, Transfer Pricing, Cross rates, Arbitrage. While the words are common enough, the meaning and usage are elusive and put-off possible adherents and the uninitiated.

## **The Money Game**

International Finance is a game involving two sets of players, namely: Politicians and Bureaucrats in national governments on the one hand, and the presidents, Chief Executive Officers (CEOs) and Treasurers of Multinational Organisations on the other. The name of the Game is Money.

We are familiar with the game of football, cricket or hockey. In each of these games, the objective instrument for the game is the BALL. In the case of the international money game, MONEY is the instrument/object of the game.

## **Nature of the Game**

Government officials and politicians want to win elections and carve a niche in the history of their countries; so they want stability in the monetary values of their national currencies. Corporate presidents and chief executive officers want to make profit for their firms. They want to make profit or avoid losses from changes in exchange rates, which are inevitable in a world of independent national currencies.

## **ZERO-SUM GAME**

A Zero-sum game is any game where losses exactly equal the winnings. All sporting events are zero sum games. For every winner, there is a loser, and winners can only exist if losers exist. What the winning player wins, the losing player loses. (Thurow, 1980).

## **WINNER TAKES ALL**

A musical group from Sweden, known as ABBA (the winner of Euro-Vision song contest in 1974), has as one of their theme songs – “The Winner Takes it All”.

The First Stanza of the song reads as follows:

“I’ve played all my cards  
And that’s what you’ve done too  
Nothing more to play  
The winner takes it all  
The loser’s standing small  
Beside the victor, that’s her destiny.

A winner takes all is not a FAIR Game; hence, the loser stands small.

Vice-Chancellor, Sir, what has the game of football or euro-vision theme song got to do with International Finance? This is a valid question agitating your mind and that of the great audience here today. The same question is agitating my mind as well. But not to worry, for the answer to that question is the subject-matter of this lecture.

## **THE INTERNATIONAL MONETARY SYSTEM**

The international monetary system is a complex set of agreements, rules, institutions, mechanisms and policies regarding exchange rates, international payments and the flow of capital. The focus of this lecture is to x-ray how the system works, and by extension, explore how the international money game is played. In understanding how the game is played, we shall review its evolutionary process.

Vice-Chancellor, Sir, the international monetary system has evolved over time and will continue to do so in the future as

the fundamental business and political conditions underlying the world economy continue to shift. Since recorded history, the international monetary system has undergone a series of distinctive stages of evolution as follows:

- Bimetallism Era - prior to 1875
- Classical Gold Standard Era – 1876 – 1914
- Interwar Period – 1915 – 1944
- Bretton Woods (Dollar Standard) System – 1945 – 1972
- Flexible/Floating rate regime – 1973 to date.

([www.ex.ac.uk/NRDavies/arian/iiffr.html](http://www.ex.ac.uk/NRDavies/arian/iiffr.html))

#### **i. Bimetallism Era – Prior to 1875**

Prior to 1870's many countries had bimetallism, that is, a double currency standard at which free coinage was maintained for both gold and silver. It was recorded that bimetallism was maintained in Great Britain until 1816, in the United States of America up till 1873 and in France up till 1878. Thus, the international monetary system before 1870's is characterised as "bimetallism", to the extent that both gold and silver were accepted and jointly used as international means of payments and that exchange rates among currencies were determined either by gold or silver contents. In countries where bimetallism standard obtains, a phenomenon known as Grahams Law is often experienced. This occurs since the exchange ratios between the two metals was fixed officially, only the abundant metal was often used as money, thus, the more scarce metal is driven out of circulation. This is referred to as Graham's Law, according to which "Bad" (abundant) money drives out "Good" (Scarce) money.

#### **ii. Classical Gold Standard Era – 1876 – 1914**

The gold standard had its origin in the use of gold coins as a means of exchange, unit of account and store of value. The first full-fledged gold standard was not established until 1821 in Great Britain when notes from the Bank of England were made fully redeemable for gold. It was safe to acknowledge that the international gold standard existed as a historical reality during the period 1876 – 1914. The majority of countries exited the gold standard by 1914 at the outbreak of World War 1. Thus, the classical gold standard as an international

monetary system lasted for about 40 years. During the period of gold standard, London was the centre of world financial system, reflecting the strength of British economy and its pre-eminent position in international trade and investment.

An international gold standard can be said to exist globally under the following conditions:

- a. Gold alone is assured of unrestricted coinage
- b. There exists a dual convertibility between gold and national currencies at a stable ratio; and
- c. Gold may be freely exported or imported.

In order to support unrestricted convertibility into gold, bank notes need to be backed by a gold reserve of a minimum stated ratio. In addition, the domestic money stock should rise and fall as gold flows in and out of the country. The above conditions were generally met between 1875 – 1914.

During the classical gold standard era, the exchange rates between currencies were relatively stable. The experience of highly stable exchange rates during the period provided a conducive environment for international trade and investment. Where there exist imbalances in payments under the gold standard, such imbalances were corrected automatically through an adjustment mechanism referred to as “the price-specie- flow mechanism” (David Hume 1985). The price – specie flow mechanism works only if national governments are willing to abide by the “Rules of the Game”, by letting the money stock rise and fall as gold flows in and out.

Once a government demonetises (neutralises) gold, the mechanism breaks down. Moreover, the effectiveness of the mechanism depends on the price elasticity of demand for imports. Given a common gold standard, the exchange rate of any currency was easy to determine. The simplicity of the Balance of Payments adjustment mechanism under the gold standard is so attractive to many economists that even after over 80 years of its collapse, some people are still clamouring for a return to classical gold standard.

### **iii. The Inter-War Period: 1915 – 1944**

The start of World War 1 in 1914 signaled the end of the Classical Gold Standard when major countries such as Great Britain, France, Germany and Russia suspended redemption of bank notes into gold and imposed embargoes on gold exports. This was because they required their stock of gold to prosecute the war. Several governments financed their massive military expenditure by partly printing money, which resulted in inflation. By the end of the war in 1918, price levels were higher everywhere, such that as many countries attempted to return to the gold standard, they could not do so at the pre-war exchange rates. Most countries therefore devalued their currencies to protect their foreign reserves, and create domestic employment by boosting exports. In the main, countries lacked the political WILL to abide by the Rules of the Game; and so the automatic adjustment mechanism of the gold standard was unable to work.

Generally, therefore, the inter-war period was characterised by economic nationalism, half-hearted attempts and failure to restore the gold standard, economic and political instabilities, bank failures and panicky flights of capital across borders. This put pressure on the gold reserves of various countries forcing them to abandon gold convertibility. Thus, by the start of world war II in 1939, the gold standard had collapsed as a result of the engagement in competitive devaluations and “beggar-thy-neighbour” policies by all countries.

### **THE BRETTON WOODS (Dollar/Gold Exchange) SYSTEM: 1945 – 1972**

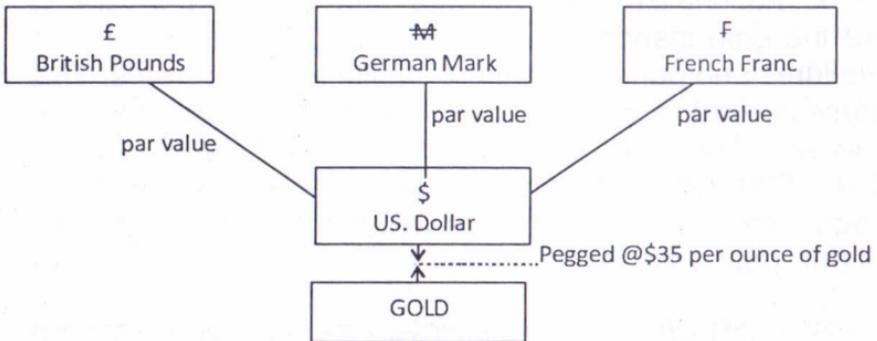
Sensing the end of the World War II, and desirous to prevent the re-occurrence of economic nationalism with no clear “Rules of the Game”, witnessed during the inter-war period, representatives from 44 Countries met in Bretton Woods, New Hampshire, USA, in 1944 to design a new international monetary order. Bearing in mind the collapse of the Gold Standard and the experiences of the Great Depression of the 1930s the participants endeavoured to create an enduring economic system that would facilitate post-war economic growth and development.

The agreement reached at Bretton Woods led to the creation of two multilateral institutions – the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development IBRD, (otherwise known as the World Bank).

The IMF was envisioned to maintain order in the international monetary system as core institution of the system. The IMF embodied an explicit set of rules about the conduct of international monetary policies and exchange rates among member countries, and was responsible for enforcing rules. In this sense, the IMF is the umpire of the International Money Game. The World Bank was designed to promote general economic development of member countries globally.

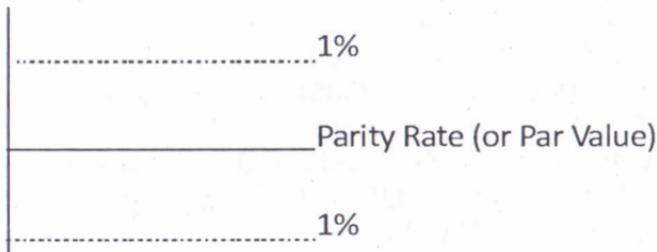
### How the System Works

Under the Bretton Woods System, each country determined a par value of its currency in relation to US dollar which was pegged to gold at \$35 per ounce. The operational structure of the Bretton Woods System is illustrated as follows.



**Figure 2: The Operational Structure of the Bretton Woods System**

Each Country was responsible for maintaining its exchange rate at a fixed party rate, which is allowed to oscillate  $\pm 1$  percent above the par value.



**Figure 3: Exchange Rate at a Fixed Party Rate**

In the Bretton Woods System, all countries were to fix the value of their currency in terms of gold but were not required to exchange their currency for gold. Only the US dollar remained convertible into gold at a price of \$35 per ounce. Other currencies were not directly convertible into gold, but they held dollar as well as gold for use as means of international payment. Based on these arrangements, the Bretton Woods System was also described as a dollar-based “gold-exchange standard”. Another aspect of the Bretton Woods agreement was a commitment by member countries not to use devaluation as a weapon of competitive trade policy. However, if a currency is under specific pressure and became too weak to defend, devaluation of up to 10percent could be allowed without any formal approval by the IMF. Large devaluations require IMF approval and funding to correct fundamental disequilibrium of the BOP. However, for extensive borrowings from the IMF, a country is required to submit to stringent IMF supervision of its macroeconomic policies. Borrowers from the IMF for economic stabilisation must agree to stringent monetary and fiscal conditions, including structural adjustment, as set by the IMF (this was the basis for the famous – **CONDITIONALITIES DEBATE IN NIGERIA, 1985-1986**). The debate was about the IMF-mandated targets on domestic money supply, growth rate, exchange rate policy, tax policy and government spending. We recall that the then Nigerian government opted for the country to undergo the economic conditionalities under structural adjustment without taking the IMF loan. This is akin to opting to take a bitter pill without an attenuating sweetener.

According to Triffin (1960), the gold-exchange standard was programmed to fail in the long-run. This is because in order to satisfy the global need for reserves, the USA had to run balance of payments deficits on a continuous basis. Paradoxically, if the USA posts BOP deficits perennially, international confidence on US dollar as a reserve asset would be eroded, consequently, triggering a run on the dollar. This dilemma, referred to as the "Triffin Paradox", was the factor that eventually caused the collapse of the Bretton Woods System.

### **The Collapse of the Bretton Wood System**

The system of fixed exchange rates created at Bretton woods in 1944 worked well until the 1960s when it began to show signs of strain. The system finally collapsed in 1973 owing to US domestic inflation and persistent BOP deficits.

Vice-Chancellor, Sir, in order to understand the reasons for the collapse of the Bretton Woods System, we must first appreciate the special role of the US dollar in the international money game under the Bretton Woods System. Being the only currency that is convertible into gold, and as the major intervention currency for all other currencies, the dollar occupied a central position in the money game. Any pressure to devalue the dollar implies danger for the system and this was what actually happened.

It is therefore apt to locate the collapse of the fixed exchange rate regime under the Bretton Woods system, to the series of US macroeconomic policy measures between 1968 and 1973. Significant among such policies were, the finance of Vietnam War and domestic welfare programmes which exacerbated inflationary pressures; growing BOP deficits and consequent speculative pressure on the dollar. The combination of these factors fueled speculations of apparent devaluation of the dollar. A devaluation of the dollar would hurt member countries as it would make their exports more expensive relative to US products, and jeopardise the fixed parity system.

In order to partially alleviate the pressure on the dollar, the IMF created an artificial international reserve currency called "the SPECIAL DRAWING RIGHTS" (SDR) in 1970. The SDR, which is a basket currency was allocated to the members of the IMF and can be used for transactions among themselves or with the IMF. Thus, in addition to gold and foreign exchanges, countries could use the SDR to make international payments. The SDR was thus a veritable addition to international liquidity, aimed at relaxing pressure on the dollar as a means of international payments. However, SDR is used only for intergovernmental exchanges, and cannot be used to settle commercial corporate transactions. Also, in an attempt to save the Bretton Woods System, ten (10) major industrialised countries – otherwise known as the group of ten (G10), met at the Smithsonian Institution in Washington, USA, in 1971. They came out with the Smithsonian Agreement under which:

- i. The dollar was devalued such that the price of gold was raised from \$35 to \$38 per ounce.
- ii. Each of the other member countries revalued its currencies against the US dollar by up to 10 percent.
- iii. The intervention band within which the exchange rates were allowed to move was expanded from 1 percent to 2.25 percent above and below the parity rate. To complicate matters the US authorities, under President Richard Nixon, suspended the automatic convertibility of dollar into gold and imposed a 10 percent tax on imports, which were to remain in effect until US trade partners agree to revalue their currencies against the dollar. That is playing the money game at high stakes.

