

WEEKLY GEOPOLITICAL REPORT

THE NIGERIAN ELECTIONS

By Bill O'Grady

Chief Global Investment Strategist

Nigeria is one of Africa's most important countries. Its population represents approximately 19% of Africa's population, and it is the continent's largest oil producer. In 2006, Nigeria was the fifth-largest supplier of crude oil to the United States. Recently the country held local and presidential elections that were marred by violence and irregularities. In this report, we will examine the overall political situation in Nigeria, the issues surrounding the recent elections and the potential for unrest following the vote. As always, we will also discuss the potential market ramifications from this event.

A divided nation

Nigeria, Africa's most populated nation, splits along religious, geographic and tribal lines. Northern Nigeria is predominately Islamic, with most belonging to the Hausa-Fulani tribe. The Southwest is populated with members of the Yoruba tribe. They are approximately 50 % Christian and 25% Muslim, with the remainder following traditional religions. Finally, the Southeast is mostly Christian and populated with members of the Igbo tribe, with smaller tribes, such as the Ijaw, represented as well. This region includes the Niger Delta, the primary area for Nigeria's oil and natural gas production. Essentially, Nigeria is divided between North and South by these religious and tribal differences.

These tensions are constant. When in power, Muslim politicians have attempted to install *Sharia* (Islamic) law nationally and have also tried to create a separate court system. In the border regions between the Christian and Muslim areas,

both religious groups occasionally instigate small religious wars. The country is constantly on edge from these conflicts.

In order to accommodate these religious and ethnic differences, politicians have decided presidents should alternate between the North and the South and, ideally, between Christian and Muslim. According to this custom, because President Obasanjo is a Christian, his successor should be a Muslim.

This accommodation comes from the fact that this religious and ethnic split has often led to military governments. From 1966 to 1999, except for the four years from 1979 to 1983, Nigeria was ruled by a series of military dictators. Changes in government usually occurred by coup. In fact, the recent elections, if the results stand, would represent the first time in Nigerian history that a civilian government has turned over power to another civilian leader. However, given its long history of authoritarian rule, there is always a threat of a military takeover of the government, especially if unrest increases.

The problem of endemic corruption

Politically, the Northern Hausa-Fulani tribes have been dominant. However, the nation's oil riches rest in the Southeast, the home of the Igbo and Ijaw. The financial center is in Lagos, in the Southwest, and is dominated by the Yoruba tribe. At present, more than 76% of the government's revenue and 95% of export revenues come from oil and natural gas. Nigerians living in the South tend to believe the Northern rulers are confiscating

their rightful wealth. The Hausa-Fulani leaders believe the oil revenue should be controlled by the government, implying the Southern Igbo and Ijaw have no special claim. The Yoruba believe the other two tribes need their special expertise in finance and business and that the funds should be controlled by their group. However, the key to all of these problems is that fact that outside of oil and natural gas, Nigeria has little to offer economically. Because elections provide rulers access to cash flows from energy, winning at the polls, according to the International Crisis Group, “becomes a matter of life and death.” Human Rights Watch, quoting Nuhu Ribadu, the executive chairman of Nigeria’s Economic and Financial Crimes Commission, reports that from 1960 to 1999, Nigerian leaders confiscated \$380 billion of oil revenues.

Because of the pressure to control oil wealth, government leaders usually have bribed citizens to either develop a constituency or quell unrest. Criminal gangs are essentially for hire by the political system, and the more brutal they are, the more they are compensated for their services. Sadly, Nigeria is a nearly perfect example of what economists call the *resource curse*. Development economists have noted that countries “gifted” with significant natural resources often have stunted economic development. This is because the revenues from exporting these natural resources seem to impair the development of other industries. It also lets leaders avoid difficult political decisions and permits bad policies to be maintained. In 2006, Transparency International ranked Nigeria as one of the most corrupt nations in its survey, with a ranking of 142 out of 163 countries.

