

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Limited Distribution

Group of Experts on Trade and Aid Studies

SECRETARIAT NOTE ON THE MEETING OF THE GROUP OF EXPERTS ON TRADE AND AID STUDIES ON 1 AND 2 JULY¹

NIGERIA

1. The Committee on Trade and Development established, at its meeting in March 1965, a Group of Experts to examine the secretariat's development plan studies.² The Group examined the secretariat's study on Nigeria on 1 and 2 July.
2. The Director-General, and, in his absence, Mr. M.G. Mathur of the secretariat, was Chairman of the meeting which was attended by experts, in addition to those of Nigeria, from:

Federal Republic of Germany	Sweden
India	Uganda
Israel	United Kingdom
Japan	United States
Netherlands	

The following organizations were also represented:

The Commission of the European Economic Community
Food and Agricultural Organization
International Monetary Fund
International Bank for Reconstruction and Development
Organisation for Economic Co-operation and Development

3. For its meeting the Group had before it the following documentation:

Study	COM.TD/G/W/1
Secretariat note	COM.TD/G/W/4
List of topics for consideration	INT(65)383

¹This is a provisional record. An interim secretariat note was prepared for the meeting of the Committee on Trade and Development on 9 and 10 July (COM.TD/G/2). Discussion in the Committee on this meeting of this Group is reported on page 11 of COM.TD/10.

²See L/2410, page 6, which also contains the Group's terms of reference.

4. At the outset of the meeting, the Director-General emphasized the considerable importance he attached to the GATT programme of country studies which was an integral part of the activities of the Committee on Trade and Development. He said that the studies aimed at facilitating a comparison of the country's actual with its potential export capacity; such a comparison would make possible the identification of the main obstacles to the fuller realization of the country's export potential. In inviting the Group of Experts to review the studies, the GATT had provided a forum for fruitful discussions between the planning authorities of the less-developed countries and their main trading partners. This should lead not only to a more co-ordinated approach on the part of the latter countries to the problem of the needed expansion of exports from the less-developed countries but eventually, when sufficient development plan studies have been completed, to an assessment of mutual compatibility among the national plans of the less-developed countries which would greatly contribute to a lasting improvement in their terms of trade.

Opening statement

5. In his opening statement¹, the Nigerian expert said that a number of suggestions made in the GATT study were under consideration by the Nigerian authorities. The points would be borne in mind in the review of the existing Plan; they were also regarded as being particularly useful in the context of formulating the second National Development Plan. He drew the Group's attention to the particularly rapid development of the Nigerian petroleum industry and said that its effect on the economy would be far greater than it could be anticipated at the time when the GATT study was in preparation. He felt that the GATT had a positive rôle to play in facilitating solutions in the field of export production and marketing.

Growth and capital formation

6. It was noted that the actual rate of growth so far during the planned period was 5.2 per cent per annum as compared with the 4 per cent anticipated in the Plan. Moreover, this higher growth rate had been achieved with less capital formation than the Plan had projected. A feature of the statistics pertaining to investment was the fact that capital formation in the public sector was, to date, only about half of the amount forecast in the Plan but that this had been partly compensated for by a greater than anticipated rate of investment in the private sector. The expert from the United States observed that the structure of actual investment, being different from that predicted in the Plan, seems to have entailed a change in the incremental capital output ratio employed as a basis for the Plan growth predictions. The expert from Nigeria suggested that it was still too early to judge whether the capital output ratio of 3.7:1 employed in the Plan needed to be revised. It was the view of the Nigerian Government that the higher than anticipated growth rate should be attributed to investment in the period preceding the Plan, the effects of which had not been accurately discerned at the time the Plan was formulated.

¹Reproduced as COM.TD/G/3.

7. The Nigerian expert confirmed that, in the Plan, private investment had been calculated as a residual magnitude and that no very precise calculation of its structure had been made. He noted, however, that most of the private investment that had occurred had been financed from local sources. The Nigerian Government could, to a limited extent, affect the pattern of private investment by fiscal inducements. The Federal and Regional Governments were conscious of the need to attract foreign private investment but had had some unfortunate experiences with what he called the foreign "machine peddlers". The expert from Nigeria observed that it was now easier for private investors to enter into plantation agriculture, but that certain plantation crops, (palm oil, palm kernels and cocoa but not rubber) can be marketed only through the regional marketing boards. The expert from Israel emphasized that public investment in the infra-structure was an important pre-condition of increased private investment. The German expert underlined the importance of development banks as a means of providing credit to local entrepreneurs on the basis of finance provided from foreign aid.