Following the continued deterioration of the US BOP, speculations continued against the dollar, to the extent that on March 1972, the foreign exchange market was closed globally. By February 1973, the dollar was under severe selling pressure and was again devalued to \$42 per ounce. By March 1973, European and Japanese currencies went off dollar-gold exchange standard and were allowed to float in the foreign exchange market, thus, heralding the demise of the Bretton Woods System. Since then, the international monetary system

for the payments of trade and investment has been characterised by generalised floating or flexible exchange rate regime.

## **THE FLOATING/FLEXIBLE EXCHANGE RATE REGIME 1973 –DATE**

Vice-Chancellor, Sir, since 1973, the world has operated with a floating/flexible exchange rate regime and exchange rates have become more volatile and far less predictable. The volatility of exchange rate movements have ignited global debate over the merits of fixed versus floating rate regimes. The floating exchange rate regime that followed the collapse of the fixed exchange rate system was formalised in Jamaica in 1976 when the IMF members met and agreed to the rules of the game for the international money game that has subsisted till today. The key elements of the Jamaica Agreement are as follows:

- i. Flexible exchange rates were declared acceptable to the IMF members and national central banks were allowed to intervene in the exchange markets to smoothen unwarranted volatilities.
- ii. Gold was officially abandoned (i.e. demonetised) as an international reserve asset. Half of IMF's gold reserves were returned to member countries, while the other half were sold and the proceeds used to assist poor nations.
- iii. Non-oil exporting countries and developing nations were given greater access to IMF funds.

Despite the demise of the Bretton Woods System, the IMF continued to provide assistance to countries facing BOP and foreign exchange problems. However, following the spectacular fluctuations in the value of US dollar in the 1980's, major industrial countries and the G7 met in Paris in 1987, where they agreed to achieve greater exchange rate stability. The agreement known as the LOURVE ACCORD of 1987 marked the inception of "managed-float" system under which the G7 countries would jointly intervene in the foreign exchange market to correct over-or-under valuation of currencies. The international money game has oscillated ever since. Whereas the most actively-traded international

currencies such as the dollar, yen, pounds sterling and euro, may be floating against each other in the foreign exchange market, the majority of worlds' currencies are pegged to single currencies, particularly the US dollar and the euro, or basket of currencies such as the SDR.

## Exchange Rate Regimes in Practice

A variety of exchange rate policies are pursued by governments worldwide

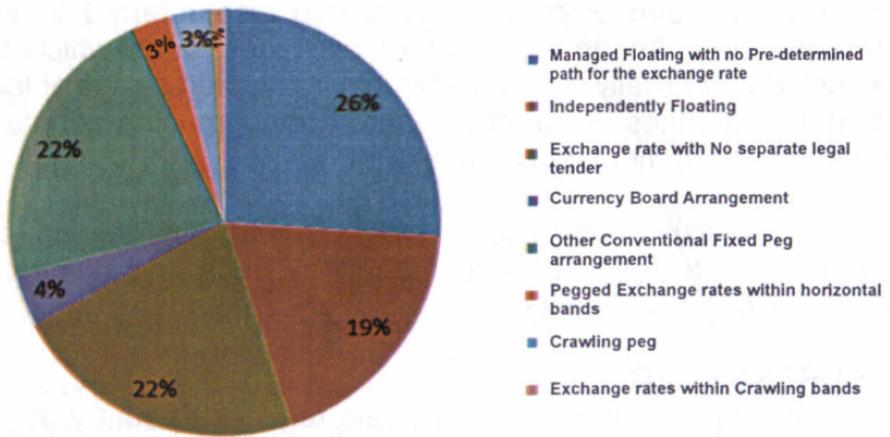


Figure 4: Exchange Rate Policies of IMF Members

Source: *IMF Annual Report 2002*

Figure 4, summarises the exchange rate policies adopted by member countries of the IMF since 1973. Some 22 percent of the IMF 187 member countries allow their currency to float freely. The exchange rates of this group of countries are essentially determined by market forces. Another 26 percent intervenes in only limited way in a system referred to as managed float. This combines market forces and government intervention in setting the exchange rates with no predetermined path for the exchange rate. Nigeria belongs to this group. A further 22 percent presently does not have a separate legal tender of their own. These are made up 12 European Union countries that have adopted the euro and effectively given up their own independent national currencies; along with 28 smaller countries, especially in Africa and the Caribbean, that have no domestic national currencies, and have adopted a foreign currency as legal tenders within their

borders, usually the US dollar or the euro. For example, 14 Central and Western African countries jointly use the CFA Franc, which is fixed to the euro through the French Franc. The remaining countries use more inflexible systems including a fixed peg arrangement (22 percent), under which they peg their currencies to other currencies such as the US dollar, or the euro or to a basket of currencies. Other countries (3 percent) have adopted somewhat more flexible more conventional system under which their exchange rate is allowed to fluctuate against other currencies within a target zone in the form of an adjustable peg also referred to as crawling peg. An arrangement of exchange rates which is adjusted periodically in small amounts is adopted by 1% of the member countries. A currency board arrangement is adopted by 4 percent of member countries.

We will discuss the mechanisms of, and implications of exchange rates regimes under currency pegs and currency Boards Pegged Exchange Rates.

## **CURRENCY PEG**

In a system of pegged exchange rate regime, a country pegs the values of its currency to that of a major currency such as the US dollar or British pound sterling. Thus, as the value of the major currency (say dollar) rises, the value of the pegged currency also rises. Pegged exchange rate is popular among many smaller countries. As with a full fixed exchange rate regime, the major attraction of pegged exchange rate is that it imposes monetary discipline on a pegging country and results in low inflation. As an illustration, assuming the Nigerian naira is pegged to the US dollar such that US \$1.00 = ₦195, then the Nigerian government must ensure that the inflation rate in Nigeria is similar to that of the USA. If at any point inflation rate in Nigeria is greater than that of the USA; there would be pressure on Nigeria to devalue the naira (i.e. to alter the peg). For the peg to be maintained, the Nigerian government would be obligated to rein in inflation in the country. Evidence shows that the adoption of a pegged exchange rate regime moderates inflationary pressure in a pegging country. An IMF study concluded that countries adopting pegged exchange

rate had annual inflation rate of 8 percent compared with 14 percent for intermediate regimes and 16 percent for floating regimes (Glosh and Gulder – 1997).

## **CURRENCY BOARDS**

A country that adopts a currency board system, commits itself to converting its domestic currency on demand into another currency at a fixed exchange rate. To make this commitment credible, the currency board holds reserves of foreign currency equal to, at least 100 percent of the domestic currency issued at the fixed exchange rate. Hong-Kong adopts a currency board system, and its currency is fully backed by the US dollar at a specified exchange rate. Under the currency board system, the board can issue additional domestic notes and coins only when there are foreign exchange reserves to back it. This limits the ability of the government (monetary authorities) to print money (fiduciary issue), and thereby create inflationary pressures. Hence, under the strict currency board system, interest rates adjust automatically.

Since the introduction of the currency Board system in Hong-Kong in 1983, the Board had overcome a number of currency crises. For example, during the late 1997, when other Asian currencies were facing currency collapse, Hong Kong maintained the value of its currency against the US dollar at about \$15HK – US \$7.5 despite several concerted speculative attacks.

## **Fixed Versus Floating Exchange Rates Regimes: The Debate**

Vice-Chancellor, Sir, about two decades after the collapse of the Bretton Woods System, there subsists a thriving debate as to the kind of exchange rate regime that best suits the global economy. While some economists advocate a freely floating exchange rate regime, others canvass for a return to a fixed exchange rate regime akin to the former Bretton Woods System. The debate is intense and significant, hence, we consider it paramount to highlight the arguments on both sides.

**Advocates of fixed exchange rate regime argue that:**

- i. Fixed exchange rate regime imposes monetary discipline on countries.
- ii. Floating exchange rate system is vulnerable to speculative pressure.
- iii. The uncertainty occasioned by exchange rate volatility under the floating rate regime dampens the growth of international trade and investment.
- iv. Rather than correcting trade imbalances, depreciating a currency on the foreign exchange market under a floating rate regime tends to cause price inflation.

**On the other hand, proponents of floating exchange rate regime argue, among others that:**

- i. Such a system gives countries autonomy regarding their monetary policy.
- ii. The removal of the obligation to maintain exchange rate parity helps to restore monetary control to national governments, thus, the rise in domestic costs due to domestic monetary policy action should be equally offset by the fall in the value of the country's currency on the foreign exchange market – A Zero-Sum game.
- iii. If a country is running a trade deficit, the imbalance between the supply and demand of the country's currency in the foreign exchange market (supply > demand), will lead to depreciation in its exchange rate conversely by making exports cheaper and imports dearer, an exchange rate depreciation should correct the trade deficit, all things being equal. – Another zero-sum game.

In general, the arguments in favour of fixed exchange rate regime are anchored on monetary discipline, speculation, uncertainty and the lack of connection between trade balance and exchange rates.

However, like most economic debates, there is the absence of consensus among economists on this issue. Neither of the systems (regimes), in their original form, can be supported to stabilise the international monetary system. Rather, a different

kind of fixed exchange rate system could be more enduring and might foster the stability that is necessary to facilitate a more rapid growth in international trade and investment.

### **PROPOSALS FOR REFORM OF THE SYSTEM**

New proposals for international monetary system reforms seek to address three major problems of the Bretton Woods System namely:

- i. Difficulties in achieving adjustment of persistent imbalance in the payment position of member countries.
- ii. Continuous deficits in the US balance of payments necessary to meet liquidity demands for increasing volume of international business transactions.
- iii. Severe periods of crisis resulting in a lack of confidence in the reserve media (US dollar).

Against the criticism of rigidity and constraint on the ability of national governments to undertake independent national monetary and fiscal policies under the Bretton Woods System, proposals for the reform of the system sought to provide for greater flexibility in the adjustment process of exchange rate in the form of – a Wider Band, a Crawling Peg and a Crawling Band.

a. **Wider Band:** A wider band proposal was recommended under the Smithsonian Agreement. According to the proposal, instead of one (1) percent oscillation around the par value allowed under the Bretton Woods System, a 2.25 percent variation around the par value was proposed, thus making a total 4.5 percent variation.

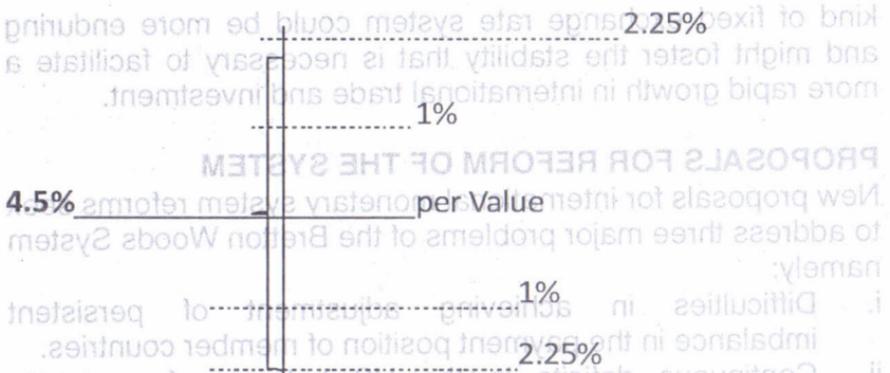


Figure 5: Wider Band Exchange Rate Process

b. **Crawling Peg:** This proposal provides for regular revision of each parity rate according to an agreed formula. The proposal would make the exchange rate reasonably stable to satisfy those who consider exchange rate stability a necessary condition for international transactions, while also establishing a smooth adjustment mechanism. Under a Crawling peg proposal, the smaller, but frequent adjustments in the pegged rate would avoid the currency crises that have characterised the Bretton Woods System. It would also give a wide scope for domestic monetary policy and reduce the incentives for countries to impose controls as the Nigerian monetary authorities recently did in order to delay a change in foreign exchange rate which is inevitable.

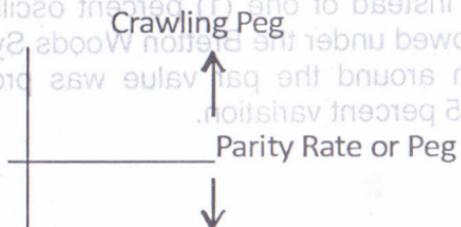
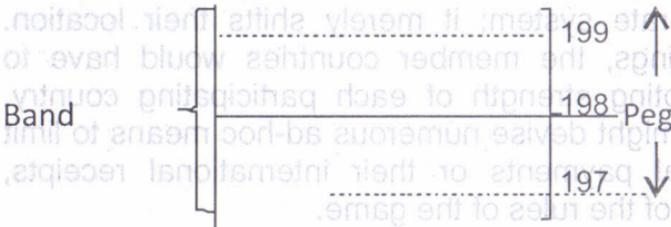


Figure 6: Crawling Peg Exchange Rate Process

c. **Crawling Band:** The Crawling band proposal is a combination of the wider band and Crawling peg proposals. It provides that each parity could be revised upward or downward as a moving average of the actual exchange rates that could fluctuate within a wider band. Economists have

recommended a Crawling band with 4 percent or 5 percent band range and a 10 percent yearly Crawling.



**Figure 7: Crawling Band Exchange Rate Process**

### Other Reform Proposals

In addition to the above, a variety of proposals have been advanced through editorials, congressional testimonials, international conferences of economists, bankers and university academics. Most of the proposals can be grouped into any of the following categories:

One group of proposals recommends that countries submerge their national interests and act as if they shared identical interests, such proposals include:

- Proposals for Common International Currency
- A World Central Bank
- Monetary Unification and
- The Co-ordination and Harmonisation of Monetary Policies.

A second group of proposals recommend that countries should concentrate on maximising their domestic interests while exchange market arrangements should be organised so that any tendency towards payment imbalances would be invisibly adjusted by market forces. This is where the supporters of floating exchange rate system belong.

Between these two extreme proposals is the third group which recognises the conflict among domestic interests in various countries and seeks to find some optimum path between the desires for national monetary independence and for a free and open international money game.