In the case of Nigeria, nearly 66% of the population is employed in agriculture. At independence, in 1960, Nigeria was primarily an agricultural goods exporter, but mismanagement and poor policies have decimated this industry. Nigeria is now a net food importer, and most farming is at the subsistence level. Despite Nigeria’s oil wealth, its per capita GDP has declined to \$800 per year, down from \$1,500 per year in 1960. The distribution of income is even worse; the Economist Intelligence Unit reports 70% of Nigerians subsist on less than \$1 per day.

Despite all of these problems, Nigeria manages to explore and develop oil and natural gas resources. It has been open to foreign oil companies (unlike several other OPEC countries) that have managed to operate in this hostile environment. These companies have resorted to hiring private security forces to protect themselves from gangs, but reports of kidnappings and the temporary seizure of facilities are rather common. Usually these issues are resolved with ransoms and bribes, which fosters such activities.

The elections

After failing last year to gain a constitutional change that would have let President Obasanjo run for a third term, he promptly moved to name a successor. He chose Umaru Yar’Adua, a Northern Muslim, thus meeting the rule of revolving the presidency between the North and the South. Yar’Adua has been described as a “taciturn and colorless” former university professor. Most observers believe he is mainly a front man for Obasanjo.

The other two candidates, Muhammadu Buhari and Vice President Atiku Abubakar, were considered stronger political figures. In fact, the latter was once a major supporter of President Obasanjo.

President Obasanjo created governmental bodies designed to attack corruption, and after winning re-election in 2003, there was some progress made on this front. However, in the run up to the elections, Obasanjo used these bodies to eliminate candidates from challenging his hand-picked candidate. In fact, Abubakar was barred from running until a court allowed him to run a few days before election day.

Despite using the government’s anti-corruption apparatus to weaken the opposition, election observer reports suggest the presidential poll held on April 21 did not meet the standards of a free and fair election. Widespread vote-rigging, premarked ballots and attacks on polling stations in opposition strongholds were reported. Despite these claims, Nigeria’s Independent National Electoral Commission declared Yar’Adua the winner, giving him 70% of the vote.

Western reaction, thus far, suggests these governments are not impressed with the results. The European Union called the vote a “charade.” The White House declared it was “troubled.” However, there is little evidence to suggest any major Western government is calling for new elections or declaring it won’t recognize the winner as the president of Nigeria.

There are two reasons for the West’s reluctance to challenge the vote’s results. First, there is legitimate fear that undermining Yar’Adua could lead to widespread violence. The Movement for the Emancipation of the Niger Delta (MEND), the umbrella group of insurgents that operate in the Niger Delta region, has cut Nigeria’s oil production by more than 600,000 barrels per day. Increased violence may further reduce output. Second, Nigeria allows Western oil firms to operate in its nation. A move to undermine these elections could encourage Nigerian leaders to oust these companies and invite other oil firms from nations with fewer scruples. Chinese and Indian oil companies have shown they will operate in nations with poor human rights records — China has oil operations in Sudan and India has natural gas companies negotiating on a natural gas pipeline with Iran. Thus, strongly suggesting the new president is not the legitimate leader of Nigeria may lead to the denial of access to Western firms to oil reserves.

The ramifications

Although it appears Umaru Yar’Adua’s victory will stand despite the flawed polling process, the

outcome probably offers only a short-term respite from tensions in Nigeria. It is very unlikely the Nigerians themselves will view the results as fair, and this will undermine the legitimacy of the new president. If he proves unable to manage the tremendous problems that face his new government, it is possible unrest could escalate. This outcome would tend to support oil prices and pressure financial markets.

History would suggest that an undermining of the civilian government will simply bring another military coup. In the short run, this probably would bring stability and put most bearish pressure on oil prices and support financial markets. However, a military government would very likely be unable to bring long-term stability to this troubled nation. Thus, Nigerian problems will tend to be a supportive factor for oil prices.

If free and fair elections had been held, and a peaceful transfer of power to the next president had been seen as legitimate, Nigeria could have been on the road to resolving its internal divisions. This could have established the environment for expanding oil production and boosting economic activity. Unfortunately, given the clear evidence that this election was not fair, tensions will likely remain high in Nigeria. This is an example of one of the major factors supporting oil prices; much of the world’s conventional reserves reside in dangerous regions of the world. This fact tends to act as a long-term dampener of financial markets as well.



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