8. The Group noted that Nigeria was becoming much more dependent on foreign aid for development than in the years preceding the present Plan. In reply to a question the Nigerian expert stated that the initial difficulties which the Nigerian Government had had in formulating projects suitable for foreign aid had largely been overcome in electrification, transport and communications, but that the problem was still far from fully solved in industry and agriculture. The expert from Israel noted the difficulties developing countries experienced in obtaining foreign aid for agricultural development and for the creation of small-scale industries. He suggested that this was an area where technical assistance would be useful.

Population and employment

9. The Group noted that population of Nigeria was growing at an estimated $2\frac{1}{2}$ per cent per annum which meant that, by 1980, it would have increased by 55 per cent. The need for providing additional employment opportunities thus became a matter of crucial importance. The expert from Nigeria pointed out that land shortage was not likely to become a limiting factor in the growth of agricultural production in the immediate future and for this reason increases in productivity were perhaps of secondary importance. The expert from the Food and Agricultural Organization suggested, however, that with the anticipated rate of population growth, land shortage might emerge as a very real problem in the relatively near future and that increases in agricultural productivity should be sought. The expert from the United Kingdom remarked that the rate of increase in employment was much slower than the growth in production since, in the manufacturing sector, productivity increases seemed to be in-built in its expansion and diversification.

10. The experts noted the importance of ensuring that the growth of skilled manpower satisfied the requirements of development and underlined in this regard the importance of properly planned vocational training programmes. The Nigerian expert explained that his Government placed considerable importance on vocational training and would ensure that it continued to obtain high priority in Government expenditure.

Balance of payments

11. The Group noted from the GATT study that shortage of foreign exchange had not so far acted as a constraint on development in Nigeria. The expert from Nigeria suggested, however, that in future, and particularly after 1968, the position might change. The Group's discussion of the likely future evolution of Nigeria's imports pointed to the same conclusion. It was noted by the expert from the United Kingdom that a faster rate of growth, which might be generated by an increase in public investment, would induce a greater flow of imports. Even if much of the new investment were directed towards the creation of export capacity, there would inevitably be a lag between the imports of capital equipment and the export of its output. It would seem that, in Nigeria, the income elasticity of demand for imports was greater than one. The expert from the Commission of the EEC drew attention to the distribution of income as a factor determining a country's import propensity and, in particular, the effect on imports of increased wages. Moreover, it was pointed out that the process of urbanization itself usually led to greater imports.

12. The expert from Nigeria pointed out that servicing the public debt did not as yet pose any particular problem but again the situation might change in future years, particularly if Nigeria had to have recourse to short-term loans. It was important, in this connexion, that foreign aid should, to the extent possible, take the form of grants and of low-interest and long-dated borrowing.

Exports

13. The experts then discussed the underlying strength of Nigeria's export position. They noted that whilst Nigeria exported a fairly wide range of products, these were, to a large extent, raw materials, many of which had recently sustained more or less severe price declines. It was pointed out that vegetable oilseeds and their derivatives, cocoa and petroleum presently constituted 70 per cent of Nigeria's exports and that their combined contribution would, in terms of the Plan's projections, rise to 76 per cent by 1968.

14. The experts noted that recently there had been a very sharp fall in the price of cocoa and that therefore it might be necessary to revise downward the forecast of export receipts of this commodity. The Nigerian expert pointed out that an average price of £160 per ton had been estimated for the Plan period, a figure

which could still be achieved. The expert from the FAO observed that most of Nigeria's cocoa trees were old and although intensive replanting could restore the level of production in the longer term, there was a danger of a drop in the tonnage of cocoa exported in the years immediately ahead. The expert from the Commission, commenting on the rapid and continuing increase in petroleum exports, pointed out that the net foreign exchange receipts from increased petroleum exports, after amortization and profit remittances by the exporting companies, might be lower than would appear at first sight.

15. The expert from the Commission observed that Nigeria's exports were not particularly well-diversified by market and that this might constitute a source of potential weakness. The expert from the United States, however, drew attention to the fact that Nigeria's main markets, the European Economic Community and the United Kingdom, were both very large. The expert from the United States suggested that an analysis might be attempted to show the differing degree of profitability of exports by different destination.