Proposal for common international money as a substitute for separate national monies are attractive. However, common international money does not eliminate the problems of the fixed exchange rate system; it merely shifts their location. Among other things, the member countries would have to agree on the voting strength of each participating country. Some countries might devise numerous ad-hoc means to limit their international payments or their international receipts, even in defiance of the rules of the game.

Thus, in the presence of substantial diversity and conflict of interests among nations, a proposal for a unified monetary policy is a misnomer. As long as basic structural differences exist among national economies; as long as countries retain sovereignty, the likelihood that a common international currency might be adopted remains a mirage and the possibility that it would work if adopted is even more remote.

The US suspension of dollar convertibility into gold, in August 1971, led to proposals for a new international monetary system to be built around special Drawing Rights (SDR) as the only international money, while the international money roles of the dollar and gold would both be phased out. Under such proposals national monies would be retained; each national currency would have parity in terms of SDRs. Each country could devalue its currency in terms of SDRs if it had a large payment deficit or it could revalue its currency (may be pressured to do so) if it had a large payments surplus.

Unfortunately, every central bank recognises that SDRs are useful only if they can be CONVERTED into a national currency. A few central banks must worry that some other countries might prove reluctant to sell their currencies for SDRs as some countries had at times been reluctant to sell their currencies for gold when the future of gold as international money was uncertain. Many countries would remain reluctant to hold a substantial part of their reserve assets in SDRs as long as they doubted the commitment of the US authorities either currently or in the indefinite future – to buy SDRs in exchange for dollar. Similarly, the proposal of

paper money or paper gold can only succeed if countries have CONFIDENCE in the money, that is, in its future purchasing power, in terms of goods. As the saying goes – “the edifice of finance is built on confidence”; this confidence requirement is not likely to be satisfied simply because the members agree to a treaty. In reality any member might, if it suits its peculiar national needs, walk away from the treaty and most members recognise the possibility of this reality. The greatest LACUNA against the SDR as an international money is its restriction to be used only between national governments. The fact that SDRs are not legal tender for private payments for goods and services dampens its attraction as world money.

Proposals for floating exchange rates recognise the divergent pulls of independent national monetary policies. It was claimed that exchange rates under a flexible rate system would change continuously and smoothly without the volatile movements associated with the fixed rate parity changes. But contrary to predictions, movements in exchange rates since 1973 have been volatile.

Countries have worried acutely about their trade position and about whether their currency was appreciating or depreciating. Central Banks in many countries, including Nigeria, have had to intervene in the foreign exchange market. The assumption made by proponents of floating exchange rates system to the effect that once the rate is free to move in response to market forces, central banks will no longer be concerned with the level of the exchange rate – has been proved invalid since 1973. Experience has shown that once the exchange rate is no longer subject to international rules, governments are tempted to manipulate the rate as a useful instrument of policy and as a supplement to monetary and fiscal policy. In fact, there is considerable evidence that whenever countries find it difficult to attain domestic targets by manipulating domestic policies, they will try to manipulate their international transactions. (The scandal about the manipulation of LIBOR in London is an obvious example).

The lesson of the period since the introduction of floating rate system in 1973 is that few currencies were allowed to float freely, as most currencies floated subject to overt/covert intervention by monetary authorities – the so-called “Dirty float” or managed floating. Central bankers were not ready to rely solely on market forces; instead, they were more inclined to constantly nudge the market forces to desired direction. The temperament of central bankers makes them reluctant to accept the verdict of the market about what the appropriate exchange rate would be. This is a sentiment shared by the governor of Nigeria’s Central Bank, Dr. Godwin Emefiele, as evidenced by his policy measures to prop up the naira. It is thus evident that bureaucrats, by their nature, tend to distrust the market.

Vice-Chancellor, Sir, each of the proposals so far evaluated for the reform of the international money game – namely – an exclusive international money (the SDR), floating exchange rates, pegged rate systems and its embellishment – the wider band, the Crawling peg and Crawling band, to assuage the needful flexibility, involve the tug of the international market against the pull of national monetary authorities.

The problem of the international money game reflects the fact that while communications technologies have unified the world of national monies, national economic structures and national values and objectives still remain diverse. The diversity of interests and the demand for independent national economic policies are at the heart of the collapse of the international money game under the Bretton Woods System. Therefore, as long as some national monetary authorities have monopoly power over the medium of payments for international trade and investment, domestic political forces will compel them to exploit that power. Crisis results when the established “rules of the game”, begins to constrain independent domestic policy choices.

### **Payment Imbalance and the Adjustment Process**

Vice Chancellor, Sir, there is no generally applicable method for determining in practice what would be the appropriate

exchange rate for any country. This lack of common applicability, in addition to the tendency for monetary authorities to delay changing the exchange rate despite obvious evidence that change is inevitable, and their disposition to rely on many ad-hoc interferences with international transactions has led many economists to favour the use of flexible exchange rates, that is, a preference for rates that would vary continuously with the pressures of supply and demand in the foreign exchange market.

Any fixed exchange rate, even if correctly-determined rate 'ab initio', is bound to become out of line in the course of time; either it will have to be changed or otherwise corrective measures will have to be taken.

In general, greater flexibility in exchange rates can be achieved in a number of possibilities namely:

- i. Freely floating rates without any official intervention.
- ii. Freely floating rates with officially intervention only to STABILISE the market but not to influence trend movements in exchange rates.
- iii. Fixed parities but permitted to move slowly say by one or two percentage points per year, in response to basic supply and demand pressures (the Crawling peg).
- iv. Fixed parities but with a wide band around them within which exchange rates are determined largely or wholly by market forces (the Crawling band).
- v. Fixed parities but with frequent changes in parities.

We share the position of Felner (1966), which advocates a combination of the third and fourth version of greater flexibility options in exchange rates. This is an attempt to combine the best features of flexible exchange rate system, with the restraining discipline and stability characteristics of the fixed exchange rate system. These propositions emanate from the proposals for the reform of the international monetary system as discussed above.

## **BALANCE OF PAYMENTS IN THE MONEY GAME**

### **The Concept of Balance**

Broadly, there are two distinct concepts of the balance of payments – the market balance and the accounting balance of payments:

#### **i. The Market Balance of Payments**

The market balance refers to the balance of supply and demand for a country's currency in the foreign exchange market at a given rate of exchange. Under a fixed exchange rate regime, the market balance of payments would be in balance only by chance. However, in the case of a flexible exchange rates system, the market balance must by definition always balance, since the exchange rate is the equilibrating price for the demand and supply of a currency in the foreign exchange market. It is important to note, however, that a market balance of payments does not necessarily guarantee balance of payments equilibrium in any objective sense. (Thirlwall, 1980).

#### **ii. Accounting Balance of Payments**

The accounting balance of payments is a record of all the financial transactions in goods and services and capital assets which have taken place between the residents of the reference country and the rest of the world, within an accounting period, usually one year. The accounting balance of payments is based on the principle of double entry book-keeping which provides for each debit a corresponding credit entry, and as such the BOP must always balance – hence, it is a Zero-Sum. In this lecture, we analyse the BOP equilibrium within the framework of the accounting balance.

### **THE BOP AND MACROECONOMIC VARIABLES**

A nation's BOP interacts with nearly all of its key macroeconomic variables. In this sense, the BOP affects and is affected by such key macroeconomic factors such as Gross Domestic Product (GDP), the exchange rate, interest rates and inflation rates.

### i. The BOP and GDP

In an accounting sense, the GDP may be expressed thus:

$$\text{GDP} = C+I+G+ (X -M)$$

- Where GDP = Gross Domestic Product  
C = Consumption expenditure  
I = Investment expenditure  
G = Government expenditure  
X = Exports of Goods and Services  
M = Imports of goods and services.  
(X-M) = Current Account Balance (including Services and transfers).

By implication, a surplus BOP results in increase of the GDP and vice versa. From a dynamic (cash flow) perspective, an increase or decrease in GDP impacts on current account surplus or deficit. A GDP growth is reflected in growth in disposable income and capital adjustment. In a circular flow, increased disposal income leads to more consumption expenditure, a portion of which goes to the purchase of imported items. Increased consumption expenditure equally leads to more capital investment and so on. Also GDP growth eventually results in higher rates of employment which in practical terms may be dampened by foreign sourcing of goods and personnel.

In recent times, supply chain management subsequently focused on cost reduction through imports from least cost locations from abroad. Such imports can come from foreign – owned companies. In the latter case, foreign subsidiaries are inclined to source components and intellectual property from their parent companies thus increasing exports. This may be accomplished through a complex web of transfer pricing arrangements. In addition, although out-sourcing has remained a factor of consideration in the determination of location and procurement of manufactured goods and commodities, since the past decade, an increasing amount of high-tech goods and services can be sourced from abroad.

## ii. BOP and Exchange Rates

A country's BOP has significant impact on the level of its exchange rates and vice versa. The relationship between the BOP and exchange rates can be illustrated by a simplified equation thus:

$$\begin{array}{cccccc} \text{Current Account} & \text{Capital Account} & \text{Financial Account} & \text{Reserve Account} & \text{Balance Payments} & \\ (X-M) & + (CI-CO) & + (FI-FO) & + (FXB) & = \text{BOP} & \end{array}$$

X	=	Exports of goods and services
M	=	Imports of goods and services
CI	=	Capital Inflows
CO	=	Capital Outflows
FI	=	Financial Inflows
FO	=	Financial Outflows
FXB	=	Financial Monetary Reserves
BOP	=	Balance of Payments

The effect of BOP disequilibrium in a country differs in accordance with varying exchange rate regimes in operation in that country i.e. whether fixed exchange rate regime, floating exchange rate regime or managed floating exchange rate system.

### The BOP under Fixed Exchange Rate Regime:

Under a fixed exchange rate regime, the government bears the responsibility to ensure balance of payments equilibrium. Where the BOP is in a state of disequilibrium, the government is expected to intervene in the foreign exchange market by buying or selling official foreign exchange reserves. In the case where the BOP is in surplus, there exists excess demand for the domestic currency internationally. In order to preserve the fixed exchange rate system, the government must intervene in the foreign exchange market by selling domestic currency for foreign currencies (dollar or gold) so as to restore BOP equilibrium. On the other hand, in case of a BOP deficit, an excess supply of the domestic currency exists in the global market. In such a case the government must intervene in the foreign exchange market by buying domestic currency with its

reserves of foreign currencies (dollar or gold). Hence, it is obviously important for a government to maintain significant foreign exchange reserve balances under fixed exchange rate system to enable it to intervene effectively. If in the circumstance a country runs out of foreign exchange reserves, it will be unable to buy back its domestic currency to restore equilibrium and the only available option is to DEVALUE its currency. Nigeria's currency devaluations between 1986 and 1995 are cases in point. (CBN 2008)

### **The BOP under Floating Exchange Rate Regime**

In the case of a floating exchange rate system, the government of a country has no responsibility to intervene in the foreign exchange market. A situation of BOP disequilibrium will automatically (in theory) alter the exchange rate in the direction necessary to bring the BOP to equilibrium condition. For example, in a situation of a deficit in the BOP, an excess supply of the domestic currency develops in the world markets. According to economic theory all goods in excess supply will experience price decline. Thus, in this case the foreign exchange market will rid itself of the imbalance by lowering the value (price) of the domestic currency so that the BOP will return to equilibrium. However, in practice the foreign exchange market does not always perform according to this theoretical position, particularly in the short/medium term. This delayed reaction function is technically referred to as the "J curve effect" of currency depreciation on trade balance – whereby the deficit gets worse in the short-run but eventually returns to equilibrium in the long-run. This effect is evidenced by the periods of perceived currency (naira) over-valuation/under valuation in Nigeria.

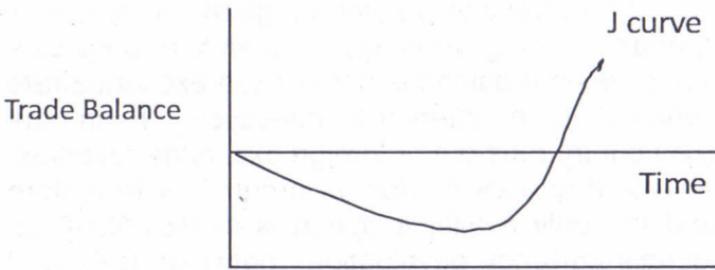


Figure 8: J Curve Effect of Currency Depreciation on Trade Balance

### The BOP under managed Floating System:

Countries adopting a managed floating exchange rate system, even though still relying on market conditions for the day-to-day exchange rate determination, often find it necessary to take action to maintain their desired exchange rate values. In this regard, they seek to alter the market's valuation of a specific exchange rate by SIGNALING the market rather than through direct intervention in the foreign exchange market.

The principal action taken by monetary authorities in such a situation is to change relative interest rates thereby influencing the economic fundamentals of exchange rate determination.

Given an equation of capital account balance thus:

$$(CI - CO) = \text{Net Capital Account}$$

Where CI = Capital Inflows and

CO = Capital Outflows

A change in domestic interest rates is a signal to alter the relation  $(CI - CO)$ , particularly in the short-term portfolio component of these capital flows in order to restore imbalance caused by the deficit in the current account, (i.e.  $CI < CO$ ).

The impact of interest rate changes on international capital and exchange rate movements is very significant. Thus, a country adopting a managed floating rate regime and wishes to defend domestic currency, may elect to raise domestic interest rates to attract additional capital inflow from abroad. This policy action will alter market forces and create additional market demand for the domestic currency. In such a process,

the government signals exchange markets participants that it intends to take measures to preserve the value of its currency within a given range. However, such a policy action is not without costs as it will lead to a rise in the cost of local borrowing for business firms. Proper economic management policy thus requires a trade-off between maintaining domestic currency value and cost of capital in the home market.

## **THE PLACE OF NIGERIA AND DEVELOPING COUNTRIES IN THE MONEY GAME**

Mr. Vice-Chancellor, Sir, Nigeria and other developing countries are at the receiving end of the international money game. This statement is vividly portrayed in the international debt crisis.

As noted earlier, globalisation has manifested in the international capital market becoming increasingly liberalised and integrated, particularly with the abandonment of exchange controls and the development of new technologies for processing, transmitting and storing information. This development was considered beneficial to the developed nations, by policy makers. The developing countries on their part do not share this view, mainly because those conditions resulted in the emergence of international debts crisis in which they were the principal casualties. The debt crisis, you will recall, forced developing countries to take costly policy measures which they would otherwise have avoided. According to Eaton & Gomitz (1981), countries may borrow to finance consumption, economic adjustment and for investment. They further argue that countries that borrow prudently should, all things being equal, not find it difficult to service their debt. The inability of most developing countries to service their debts, particularly, the Latin American countries, were alluded to regarding the adoption of inappropriate economic policy measures, political instability, high inflation, unemployment, over-valued exchange rates and corruption. However, it is important to note that there cannot be imprudent borrowers without imprudent lenders. The international debt crisis was occasioned by the first and second OPEC price hikes of 1973 and 1979.

The first OPEC oil-price hike of 1973 pushed many oil-importing developing countries into balance of payments difficulties through both rising import costs and declining exports revenues, consequent upon recession in their industrialized (developed) export markets. The result was recourse to foreign borrowing by the developing countries. The other side of the coin was that most OPEC member nations awash with petrodollars, but lacking adequate absorptive capacity, recycled their high dollar reserves in bank deposits in the USA and Europe – A Zero-Sum situation.

Given recession in developed countries, real interest rates declined, sometimes to negative levels, hence international banks diverted their lending focus to developing countries in Latin America and Africa considered being low in leverage at that time. Following the first default by Mexico in 1982, an international debt crisis erupted. A variety of measures have been adopted towards ameliorating the consequences of debt crisis. Among these were debt rescheduling, debt buy-back, debt for equity, Baker and Brady Bonds and Debt-forgiveness, Pubbean (1992). Nigeria was a beneficiary of debt-forgiveness in 2008.

In the main, the international debt crisis was caused by the tendency of multinational banks to lend more to third world sovereign governments, than they should have, based on their inherent economic fundamentals. The main strategic solution to the debt crisis was among others, collateralised Brady bonds, which allowed debtor developing countries to reduce their debt service obligation, and extend the maturities further into the future to lighten the burden of debt, Ezike and Mojekwu (2010), Febistein Martin (1989), Andrew (1987) and David (1992).

### **Nigeria and Zero-Sum Game**

Mr. Vice-Chancellor, Sir, Nigeria's appellation as the GIANT of Africa has been based on a rich inheritance of vast mineral oil and gas resources, broad land mass and large population. We are not to be likened to the proverbial little poor boy who

worked his way to the top, but rather, we should be likened to the little rich boy who inherited large fortune.

Paradoxically, we had in less than five decades squandered our abundant inheritance. Since independence in 1960, Nigeria has been plagued with painful, persistent and recurring problems that are not being solved by our Federal/Unitary system of governance. These are myriads of problems such as, energy (electricity) insufficiency, corruption, unemployment, undulating waves of government policies of regulation/de-regulation, nationalisation and privatisation. Others are widening income gaps between the rich and the poor, regional/ethnic politics of distrust and, of recent, insecurity and terrorist attacks – the list is endless. Meaningful compromises cannot be made towards solving these problems, as politics of divide and rule – winner takes all, and ethnicism (evident in the ascendancy of ethnic militants), are upon us like plague.

We find that programmes and policies aimed at the improvement of the general wellbeing of the masses cannot be undertaken because strong cabals veto them. Even the will of the masses in popular universal adult suffrage (elections), to an extent, is also vitiated such that many lose faith in the democratic process. No group has the ability to impose solutions and no solution commands universal acceptance. We are thus in a Zero-sum society. As domestic problems arise in importance compared to international problems action on them becomes increasingly difficult. International confrontations such as the JP Morgan declassification of Nigerian bonds can be, and are to some extent, portrayed as collective challenge where everyone is fairly sharing sacrifices to keep the foreign enemy at bay. Since every member of the society is facing a common threat, an overwhelming consensus and bipartisan approach can be achieved. Every member of society reacted negatively towards the JP Morgan action. However, in the case of domestic problems, the reverse is the case. Domestic Problems are more contentious in the sense that when policies are adopted to solve domestic problems, there are NIGERIAN winners and Nigerian losers.

Some people's income go up as a result of the solution but other's income come down. Individuals do not sacrifice equally in that circumstance. Some gain, some lose. For instance, a policy to remove fuel subsidy will ultimately raise the purchasing power of the Nigerian fuel consuming public, but reduces the income potential of oil-importing cabals. In another instance, every Northerner appointed to President Buhari's cabinet is one southerner less who can be appointed. We are all inclined to peruse the publication of nomination/appointment list in search of our own. The question is often asked why the Nigerian military do so well in international peace-keeping operations and are generally extolled by the United Nations, but have found it rather difficult to flush out "Boko Haram" in North-East Nigeria. Metaphorically the answer is simple – while domestic military operation will lead to loss of Nigerian lives (directly or indirectly) no such considerations come into play in foreign operations. In domestic problems, the means are often as contentious as the ends themselves.

Vice-Chancellor, Sir, economic management in a plural ethnic Federation such as Nigeria is rather complex, the solution to the myriad of problems besetting the country has a common characteristic namely; solution requires that some region, state or ethnic group be willing to tolerate a large reduction in their real standard of living. When resources are scarce, rationing becomes inevitable. The citing of an infrastructure project in one region/state means a delay or abandonment of such projects in other region/state, (the second Niger bridge case is an obvious example). When the economic pluses and minuses are added up, the pluses usually exceed the minuses but there exist large economic losses. These losses have to be allocated to someone (region/state or ethnic group) and no group wants to be the one that must suffer economic losses for the general good.

Assuming that in this lecture we are enjoined to plot an agenda for the revival of the Nigerian economy as a proposal to the new administration of General Muhammadu Buhari (GMB), I will gladly opt for more capital stimulus (more

investment) in the economy. However, the major problem with such a recommendation is deciding how to raise the capital for new investment. From whom would government take away income in order to raise investment in infrastructure from 10 to 15 percent of GDP. Typical popular answer expected from this audience would be – reduce the emoluments going to the National Assembly. Not surprisingly, such a suggestion implies lowering someone else's income. However, NASS emoluments constitute less than 3% of GDP; where would government get the remaining funds – 7% of GDP. This is the fundamental problem of economic management – who should sacrifice – how does the system allocate economic losses?

Mr. Vice Chancellor, Sir, the importance of economic losses has been magnified by a change in the international political structure. In the past, political and economic power were distributed in such a way that substantial economic losses could be imposed on parts of the developing economy if the developed nations decided that it was in the interest of the global economy. Economic losses were allocated to particular powerless less Developed Countries (LDCs) rather than spread across all nations fairly. However, with the attainment of political independence, these LDCs are no longer willing to accept losses and are able to substantially raise the costs for those who wish to impose losses upon them. A classical illustration of this scenario is the collective clamour by Developing Countries for a change in the international trade rules which were in operation under the General Agreement on Trade and Tariffs (GATT), when they were still colonies. The outcome of that pressure was the establishment of the World Trade Organisation (WTO) to replace GATT.

The WTO was established in 1995 to administer the trade agreements negotiated by its members, in particular the General Agreements on Tariffs and Trade (GATT), the General Agreement on Trade in Services (GATS) and the Trade-Related Aspects of Intellectual Property Rights (TRIPs) agreement (see [www.wto.org](http://www.wto.org)).

The WTO differs in a number of important respects from GATT. The GATT was a rather flexible institution, with bargaining and deal-making at its core, thus, leaving significant opportunities for countries to opt out of specific disciplines. In contrast, WTO rules apply to all members who are subject to binding dispute settlement procedures. The main function of the WTO is to provide a forum for international co-operation on trade-related policies i.e. creating codes of conduct for member governments. Such codes emerge from the exchange of trade policy commitments in periodic negotiations. Five basic principles are of particular importance in understanding the Pre- 1994 GATT and WTO; are:

- Non-discrimination
- Reciprocity
- Enforceable commitments
- Transparency and
- Safety values.

With the creation of the WTO developing and developed countries became subject to the same set of rules and to similar commitments. A new dispute Settlement Understanding (SMU) was negotiated to enforce multilateral disciplines. In fact, unlike GATT that preceded it, the WTO agreement is a "single undertaking" in that all its provisions apply to all its members – developed or less developed. These and more issues are further elucidated in Hockman et.al. (2002), Delich (2002), Hockman (2002) Komo (1995), Lafer (1995), Jackson (1997), Mora (1977), Huder (1987) and Hockman & Kostecki (2001).

Vice-Chancellor Sir, the developing economies and the so called emerging markets are at the receiving end of the international money game. They are stuck in the middle – they do not have a convertible currency of their own, so they peg their currencies to another intervention currency in the developed world. As pegs easily buckle under global pressure, Nigeria and Angola for example, have adopted a system of managed floating. In 2015, the Nigeria naira and Angola Kwanza were depreciated by 19% and 27% respectively

against the dollar. Also, in support of its economic management policies the Central Bank of Nigeria resorted to import restrictions with a list of 41 items that would not qualify for foreign exchange allocations. The CBN action has been criticised by foreign economic commentators as causing recession in the manufacturing sector. Generally, developing countries are trapped in the money game as they depend on the markets of the developed economies for their imports (raw materials and machineries) and resource exports (crude minerals and timber, cocoa, coffee and even crude human beings). Economic policies and shocks emanating from the actions of these developed world economies adversely affect them. To the developing world, therefore, the international money game is a “winner takes all” – game in which they are always losers.

### Table 1: Nigerian Balance of Payment

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Exports	178	239	297	241	299	266	269.2	252.4	268.6	324	330	341.8	331	370.4	420	530	562	478	417	625	891	1344	1437..	2370	6106	5116	6343	7977
Imports	126	172	230	222	233	278	305.6	309.2	336.4	360	418.6	429.2	395	402.4	492	535	501	437	382	458	718	1059	960	1203	1666	3629	5050	6934
Trade Balance	51.6	67	26.8	26.8	65.8	-12.6	-6.4	-56.8	-67.8	-36.2	-88.6	-87.4	-64.2	-32	-72	-5	60.2	40.8	34.6	167	173	285	478	1167	4439	1488	1294	1043
Balance on services (net)	-12	-10	-9.6	-16.4	-14.2	-12	-12	-7	-15.6	-30.4	-46.6	-28.4	-39.8	-73.6	-110	-179	-249	-222	237	-296	-268	-506	-786	-1079	-1315	-1368	-1455	-1581
Balance on Goods and Services	39.6	57	17.2	10.2	51.6	-24.6	-48.4	-63.8	-83.4	-66.6	-135	-116	-104	-106	-182	-184	-188	-1814	-23	-129	-95	-221	-308	88.1	3125	119.4	-161.5	-538
Transfers Private and Official	5.2	1.4	8	6.6	4.8	6.6	4.1	2.6	1.4	-3.4	-3.4	-7.8	-1.4	-5.4	-0.4	5.4	4.2	15.4	34.4	20.8	45	1.8	-14.3	-35.4	-62.1	-76.4	-97.8	-119
Balance on Current Account	44.8	58.4	25.2	17	56.4	18	-44.3	-61.2	-82	-70	-139	-123	-105	-111	-102	-179	-184	-166	-168	-109	-50	-219	-323	52.7	3063	42.6	-259.3	-657
Balance on Capital Account	5.2	17.2	15.2	11	20.8	19.2	38.2	61.2	81.6	84.6	117.2	118	101	151.6	185	130	131	123	180	80.6	49.2	293	269	145	-5.9	141.1	50.6	234
Plus Other	5.2	17.2	15.2	11	20.8	19.2	38.2	48.8	53.4	92.6	71.4	75.2	60	115.8	149	87	134	116	125	103	129	170	332	137	103.8	119.2	-19	264
Private Short-Term Capital	-	-	-	-	-	-	-	15.4	28.2	-8	45.8	42.8	41.4	35.8	36.2	43.4	-3	6.4	35	-22.8	-80	123	-63.2	8.2	-110	21.9	-31.6	-29.6
Errors & Omissions	0.8	-2	9.6	18	2	-7.4	-	3.8	4	18.4	9.4	-4	-22.2	-61.2	-11	9	21.8	-24.2	14.2	43.2	47.4	43	3.7	-23.1	45.6	-26.2	-30	-24.9
Over-all Balance	50.8	73.6	50	46	-78.2	-6.2	-6.1	3.6	3.6	33	-12	-9.4	-26.2	-20.6	-8.4	-30	-32	-67.4	6	15.2	46.6	117	-49.8	174	3102	157.5	-339.9	-447
Balance on Monetary Sector	-50.8	-74	-50	-46	-78.2	6.2	6.1	-3.6	-3.6	-33	12	9.4	26.2	20.6	8.4	30.4	31.8	67.4	-6	-15.2	-47	-117	49.8	-174	-3102	-158	339.9	447
Net Change in Official Assets	-46.4	-37	-5.2	-2	-8.6	1	0.2	-15	-	-29.8	-17.4	6.6	11.8	24.2	-26	10.2	26.8	62.2	-10	-11.4	-50	-113	36.8	-142	-3084	-111	366.4	530
Commercial Banks Assets (Net)	-4.6	-37	-44.8	-44	-69	5.2	5.9	11.4	-3.6	-3.2	29.4	-2.8	14.4	-3.6	34.4	20.2	5	5.2	4	-3.8	3.8	-4.2	3.1	-32	-18.7	-46.5	-26.5	-82.9

- Note (a) For the period 1950-1956, Long-term and Short-term capital were indistinguishably entered as a single item 'Capital Transactions'. We have entered them here under long-term capital for convenience.
- (b) In the Monetary Sector, debit entries indicate increase in assets/decrease in liabilities; credit entries indicate decrease in assets/increase in liabilities.
- (c) The Nigerian currency has been fixed at the rate of £N1 = \$2.80 up to 1973 when it was devalued to N1 = \$1.40 and since 1974 the exchange rate has been floating. All the figures have been adjusted accordingly.

Source: Federal Office of Statistics – Digest of Statistics and Annual Abstract of Statistics.  
 Central Bank of Nigeria – Annual Reports  
 International Monetary Fund – Balance of Payments Year Books.

## ACADEMIC CONTRIBUTIONS

Majority of my academic work focused on the subject area of international finance. Within this broad area are the balance of payments, trade and investment, exchange rates and foreign debt.

- The balance of payments is at the centre of the international money game
- The international debt crisis is a fall-out of the international money game and
- Trade and investment flows are the main objects of the money game with exchange rates as the equilibrating medium. Also significant, is the impact of economic reforms on FDI flows.

These are the areas where we have done some extensive work.

### i. The Balance of Payments

Ezike (1981) constructed a structural model of the Nigerian Balance of payments and highlighted the role of short-term capital flows. Table 1 provides an overview of the Nigerian balance of payments (1957 – 1977). This was summarised in table 2 and figure 9 below.

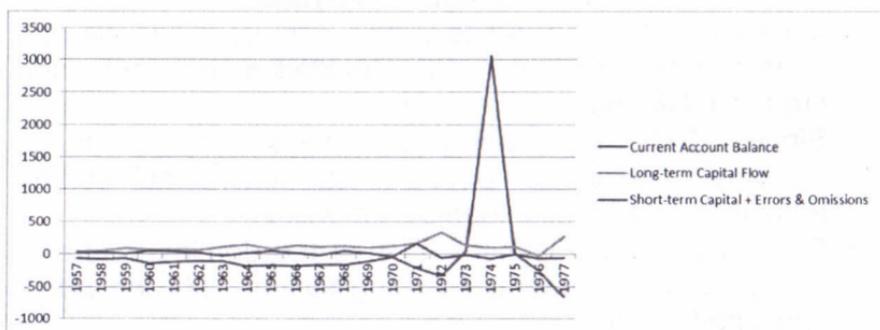


Figure 9: Summary of Nigeria's Balance of Payments Accounts and the Role of Short-Term Capital: 1957-1977 (N million)

Source: *Central Bank of Nigeria, Annual Reports and Statement of Account, Several Issues*

### The study observed among other things that:

- i. In the attempt to make the maximum use of huge revenue from its exhaustible oil reserve, the Nigerian

government embarked on extensive and simultaneous economic development programmes. The rapid expansion in the Nigerian economy, albeit, within a short time period, engendered by these economic development and industrialisation projects fueled the import bill and resulted in large and growing service payments which worsened the invisible trade balance account.

- ii. The BOP would have been improved by concentrating more on reducing the country's dependence on foreign trade services, particularly, in merchandise shipment and transportation.
- iii. The BOP would have been improved if Nigeria opted out of OPEC so that it can alter its petroleum exports prices in accordance with its peculiar circumstances. Nigeria and Venezuela are in a unique situation among OPEC member countries in terms of population and income per capita. They are both considered the weak link in the OPEC chain.

The study also revealed a chronic and growing deficits on the invisible (or services) trade account. This outcome derived from a number of factors namely:

- Increasing volume of merchandise trade.
- Massive outflows of funds in the form of dividends and interest payments on foreign owned investments and credits in Nigeria.
- Since 1972, repatriation of profits and dividends escalated owing to post-civil-war exchange control relaxations and the indigenisation policy.
- Foreign Direct Investment (FDI) is the dominant item of foreign capital inflow, accounting for over 80 percent of total capital inflow.
- A worsening of the invisible trade account and continuing pressure on the BOP.
- Changes in oil tanker rates as well as port handling capacity significantly contributed to the Nigerian service account deficits. The implication of the result of services accounts deficits is that attempts to reduce pressure on Nigeria's BOP needed to concentrate more on curtailing

Nigeria's dependence on foreign services for trade, particularly in merchandise shipment and transportation. This can be achieved through improvements in port facilities and fleet size of the Nigerian Ports Authority, and National Shipping Line, as well as the expansion of port handling capabilities. It also requires the commissioning of a Nigerian fleet of oil tankers for the trans-shipment of crude and refined petroleum. Unfortunately, by the time I made these recommendations, the National Shipping Line had ceased to exist.

Simulation analysis showed that changes in various output and trade flows and changes in interest rate levels, and differentials, produce flows of capital internationally. Thus, short-term capital claims on and liabilities to foreigners are related to changes in exports and imports respectively as well as changes in a number of short-term interest rate differentials. Also, the residual errors and omissions in the BOP are seen to reflect unrecorded trade flows and short-term arbitrage capital flows. There is a possibility that they reflect capital flight to tax – havens abroad.

**Table 2: Summary of Nigeria's Balance of Payments Accounts and the Role of Short-Term Capital: 1957-1977 (N million)**

Year	Current Account Balance	Long-term Capital Flow	Basic Balance (1+2)	Short-term Capital + Errors & Omissions	Overall Balance (3+4)	Changes in Official Reserves
	1	2	3	4	5	6
1957	-61.2	45.8	-15.4	19.0	3.6	-3.6
1958	-82.0	53.4	-28.6	32.3	3.6	-3.6
1959	-70.0	92.6	22.8	10.4	33.2	-33.2
1960	-138.6	71.4	-67.2	55.2	-12.0	12.0
1961	-123.4	75.2	-48.2	38.8	-9.4	9.4
1962	-105.4	60.0	-45.4	19.2	-26.2	26.2
1963	-111.0	115.8	4.8	-23.4	-18.6	18.6
1964	-182.4	149.2	-33.2	24.8	-8.4	8.4
1965	-178.8	87.0	-91.8	52.4	-39.4	39.4
1966	-184.2	133.6	-50.6	18.8	-31.8	31.8
1967	-166.0	116.4	-49.6	-17.8	-67.4	67.4

1968	-168.2	125.0	-43.2	49.2	6.0	-6.0
1969	-108.6	103.4	-5.2	20.4	15.2	-15.2
1970	-50.0	129.4	79.4	-32.8	46.6	-46.6
1971	-219.0	170.2	-48.8	166.2	117.4	-117.4
1972	-332.7	332.4	9.7	-59.5	-49.8	49.8
1973	52.7	136.6	189.3	-14.9	174.4	-174.4
1974	3062.5	103.8	3166.3	-64.1	3102.2	-3102.2
1975	12.6	119.2	161.8	-4.3	157.5	-157.5
1976	-259.3	-19.0	-278.3	-61.6	-339.9	339.9
1977	-656.5	264.0	-392.5	-54.5	-447.0	447.0

Calculated from Table 1

As table 1 and Figure 9 showed, the sharp swing in the basic balance in 1974 into an incredible surplus coincided with a marked outflow of short-term capital, yielding a definite but slightly diminished over-all surplus. It is remarkable to consider 1974 as unique in the circle of Nigeria's BOP. It is the year in which unprecedented revenue from oil, made possible by the so-called "oil-crisis" led to the highest level of BOP and foreign reserve surpluses in the Nigerian foreign trade history within the study period. That was before the recent experience of above \$100 dollar/barrel oil price. From the data overview, it can be concluded that during the period under review, short-term capital flows performed a compensatory or accommodating role to the basic balance of payments in Nigeria.

#### iv. International Trade

In the area of trade, Ezike, Ikpesu and Amah (2012) undertook a study of the macroeconomic impact of trade on Nigerian's economic growth. This was prompted by the observation that over the years, development economists have recognised the role of international trade in the growth process of national economies. The study analysed different specifications of the traditional export-led growth model, modified to include foreign direct investment (FDI) as an additional explanatory variable. The outcome of the empirical analysis indicated that exports and FDI flows have positive and significant impact on growth in the Nigerian economy.

## Trade Policy

For a country to benefit maximally in the international money game, it must of necessity adopt appropriate policy response measures to attract trade and investment financing. Among such policy measures are – stable macroeconomic policies; enhanced reform of its banking and financial system, economic diversification and liberalisation, supply-increasing rather than demand management strategies, democracy and good governance among others. In consequence, Ezike and Ogege (2012) did a study on “Nigerian Trade Policy: Its impact on Non-Oil Exports”. The concern was on diversification of Nigeria’s foreign trade structure. It was observed that while Nigeria is richly endowed with various natural resources needed to place her among top economies in the world, the country has failed to benefit from the economic prosperity expected of a nation so abundantly endowed. This outcome derives from policy inconsistencies and over-concentration and dependence on oil exports. The result is that Nigeria has been consistently categorised as an economically backward nation in the World Bank global rankings. The study evidently discovered the existence of a negative relationship between trade policies and non-oil sector in Nigeria. As shown in Table 3; the ratio of non-oil exports to total exports within the study period declined from 42.4 percent in 1970 to 2.1 percent in 2007 (Pre-rebasing). We therefore recommended, among others, a policy reversal that will emphasise diversification of the Nigerian export base away from the over concentration on oil exports into non-oil products. The current reality on oil price decline in the international market justifies our position then.

**Table 3: Performance of Non-oil Export**

Year	Non-oil	Growth of Non-oil Exports	Non-oil Export as % of Total Export
1970	375.4000	0.267094	42.4
1971	340.4000	-9.323388	26.3
1972	258.9000	-24.20682	17.9
1973	384.1000	49.18605	16.9
1974	429.1000	11.48350	7.4
1975	362.4429	-15.53416	7.3
1976	429.5000	18.50142	6.3
1977	557.9000	29.89523	7.3
1978	662.8000	18.80265	10.9

1979	670.0000	1.086301	6.2
1980	554.4000	-17.25373	3.9
1981	342.8000	-38.16739	3.1
1982	203.2000	-40.72345	2.5
1983	301.3000	48.27756	4.0
1984	247.4000	-17.88915	2.7
1985	497.1000	100.9297	4.2
1986	552.1000	11.06417	6.2
1987	2152.000	289.7845	7.1
1988	2757.400	28.13197	8.8
1989	2954.400	7.144411	5.1
1990	3259.600	10.33035	2.9
1991	4677.300	43.49307	3.8
1992	4227.800	-9.610245	2.1
1993	4991.300	18.05904	2.3
1994	5349.000	7.166470	2.6
1995	23096.10	331.7835	2.4
1996	23327.50	1.001901	1.9
1997	29163.60	25.01811	2.3
1998	34070.20	16.82440	4.5
1999	19492.90	-42.78607	1.6
2000	24822.90	27.34329	1.3
2001	28008.60	12.83371	1.5
2002	94731.80	238.2240	5.4
2003	94776.40	0.047080	3.1
2004	113309.4	19.55445	2.5
2005	105955.8	-6.489841	1.7
2006	133594.9	26.08550	2.3
2007	169709.7	27.03307	2.1
2008	0	0	0

**Source: Central Bank of Nigeria: Statistical Bulletin and Annual Reports and Accounts: 1970 to 2008**

## The Exchange Rates

Exchange rate is central to the operation of the international money game. The maintenance of exchange rate stability is among the national economic objectives and constitutes the principal function of the IMF. In a free enterprise economy, without government intervention, the short-run exchange rate or the price of a currency is determined by the supply and demand for foreign exchange in the foreign exchange market.

Foreign exchange and exchange rates are necessary for the facilitation of payments for trade and investment. A country's balance of payments has a significant impact on the level of its exchange rates and vice versa. To situate the place of

exchange rates determination in the Nigerian foreign exchange market, Ezike and Amah (2011) studied "Times Series Variation of Foreign Exchange Rates in the Nigerian Wholesale Dutch Auction System (WDAS) for the period 2004-2009. The study embodies the Monetary Approach to Exchange Rate Determination and was conducted within the conceptual framework of General Auto-Regressive Conditional Heteroskedasticity (GARCH).

**The key findings of the study are as follows:**

- i. The explanatory variables: exchange rate supply and demand gap, money supply (broad and narrow  $M_2$  &  $M_1$ ), interest rates and exchange rate volatility, were significant determinants of exchange rates in Nigeria.
- ii. The estimate of long-run exchange rate for the naira/dollar tended towards ₦138.85/\$ over the study period. It follows, therefore, that if measures were taken to attain equilibrium (equality between supply and demand) in the foreign exchange market, the naira could appreciate above its closing price on December 2009, and tends towards an equilibrium value of ₦139/\$.
- iii. The co-efficient of demand supply gap proxy was positive and significant, implying that an increase in unfunded foreign exchange position resulted in the depreciation of the naira. This outcome is brought home more vividly in tables 4, 5 & 6.

**Table 4: Demand for Forex Monthly from 2004 to 2009 (US \$ Million)**

Month	2004	2005	2006	2007	2008	2009
January	419,097.70	1,009,988.90	717,601.30	937,726.90	888,590.40	913,158.65
February	531,435.90	756,061.60	799,785.60	1,172,198.7	795,971.60	984,085.15
March	538,745.00	733,050.70	673,936.10	1,027,028.80	732,546.20	879,787.50
April	467,604.00	1,000,140.30	7114,312.80	985,309.70	692,532.20	838,920.95
May	600,785.40	687,202.70	622,391.67	879,991.60	1,076,923.70	977,957.65
June	593,770.60	678,338.30	661,396.20	1,278,639.90	1,1131,968.20	1,205,304.05
July	718,152.50	795,036.10	600,337.00	1,018,250.00	1,194,238.50	1,106,244.25
August	618,742.30	888,781.70	7770,006.40	1,386,737.40	775,072.40	1,080,904.90
September	682,156.10	765,588.90	940,028.10	1,285,442.90	972,531.20	1,128,987.05
October	738,026.00	816,284.60	873,136.10	1,790,762.3	868,305.10	1,329,533.70
November	655,494.40	968,573.70	803,385.10	1,764,265.20	902,757.90	1,333,511.55
December	692,404.50	768,085.70	786,223.60	805,631.70	698,910.30	752,271.00
Gross total	7,256,414.40	9,867,134.20	8,962,533.97	14,330,985.10	10,730,347.70	12,530,666.40

Source: Central Bank of Nigeria (CBN 2004 to 2009)

**Table 5: Supply of Forex Monthly from 2004 to 2009 (US \$ Million)**

Month	2004	2005	2006	2007	2008	2009
January	419,097.70	1,009,988.90	711,108.20	665,330.50	777,152.70	983,620.80
February	531,435.90	753,7775.1106	781,216.60	747,736.40	780,1141.50	766,958.30
March	538,745.00	91,921.20	656,701.20	786,612.50	690,160.70	691,040,95
April	467,604.00	967,478.80	699,132.80	731,212.40	741,619.10	854,548.95
May	600,785.40	674,407.90	618,985.70	636,553.5	982,984.50	828,686.20
June	593,770.60	662,231.50	651,635.80	908,286.90	969,764.10	815,997.80
July	718,152.50	779,110.20	332,664.20	805,052.90	895,674.70	837,392.45
August	618,742.30	1,227,898.10	628,094.10	740,440.50	673,946.30	950,922.20
September	682,156.10	747,929.20	662,405.90	878,066.20	8118,407.70	738,1168.45
October	738,026.00	803,197.90	672,92 1.90	728,597.00	769,737.30	786,467.60
November	655,494.40	964,348.60	558,763.30	1,090,896.00	775,944.90	870,146.75
December	692,404.50	753,947.80	620,423.70	662,1181.40	581,032.10	667,489.95
Gross total	7,256,414.40	10,036,235.20	7,594,055.40	9,375,966.20	9,456,645.60	9,701,440.40

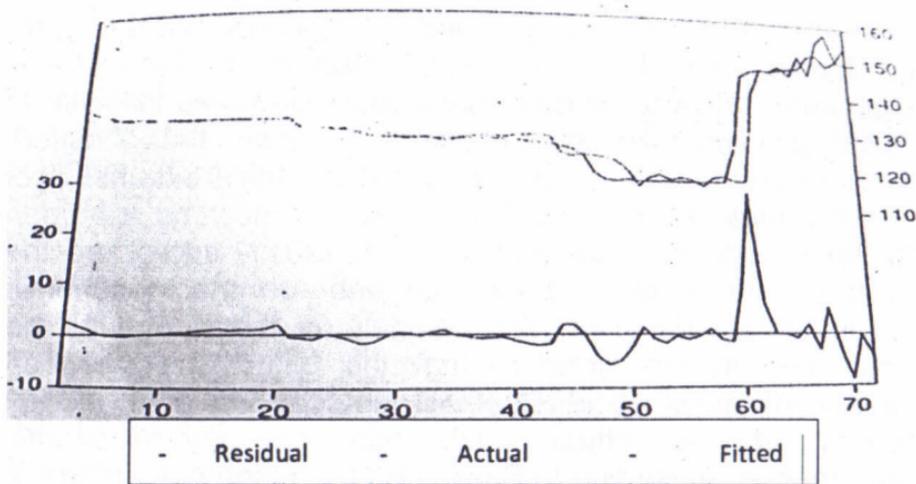
Source: Central Bank of Nigeria (CBN 2004 to 2009)

**Table 6: Demand and Supply for Foreign Exchange, Money Supply and the Forex Rate in Nigeria from 2004 to 2009**

Year	Demand for forex (US\$ Million)	Supply Forex (US\$ Million)	Money Supply (N Million)	Ex. Rate (US Million)
2004	7,256,414.40	7,256,415.20	6,130,314.10	105.3285
2005	9,867,134.20	10,036235.20	5,263,476.40	111.8455
2006	8,962,533.97	7,594,055.40	6,130,314.10	123.7232
2007	14,330,985.10	9,375,966.20	8,072,501.70	127.7720
2008	10,730,347.70	9,456,645.60	8,639,943.98	132.7991
2009	12,530,665.40	9,701,44040	9,207,386.26	136.1210

Source: Central Bank of Nigeria (CBN 2004 to 2009)

It was observed from the data that there was a steady appreciation of the naira in the Dutch Auction Market from ₦136.08/\$ in January 2004 to ₦117.74/\$ by November – 2008. However, by December 2009 the naira had depreciated to ₦150.0/\$. A careful scrutiny of the data shows that supply fell consistently below demand for foreign exchange to the extent that in the 72 data points investigated within the study period range, demand was satisfied on only nine (9) occasions.



**Figure 10: Graph of Actual and Fitted Foreign Exchange Rate and Model 2 Residuals of the Period of January 2004 to December 2009.**

The study also found that spikes in exchange rate volatility were associated with depreciation of the naira. This finding is consistent with the observation of residuals, which for most of the study period situated around zero as can be gleaned from Figure 10 which exhibits no evidence of patterns that can be exploited for profit by currency speculators and arbitrageurs.

### **International Debt Crisis**

Vice-Chancellor, Sir, the international debt crisis was a fall-out of the international money game and the source of the debt crisis was oil. Following the formation of the organisation of Petroleum Exporting Countries (OPEC) cartel in the 1970s, and subsequent unilateral oil price hikes since 1973, OPEC became the dominant supplier of oil worldwide. However, given the low absorptive capacity of most member countries of OPEC, they deposited most of their huge oil revenues in European and American banks. The banks awash with petrodollars were eager to loan out the funds in order to cover their interest obligations on the deposits and make profit. They found willing borrowers in developing countries particularly in Latin America and Africa, desirous for rapid economic development. Unfortunately, the bubble burst in 1982 when Mexico defaulted in its repayment obligations and asked its

numerous creditors (mainly banks in Europe and America) for the forgiveness of its over \$68 billion debt. Soon Brazil, Argentina and over 20 other developing countries followed in similar problem. An international debt crisis thus ensued. Nigeria was not left out and by 2004 Nigeria's external debt had accumulated to \$4.9 billion which then became a burden on the economy. Ezike and Mojekwu (2011) addressed the issue of "the impact of external debt on macroeconomic performance in Nigeria". The rationale for the study was the proposition in the literature that the relationship between investment growth and external debt can be analysed by looking at the effect each has on macroeconomic performance. According to Sacks (1980), a high percentage of debt burden acts as tax on investment because whatever is gained from investment inflows from abroad goes back to creditors in the form of debt service payments. The study observed that since the 1970s Nigerian government had to embark on large-scale public sector investment programmes to foster economic growth.

However, as the revenue from oil began to fluctuate (mainly downwards) especially in the 1980s, government had to source for funds elsewhere to finance its ambitious development projects. This led to borrowings from both external and domestic sources culminating in high debt accumulation. This situation was compounded by increasing trade credits and defaults in the payment of debt obligations as they fell due. In effect, the attendant interest rates were capitalised and added to the total debt stock which was then rescheduled.

The result of the study however revealed potential beneficial effects of external debt in enhancing economic growth. It was observed that provided appropriate macroeconomic policies are adopted and implemented with loan proceeds adequately utilised, gradual debt reduction policies would provide a much needed stimulus to enhance macro-economic performance in Nigeria. The efforts made and eventual securing of debt forgiveness for Nigeria in 2008 was therefore in the right direction.

## International Investment Flows

The international money game exists to facilitate the flows of trade and investment globally. It is however, apt to emphasise that the distribution of private capital flows to developing countries has been unevenly spread. There exists an observed concentration of private capital flows in Asian and Latin American countries. Almost by-passed or ignored are the Sub-Saharan African (SSA) countries. Infact the share of SSA countries in total foreign capital flows to developing countries is far less than the share of individual Asian and Latin American Countries (Ezike, 2009). There is need, therefore, to investigate the main factors that determine or influence the flows of Foreign Direct Investment. The decision to invest abroad is seen as a function of many determinants that reflect the sources of production and location that best satisfies the interests of the firm. Consequently, Ezike (2008) undertook a study of "Foreign Direct Investments (FDI) in Developing Countries: An Empirical Study of the Determinants in Nigeria".

FDI	(0.514805)	(4.28545)	(2.18555)	(-1.10418)	(5.88232)	
1	4676.51	0.043246	0.05581	-58.5428	-145.208	
2	0.922684	(5.58340)	(3.81311)		(-1.83838)	
3	-138.552	0.059204	0.048281		-52.5333	
4	(6.21582)	(5.11886)	(3.40562)	(-1.88211)	(-3.35701)	
5	632.12	0.30740	0.0101388	-25.5885	-181.323	
6	(0.01028)	(4.18523)	(0.38249)	(-1.14013)	(-1.09182)	
7	10578.6	0.042090	0.01854	-30.6584	-158.110	
8	(0.81918)	(3.88233)	(3.44225)		(-1.38682)	
9	18744.5	0.078310	0.014182		(-1.04853)	
10	(0.81188)	(4.66528)	(2.28800)	(-5.48371)	(3.21812)	
11	152814	0.042818	0.055688	-31.0534	-181.815	
12	(5.28445)	(2.14531)	(0.68182)		(-5.10503)	
13	315143	0.30158	0.01515		-11.4824	
14	(0.12412)	(3.38212)	(0.58188)	(1.22514)	(-0.48588)	
15	251092	0.043306	0.011133	-30.5185	-182.214	
16	(4.08208)	(5.81420)	(3.24818)	(1.81882)	(-0.01040)	
17	5874818	0.031128	0.305288	-58.0132	-8.0233	
18	(0.32423)	(4.34160)	(3.18182)		(-1.28484)	
19	381153	0.04578	0.305288		-148.618	
20	(1.51118)	(4.21480)	(4.21480)			
21	303851	0.0323	0.0503		-152.8	
FDI	constant	VAR-1	VAR-5	VARL	VARL	D5

Table 1: Regression Estimates of the Edgeworth

**Table 7: Regression Estimates of the Equations for Foreign Direct Investment  
1970–2000**

EQU	constant	$\Delta Y_t - 1$	$\Delta Y_t - 2$	$\Delta LNF$	LNF $_t - 1$	D2	CMFC	LTD $_t - 1$	It-2	DW	p	s
1	303921 (1.21716)	0.0353 (4.51460)	0.0203 (4.51460)	-	-	-126.8	-	-	0.7939	1.9272	-0.12504	40.115
2	391167 (0.25457)	0.04246 (4.34760)	0.202598 (3.78785)	-	-	-148.607 (-3.64184)	-	0.38687 (0.41076)	0.8121	1.9502	-0.51943	36.228
3	24.4818 (1.08508)	0.037759 (2.81460)	0.202598 (3.51618)	-28.0444 (1.81868)	-8.92733 (0.670190)	-159.555 (-3.25254)	-	-	0.8511	2.0134	-0.17840	36.228
4	3.27065 (0.143137)	0.043306 (3.26575)	0.017733 (3.29498)	-20.2182 (1.35211)	-2.16283 (-0.18290)	-166.574 (-3.67581)	-	0.291211 (1.617181)	0.8713	1.8354	-0.46444	33.434
5	37.6743 (12.38462)	0.30129 (3.14327)	0.017212 (3.99185)	-	-17.4954 (-2.10903)	-144.336 (-3.23146)	-	-	0.3131	2.0092	-0.17990	36.226
6	14.3871 (0.87186)	0.043879 (4.59239)	0.022869 (5.58803)	-31.0634 (-2.18321)	-	-167.672 (-3.57973)	-	-	0.8159	1.9711	-0.175514	35.902
7	16.3417 (0.91885)	0.034876 (3.65339)	0.014765 (3.44557)	-	-10.4927 (-1.3865)	-148.423 (-3.63699)	-	0.288961 (1.64190)	0.8622	1.8579	-0.46289	35.266
8	0.161207 (0.01756)	0.045096 (4.79930)	0.01824 (4.25856)	-20.6297 (-1.71013)	-	-169.440 (-1.03155)	-	0.301558 (1.10535)	0.8710	1.9245	-0.47253	34.087
9	-153.029 (-0.51283)	0.03440 (2.11589)	0.0191398 (3.102651)	-32.2682 (-1.86617)	-16.3728 (-0.88194)	-181.357 (-3.22631)	185.099 (0.595290)	-	0.8542	0.2780	-0.24241	35.714
10	-188.225 (0.65381)	0.026901 (2.28910)	0.016361 (3.61377)	-	-25.2333 (-1.89838)	-172.684 (-3.27585)	232.964 (0.783412)	-	0.8186	2.2672	-0.25621	36.915
11	49.9127 (0.214902)	0.043546 (4.38242)	0.02267 (5.15222)	-29.7450 (-1.70416)	-	-162.509 (2.89533)	-354.907 (-0.15229)	-	0.8461	1.9950	-0.16346	37.230

The regression estimates of the equations for FDI – (1970 – 2000) is shown in Table 7. The result showed that market size as proxied by the levels and changes in Nigerian GDP, was most significantly supported as a determinant of FDI. Other determinants identified by the study are interest rate differentials, exploitation of raw materials proxied by abundant natural resources, exploitation of technological rent, existence of cheap and moderately skilled labour, government concessions and incentives. The stock adjustment hypothesis was also evident in the significant inclusion of the lagged dependent variable. Overall, it is appropriate to conclude that the determinants of FDI in Nigeria as specified were significantly supported by empirical data.

### **Economic Reform and FDI Flows in Nigeria**

It has been generally recognised that attracting FDI inflows can contribute to economic development and a variety of other benefits to the recipient country. Consequently, many developing countries undertake economic reform measures aimed at attracting FDI inflows into their economies in an attempt to accelerate their economic development objectives. Since the resurgence of democratic governance in Nigeria in 1999, successive governments have initiated appropriate economic reforms to address the institutional and structural constraints that might deter the inflows of FDI in Nigeria. It is in this regard that Ezike (2011) embarked on a study of “Economic Reforms and FDI flows in Nigeria” in order to evaluate the key issues related to FDI flows into Nigeria. In addition, the study focused attention on the observed trend and direction of FDI flows to Nigeria and the uneven distribution of such flows among various sectors of the Nigerian economy. The study revealed that despite the remarkable growth in FDI inflows to Nigeria, in recent times, there is a high degree of concentration in just a few sectors of the economy particularly, Mining and Quarrying, Manufacturing, Trading and Business Services.

**Table 8: Sectorial Distribution of Foreign Private Investment in Nigeria (annual average) 1970 – 2008**

	1970–79	1978–85	1986–98	1999 – 2008
1 Mining & Quarrying	44.1	14.9	24.5	30.6
2 Manufacturing	28.8	39.6	43.8	32.6
3 Agriculture & Fisheries	1.6	2.7	3.2	0.6
4 Transport & Communication	1.2	1.5	1.2	1.3
5 Building & Construction	4.3	8.1	4.5	2.4
6 Trading & Buz Services	18.7	26.3	24.4	7.9
7 Miscellaneous	4.4	6.9	13.9	24.8

**Source: Author's Computation Based on Data from CBN Statistical Bulletin Volumes 12 & 13, Economic Financial Review Vol. 40, No. 3**

Collectively, these three sectors received over eighty-nine (89) percent of total FDI flows to Nigeria in the 1970 – 79 period and sixty-nine (69) percent in the 1999-2008 periods.

The miscellaneous sectorial distribution group recorded significant improvement under the reform period (1999 – 2008), rising from a 4.4 percent annual average in the 1970-79 period, to 24.8 per cent in the 1999 – 2008 period respectively. This improvement can be explained by the growing interest of foreign investors in some previously unclassified sectors such as Tourism, Entertainment and Movies which have become attractive under the reform agenda. They were all gathered into the miscellaneous classification.

A major observation from the Table 8 is the near absence/insignificance and, in fact, continuous decline of the flow of FDI to Agriculture and Fisheries, Transportation and Communication subsectors. We must, however, emphasize that in the case of transport and communication subsector, the data coverage did not capture the huge foreign investment flows into the communication industry under the GSM/internet revolution. The same goes for the investment and innovations in the Agricultural sector under the past and present administrations. The main contribution of the study was a concise identification of FDI motivators and detractors.

### **FDI motivators are identified as:**

- Improvements in investment climate through favourable regulatory framework
- Trade openness and free-trade regime
- Adequate infrastructural development

### **On the other hand FDI deterrents are:**

- Regulatory restrictions such as tariff, quotas, multiple exchange rates and multiple taxation
- Import and export controls
- Economic policy uncertainty
- Unfavourable policy stance on ownership restraints and performance requirements.

The study thus concluded that for Nigeria to improve on its attractiveness to FDI inflows, more efforts are needed to improve her investment climate as well as enhance her human development index.

## **CONTRIBUTIONS TO HUMAN CAPITAL DEVELOPMENT AND POSTERITY**

Vice-Chancellor, Sir, in the period of my first and second coming as a staff of the University of Lagos, I have contributed immensely towards the development of human capital for the benefit of the University, Nigeria and humanity.

I have taught well over 1000 undergraduates, and supervised over 350 undergraduate projects, 250 master's degree projects and about 10 Ph.D. thesis. Some of my undergraduate and post-graduate products are now captains of industries, senior civil servants and university lecturers.

I have published three academic textbooks namely:

1. Essentials of Corporate Financial Management (2002).
2. Economic of Banking and Finance (2003)
3. International Business Finance and Management (2009)

These, in addition to over thirty 30 published articles in learned journals, are my contributions to posterity.

## CONCLUSIONS

- The international money game consists of two sets of players: the politicians and bureaucrats in national governments on the one hand, and the Presidents, Chief Executives and Chief Finance Officers of multinational firms on the other hand. The government officials want to win elections and secure a place in the history of their countries. Corporate Chief Executive Officers (CEOs) and their Chief Financial Officers (CFOs) want to make profit or at least avoid losses for their firms from changes in exchange rates that are inevitable in a world with over 100 national currencies.
- The relationships among governments and the positions of political leaders in their respective countries are affected by the various measures employed to reduce payments imbalances.
- Finance ministers everywhere are continually concerned with changes in the price of their country's currencies relative to the dollar or gold; they are equally concerned with the price relationship between the dollar and gold. This is what being a finance minister is all about.
- Changes in exchange rate is inevitable because national policies diverge and national economic interests conflict.
- The politics of international money is decentralised. Each of the independent member countries have their own currencies and their own national interest and objectives. International institutions such as the Bank for International Settlements (BIS), the International Monetary Fund (IMF), provide a coordinating mechanism for national monetary policies. The international monetary system must somehow accommodate the divergent national policies. The "rules of-the-game", as established by the IMF, seeks to ensure that the conflicts among national monetary authorities occur within an established framework.

- The IMF rules provided a guide to national behaviour: They indicated when countries could change their exchange rates and when they could not.
- When countries could use controls on international payments and when they could not.
- The purpose of IMF rules of the game was to ensure that in attempting to solve its domestic economic problems, a country would not dump those problems on the lapses of its neighbour countries, a process referred to as BEGGAR THY NEIGHBOUR POLICIES. However, we learn from hindsight that when the rules of the game seem to constrain national interests, countries have sometimes ignored the rules unilaterally, and pursued national interests only to search for the legal justification for their action later. A typical example was the suspension of dollar automatic convertibility into gold by President Nixon of USA in 1971.
- The pursuit of national sovereignty is at the root of the collapse of the international monetary system. This was because the increasing focus on national monetary policies resulted in the breakdown and eventual collapse of the IMF rules of the game.
- When the USA removed the gold backing from the dollar, the nature of money changed. The result was a proliferation of credit that not only transformed the size and structure of the US economic system itself, but also production process ceased to be driven by saving and investment as it had been since and before Industrial Revolution. Instead, borrowing and consumption began to drive the economic dynamics. Credit creation replaced capital accumulation as the vital force in the economic system which culminated in the global financial crisis of 2008/2009 The sub-prime credit bubble.
- Firms and individuals also play their own game against the background of changing national currency values.

For example they speculate in the foreign exchange market by borrowing currencies which they expect to fall in price and lending currencies which they expect to rise in price. The corporate treasurer (CFO) of an international firm is supposed to know all about profiting from the differences in interest rates in various countries from changes in exchange rates and from other misfortunes of the ministers of finance.

- Part of the drama of international finance involves circumventing national regulations. For example, Indian peasants hoard gold because they believe the governments financial policies will lead to higher prices and they believe that gold is a better store of value than the rupee. American banks established branches in London and the Bahamas (off-shore banking centres) to avoid the regulations of the US monetary authorities. This was among the origins of the Eurodollar and eventually euro-currency markets. Nigerian smugglers swallow dollar and attempt to travel abroad in order to circumvent the monetary policy restrictions of the CBN. Italian investors smuggle Lira notes into Switzerland because they want to reduce the tax bite of the Italian government. All these speculative and circumventing measures are designed to increase personal income.
- One view about the international money game is that the challenges in currency values and international business competition are mutually exclusive. A contrary view which I share is that these events are related because developing international patterns in the growth of industry and banking reflect competitive forces in world finance.
- The dilemma of international finance reflects the contrast between the politics and technology of money. All of the financial assets in the world: currency notes, bank deposits, government bonds, mortgages, must be denominated in one national currency or another. The advantages of having a national money seem too obvious – Prestige, Profit and Policy Independence.

However, changes in technology have introduced a new factor in the relationship among national monies. Thus, following advancements in ICT cost of transportation and communication across national boundaries continues to diminish the effectiveness of national monopolies in the production of money. Security Printing and e-commerce replace old ways of transaction. The technology of money is now international.

- The collapse of the international monetary system may be characterised as the ambition of the USA to take all the glory for the system away from its co-players in the money game. It prefers to adopt a winner takes all policy stance.
- Despite the experiences of 1973 in the international monetary system, many countries still peg their currencies to dollar because oil is priced in dollars. The practice of pegging a country's currency to a stable intervention currency enables a weak central bank to tap on the credibility of stronger institutions and thereby keep inflation expectations at bay.
- Nigeria and Angola, however, have adopted a system of managed floating exchange rate. In 2015, the Nigerian naira and Angolan Kwacha were depreciated by 19 percent and 27 percent respectively against the dollar. The Nigerian central bank was trying to shock the economy in order to plug the gap between the import expenditure and export receivables. In so doing, it resorted to import restrictions with a list of 41 items that would not qualify for foreign exchange allocations.
- When the Bretton Woods International Monetary System collapsed in 1973, the link between gold and domestic money creation broke down. Consequently, central banks of many member countries saw an opportunity to print fiat money and used it to buy the currencies of other countries. The object of such intervention was to push up the currency value of the target currencies and depress the value of domestic currency thus making their exports cheaper and more competitive in the international trade war. This was against the rules of the game.

## RECOMMENDATIONS

- Specially, there is a compelling need to reform the inequitable quota system within the Bretton Woods Institution (IMF and the World Bank). As currently constituted, with the USA and UK possessing controlling quotas and voting power, it is more like a winner takes all game. In 1944, when the Bretton Woods Agreement was reached which created the two institutions – the IMF and the IBRD, most African and Asian countries were not independent nations and so were not participants. The USA and Great Britain were dominant economies of the time and Bretton Woods's agreement reflected their parochial needs. It is relevant to point out that as at 1944, USA GDP was 49 percent of World GDP, while today it is just 22.37 percent. Yet the USA still controls 16 percent of the voting power in IMF and IBRD boards, France controls 4.05 percent and European Union (EU) controls 16 percent. These figures vividly contrast with 3.8 percent for China, and 3.34 percent for the whole of Africa.

(<https://www.imf.org/external/np/sec/members.aspx>)

This does not reflect equity or a zero-sum game. The quota system in the Bretton Woods Institution does not reflect the new world geographic structure, rather it portrays a winner takes it all scenario. A structural reform is therefore inevitable.

- In consonance with Mailafa (2015), I advocate the reform/restructure of the International Economic System in line with the original thinking of Sir John Maynard Keynes to reflect a “truly representative international institution led by best economists in the world”. Such a system would be fair to all participants and would conform to the reform agreements reached in 2010 to enhance the voice of the poorest countries while rebalancing the overt marginalisation of emerging economies.

- There is need for a new set of rules of the game which should provide for a workable balance between the desires for countries to follow policies appropriate to their

domestic objectives while minimising the probability that some countries might be tempted to pursue “beggar – thy – neighbour” policies. There should be no room for a “winner takes all mentality”. There should be a kind of trade-off, akin to human rights obligations “where an individual’s right ends, another’s right begin.” So also shall it be for countries.

- There is equally a need for the new set of rules to accommodate the peculiarities of emerging/developing nations. Such an attempt has been made through the WTO rules with respect to international trade; even though they do not seem to have gone far enough. More efforts should be made in that regard, while a similar institution should be created to cater for international investments. In other words, a call for a **World Investment Organisation – WIO**.
- The types of rules being advocated here and most likely to be effective vary with regard to answers to such questions as follows: what types of economic problems are likely to be dominant in the coming decades and centuries to come?
  - What are the forecasts for inflation, unemployment payments imbalance and growth prospects?
  - Do we anticipate economic cycles of boom or recession, globally or regionally?
  - Would such cycles be experienced independently or simultaneously across countries
  - How would economic management of the future be undertaken, by bureaucratic controls or by market forces?
- At the end of the controversy, the rules of the game must deal with the central issue namely: what are the acceptable forms of controls; when can they be applied and how do they impact on changes in exchange rates?

## AKNOWLEDGEMENTS

Vice-Chancellor, Sir, please permit me to acknowledge and appreciate those forces and persons who in various degrees impacted on my success and achievements culminating in today's event.

My first appreciation and gratitude goes to God Almighty for the gift of life, intellect, good health and happy family. To Him be Glory, Honour and Blessings. That I stand before you today to deliver this lecture is by His Grace. He is the author and finisher of our life – the omniscient and Omnipresent. Thank you Lord for all your Grace to me!

I honour and glorify my late grandparents – Ogbuefi Ezike Afamefunna Nwokedi (OZULUMBA) AND IYOMU, Oba Ezike. My grandfather was a powerful man in the traditional sense and highly revered in the community. He was the one who took me to my first experience of "Imeoba", traditional title ceremony; an experience I will never forget. Eternal rests grant unto them, oh Lord.

I appreciate my blood parents late Pa Anijah Ezike, who I scarcely can vividly remember, because he died very early in my life, and my dear mother late Udegbune Anijah Ezike (nee Chukwudebelu). Her love and care I so much cherish. May their gentle souls rest in peace.

My special gratitude is reserved for my uncle, late Chief Peter Oforor Ezike and his wife Mrs. Cecilia Chife Ezike, the ones I call my parents because they adopted me at an early age. What I am now and all I have achieved in life I owe to him. I remain ever so grateful to him and his memory remains ever present with me every day of my life. His sacrifices and my responses to them made today's event a reality. I equally remember and appreciate my uncle and my supporter Chief Gabriel Chinweuba Ezike. May their gentle souls rest in peace.

I want to recognise and appreciate all those who impacted positively on my academic profession from primary school to university.

My teachers in the early school years – Anthony Onate, George Okoye, Solomon Eziolise, Patrick Udekwe, Joseph Nnaamah, Joseph Tansi, Charles Iloegbune, Felix Madubuko and many others who guided me through the challenges of kindergarten and primary education. I remember with nostalgia Mr. Charles Ajakor, the ever-loved headmaster of St. Theresa's Catholic School Umueze-Anam. He combined his prowess in school management with community development skills, which earned him the appellation of "AJAKOR ODOZI OBODO", the community Builder.

I want to specially recognise Chief Dominic Anekwe (Iji-bu-azu) – who magnanimously provided me the platform to write and pass G.C.E O/L at Warri Centre in 1966. I was in his house when the first coup occurred in January 1966. Sir, I remain ever grateful for that opportunity.

My profound gratitude goes to my teachers in various teacher training colleges from Unubi to Nimo, and lastly, St. Charles College Onitsha. Among them are – Rev. Brother Leander, and Rev. brother Raphael, Mr. Henry Ofoma, Dr. Raphael Ameke, Chief Emenogha, I remember and appreciate my colleagues and co-students in the teacher training colleges – among whom are Michael Omanu, Joseph Ezeike, Elias Udu, Emmanuel Chigbata, Alexander Ogugua, Gabriel Nwaigbo, Luke Ozoigbo, Mose Tagbo and Dominic Egwuda. I also recognize and appreciate my colleagues in the teaching profession such as Peter Nwanegbo, Anthony Ochei, Peter Iliemene and Anthony Duaka.

I wish to acknowledge and appreciate my close associates and childhood friends, otherwise known as the "Udoka Group", in the midst of whom I am always in my best elements. Significant among these is Professor Augustine Eboatu, who had remained my academic sparring partner since primary school. The rivalry between two of us has been clean, noble

and positive which has propelled both of us to the position of Professors in our chosen fields of study. The leader of the group is Chief George Anijah – Obi, as we are sometimes referred to as the “George Obi group”. Other members of the group of friends are Chief Francis Obagha (late), Chief Sylvester Onuorah, Pius Obiano, Michael Nwanegbo (late), Michael Ameke (late), George Ogugua, Gabriel Ekwealor, Chuma Okafor. Also co-opted into the fold are Barrister George Nnachor, Paul Elioku, Francis Ekwealor (late), and Patrick Emeka (Pamak).

My profound gratitude goes to my lecturers in the University of Lagos. Towering above them all is Eze (Prof.) G. O. Nwankwo, who was the first Head of Department and father figure to us in the Department of Finance. He was my lecturer, and mentor, and a great influence in my academic progression. He recommended me as one of the two best graduating pioneer students in the Department for employment as graduate assistant, subsequently I was granted a university scholarship and study leave for post-graduate studies at the university of Exeter, UK. Also significant in my life career is Prof. J. A. T. Ojo, whose course in international Finance provided the background for my interest and direction towards International Finance which we are witnessing today. Other professors and lecturers who impacted on my academic growth in the University of Lagos are – Professors Funso Akingbade, J. A. Bello, Dafe Ootobo, John Oni, (late) Siyambola Tomori, Fajana, Shah, Nambuduri, Diejomah, O. Iyanda, Wole Adewunmi, and Dr. Dennis Odife, and Dr. Coker. I thank God for making them worthy instruments for my academic progress.

It is appropriate at this juncture to recognise and appreciate the pioneer students of the department of Finance, the First Department of Finance in Nigeria. We are a very compact group of about thirty students with twenty-eight of us completing and graduating eventually. This privileged group include Gregory Obi, Stephen Arukwe, J.M.J Madueke (Portfolio Manager), Sam Iredia, Patrick Ozonnma, Miss. Bimbo Roberts, Mrs. G. Obi-Nwagwu, Ben Okonkwo, Kalu Nnanna, M. Echeanyanwu, K. Ajayi, and P. Kumolu (late).

Other compatriots were Joseph Mkpulumma, Aloy Anyanwu, Dr. E. Ifesie and Dr. Ogonnaya Onu, Luke Okonkwo and Gabriel Nwaigbo.

I wish to thank my lecturers and professors at the University of Exeter – particularly Prof. D. C. Corner my Course Director and Dr. John Glenn who became God-father to my daughter. I express my whole-hearted gratitude to my Ph.D. Supervisor, Prof. David Mayes who really sharpened my scholarly acumen and research prowess. He was a true mentor and a good friend. I am indebted to him for his sustained interest and encouragement throughout my course of study. Also, Professor J. Black diligently read through the thesis and improved on it through meticulous and intelligent observations. I remain ever grateful for his fatherly advice, sacrifice of time and expertise.

I benefited immensely from the many stimulating discussions and occasional arguments with my post-graduate colleagues at Exeter, among whom are – M. Tavokoli, who, through my influence came to lecture in a Nigerian university after his Ph.D. programme, P. Triantafillou, L. Bringlio, M. Taghavi and A. Imre. Their companionships enlivened the otherwise drudgery of academic research.

Vice-Chancellor, Sir, may I use this medium to formally appreciate and thank the management of this great university for the opportunity it afforded me to grow academically and professionally. Firstly, I recognise and remain grateful to the Pro-Chancellor and Chairman of Council, Prof. Jerry Gana (OFR), the Vice-Chancellor, Engr. (Prof.) Rahamon Bello, who approved my elevation to position of Professor of Finance, as well as other principal members of the university administration for guiding this great institution to the position it occupies as the University of First Choice and Nations Pride. In like manner, I remain eternally grateful to the former Vice Chancellor of the University of Lagos, late Prof. B. Sofoluwe. It was during his tenure that I was appointed as Associate Professor. May his memory never fade in our minds.

I appreciate immensely my brother, friend and confidant, the former Dean of the Faculty of Business Administration, Prof. Ben. Akpoyomere Oghojafor – “The BIG ONE”. He has remained a faithful and dependable ally. Thank you for everything – for being who you are. I also sincerely thank my current Dean of the Faculty of Business Administration, Prof. R. K. Ojikutu for his frankness, openness and objectivity. I equally appreciate my colleagues in the Faculty of Business Administration and the Department of Finance in particular; – Prof. Willy Iyiegbuniwe, Prof. Sunday Owualah, Prof. E. O. Adegbite (My HOD), Prof. N. Mojekwu, Prof. Eddy Omolehinwa, Prof. Ade Ibiwoye, Prof. R.A. Olowe. Also to my academic colleagues and Non-academic staff of the Department of Finance and the Faculty of Business Administration; I express my profound appreciation.

I recognise and felicitate with members of the Friday Group which was initiated by late Vice-Chancellor Prof. B. Sofoluwe. The leading members of the group are Prof. W. Iyiegbuniwe, Prof. Duro Oni, Prof. HOD Longe, Prof. D. Nwankwo, Prof. M. Chendo, and Engr. Jayesimi. The main subject of the group was for unwinding on Fridays and for networking. Even though I was a late member; I cherish your ideals and companionship.

The up-liftment of my spiritual life is anchored in the comradeship and prayers at the St. Thomas More Catholic Church Community. I particularly want to acknowledge and appreciate the leadership of the Acting Parish Priest and Chaplain Rev. Fr. Paul Akin-Otiko, Associate chaplain Rev. Fr. Samuel Onyiba and Rev. Sr. Martha Nwaokeke. I also pray for the speedy recovery and well-being of the Chaplain – Rev. Fr. Francis Isichei. I will equally recognize some prominent members of the church including Prof. Aloy Ejiogu, Prof. Nwilo, Prof. L.O. Chukwu, Barrister and Mrs. Patrick Osakwe, Mr. and Mrs. Patrick Uka, Prof. Fogam, Dr. and Mrs. J. U. Nwalor; and the youth members of the chaplaincy too numerous to mention individually.

I recognise and appreciate my numerous friends and well-wishers for their companionship and great love among whom

are – Chief Sam and Evelyn Afemikhe, Mr. and Mrs. Soji Amusan, Mr. and Mrs. Yomi Jones, Chief and Iyomu John Orjator, Ezudu, Prof. Ike Ehie, Prof. Gordon Myra, Mr. & Mrs. Abebefe, John Oyewole, Dr. Patrick Ezepue, Mr. & Mrs. Medubi, Barrister, and Prof. Mrs. Ngozi Osarenren, Dr. & Mrs. Douglas Anele, Mr. & Mrs. Ngozi Emechebe, His Royal Highness Igwe Sylvester Nnose, and His Royal Highness Igwe Pius Omachonu.

I equally recognise and appreciate members of the Igbo Cultural Organisation – AKA IKENGA, - the President Chief Goddy Uwazumuike, Chief Anthony Idigbe (SAN), Agunze Ikokwu, Greg Mbadiwe, Bar. Zik Obi, Chief Patrick Osakwe (Onwa), General B. C. Okafor, Pharm. Nnamdi Obi, Engr. I. K. Nwana and many more who I cannot mention for lack of space.

My professional and academic colleagues in the Nigeria Academy of Management are hereby acknowledged – Prof. P. Eriki, Prof. Bob Osaze, Prof. I. O. Osamwoyi, Prof. Nwachukwu, Prof. Emeka Okereke, Prof. Walter Ndubuisi, Prof. I. A. Ahiazu, Prof. B.A. Agbonifo, Prof. O. Owo and Prof. A. C. Awujo, to mention but a few. May I also acknowledge and recognise my various sets of undergraduate, MSc., MBA, MBF, MDF and Ph.D. students who provided fertile field for the propagation of my seeds of finance knowledge to germinate and prosper to fruition. It would be full-hardy to attempt to name them all, therefore I will restrict myself to the Ph.D. products, among whom are – Dr. Boboye Ajayi, Dr. M. Oke, Dr. Adaramola, Charles Ogboi, I.A. Yusuf. Udobi Philomena, Ohieri Nnena, Shiro Abass, Ojumu Olayiwala, Ikpesu Frederick, and Eboiyehi O. Chinelo. I cherish all of you and wish you all prosperous career in your chosen endeavours.

I recognise and appreciate the staff and management of the Administrative Staff College (ASCON), more especially my colleagues in the Public Service Examination (PSE) Committee namely: Mrs. C.U. Gayya (mni), Prof. V.U. Longe, Prof. M. Dukor, Prof. A.H. Godowoli, Prof. A. Daramola, Dr. O.M. Ogbinaka, Dr. J.O. Chijioke, and Dr. E.M. Aghedo. The

ambience of the environment and the friendly atmosphere at the committee meetings provide welcome relaxation from the stress of Lagos life. Thank you all for your companionship.

I remain ever so grateful to my in-laws the Ogugua family of Enekpa kindred in Nzam, Anambra West Local Government Area, who graciously gave me their precious daughter in marriage and accepted me into their family fold. I remember faithfully my father-in-law late Chief Gabriel Udora Ogugua and mother-in-law late Mrs. Veronica Ogugua. May the Almighty God grant my parents-in-law eternal rest. Other members of the Ogugua family are my brother-in-law Chief John Ogugua (Ideh Nzam), Chief Jim Nwobi Ogugua and Mr. Charles Ogugua; my sister-in-law Mrs. Rose Ifeoma Eke (nee Ogugua), and cousin, Chukwudi Ogugua. I thank you all for accommodating me.

I appreciate all my siblings, nephews and cousins, their wives and children, including my immediate younger sister Elizabeth O. Mebo (nee Ezike) who so loves and respects me, that we never had siblings fight; Christiana Ugochukwu Ezim, Joseph Ojiako (who has gone to rest with the Lord), Anthonia Agbonma Eziolise. Augustine Udenze, Fedelia Mbango Igweoba, Francis Ejike, Emmanuel and Chinedu; and their wives Mildred and Blessing. May God continue to bless you all.

I recollect with nostalgia and deep sense of loss, the memory of my elder sister – Mrs. Felicia Ucheoba Udakor (nee Ezike), (the Brilliant one), who is now resting in the bosom of the Lord. She was my closest friend and trusted confidante. I will always miss her. May her gentle soul rest in peace.

I must mention, for special recognition, my beloved nephews Mr. Callistus Nzedigwe Udakor and Mr. Kenneth Chinedu Meboin whom I bestowed the benefit of educational investment. Their successes and progress have proved me right that human capital development is the most-rewarding legacy and investment to bequeath to a loved one. May your successes be a shining example for others to follow!

I reserve for special mention and appreciation my special assistant and IT Consultant Mr. Isaiah Bendi who has been of tremendous assistance and support to me. I thank him for working assiduously to ensure that this lecture was produced on time. I wish him God's blessing and guidance. I am equally grateful to Prof. Willi Iyiegboniwe, Prof. A. Daramola and Dr. O. Akintunde for their meticulous and painstaking efforts at editing the work. They will receive God's reward for their labours.

Vice-Chancellor Sir, may I now turn my attention to the most critical constituency that has provided the filial environment for this lecture to materialise. I reserve for special recognition, the woman who fits the Biblical expression in Proverbs 18:22, to the effect that "he who finds a Good wife, finds a treasure". In finance parlance, a treasure is an asset that has to be cherished and protected. My wife is a Good Wife, my precious TREASURE, which I hold close to my heart with great affection and love; hence, I call her "NKEM" (my own). She is everything to me – a confidante, a mother, a wife and above all a trusted friend. Mrs. Veronica Nkemdilim Ezike holds a Bachelor of Philosophy (B.phil.) degree in Sociology of Education of the University of Exeter, UK, and Voluntarily retired as Assistant Chief Labour Officer (ACLO), in the Federal Ministry of Labour and Productivity. Nkem please stand up for recognition. Thank you for the love we share.

The Lord graciously gave us four wonderful children who make me happy; watching them grow gives me joy and fulfillment. They are Uzoamaka Felicia (Fellow Chartered Certified Accountant FCCA), Ifeoma Blessing (Medical Engineer and Investment Banker), Nnamdi Emmanuel (Environmental Management), and Chike Valentine (a Ph.D Law student). Someone described my concern for their education as my only visible investment. I could not have put it any better. To God be the Glory.

Vice-Chancellor, Sir, we have endeavoured in this lecture to explore the various aspects of the international money game. The game in some respects is a zero-sum game, but in other

respects, in terms of adhesion to parochial national interest, it is a winner takes all. At the end of the day, my position is that players should endeavour to adhere to the "Rules of the Game".

Thank you all for your kind attention.

In consonance with my name **CHUKWUEMEKA** which translates to **THANK YOU GOD**.

Kindly join me in thanking God with the following Chorus:

**"What shall I say unto the Lord....**

**All I have to say is THANK YOU LORD (2ice)**

**Thank you Lord, Thank You Lord**

**All I have to say is THANK YOU LORD"**

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