Processing prospects

16. Experts noted that the GATT study had suggested that, because groundnut oil was likely to come under increasing competition from soyabean oil, it might be prudent for Nigeria to concentrate her production of vegetable oils on palm oil. They noted too that the GATT study had recommended investment in the processing of timber rather than in the extraction of groundnut oil. The Nigerian expert stated that the GATT's recommendation concerning groundnut oil was one area of the study concerning which his Government had some reservations. In this connexion, he pointed out that added value was not the only consideration since account had also to be taken of the need to provide greater employment opportunities. He noted, too, that the Nigerian Government had attempted to encourage processing of timber by curbing the export of logs.

17. The expert from Israel underlined the need for developed countries to allow, whenever purely technical consideration permits it, a greater degree of processing of the main raw materials to take place prior to their exportation from the developing countries.

Trade barriers

18. The expert from the United Kingdom observed that Nigeria did not seem to be as badly affected as some developing countries as regards the maintenance of trade barriers on her existing exports. The Nigerian expert pointed out, however, that barriers did constitute a problem in some cases; and he cited, in particular, internal taxes on products derived from cocoa. The expert from the Commission suggested that too much emphasis had been placed in the GATT study on the effects

on Nigeria's trade of the Yaoundé Convention. He thought that many of the judgments on this matter, contained in the GATT study, were at least disputable and he pointed out that Nigeria's exports to the EEC had, since 1957, grown by 65 per cent. He would like to have seen more analysis of the effects of duties maintained by other countries, and, in particular, of the impact of the preferences enjoyed by Nigeria in the United Kingdom market. The expert from Nigeria replied that the trade arrangements mentioned in the quoted passage of the GATT study did not probably have much effect on the existing exports of Nigeria into the EEC but would exert their influence marginally, i.e. on investment decisions and on potential exports, particularly on the export of manufactured goods. Referring to the final sentence of paragraph 74, the expert from India expressed the view that it would be desirable for developing countries not associated with the EEC to negotiate solutions to their trade problems which would be to their common benefit and not obtained at one another's expense.

19. Experts also discussed the effects of the tariff structures of developed countries in which processed goods were charged higher rates of duty than their raw equivalents on Nigeria's efforts to expand her manufacturing sector. The Israeli expert observed that the effective protection for processing industries in developing countries was far higher than the duty itself would suggest since the value added was often very small. The expert from the Commission said that differential tariffs were not the only, or even the major, constraints on the establishment of processing plants in developing countries and he noted, in this connexion, that Nigeria had enjoyed duty-free entry in the United Kingdom market for processed goods as well as raw materials. The expert from the Netherlands, commenting on Table VII on page 130 of the GATT study, drew attention to the fact that 93 per cent of Nigeria's exports of plywood were destined for the United Kingdom market whereas that country only absorbed 26 per cent of Nigeria's exports of logs: a phenomenon which, he suggested, was attributable to the duty-free entry Nigeria enjoyed in the United Kingdom for her processed timber. The expert from Nigeria agreed that there were other factors which determined the success of developing countries in establishing processing activities, but he suggested that the differential tariffs were of considerable importance in inhibiting such development.

Commodity stabilization

20. The expert from the United Kingdom noted from the GATT study that, with the exception of cocoa, increased production of commodities by Nigeria would not seem likely to have such an impact on world markets as to constitute a threat to price stability. The experts observed that the question of the stabilization of cocoa prices was being discussed in other fora. The expert from Nigeria emphasized that the decline in cocoa prices was having harmful effects, not only on the levels of producers' incomes, but also on tax receipts, and that this problem was all the more acute because cocoa production was concentrated in the Western Region whose Government heavily depended on revenues from cocoa.

Trade between developing countries

21. A number of experts referred to the important rôle GATT could play in fostering trade between developing countries. In this connexion, the expert from India alluded to the dangers of import substitution having harmful effects on the trade of other developing countries.

Investment strategy

22. In view of the element of uncertainty which surrounded the future of Nigeria's export receipts, experts discussed the possibility of Nigeria placing greater emphasis on import substitution, in particular they noted that, at present, 10 per cent of Nigeria's imports comprised food products and 36 per cent of consumers' manufactured goods, some of which could undoubtedly be produced domestically. The Israeli expert requested the secretariat to provide a breakdown of imports so as to enable the Group to analyze the prospects for import substitution. The Netherlands expert reminded the Group that Mexico had been very successful in its programme for replacing food imports by domestic produce. The Israeli expert drew attention to the potential which would seem to exist for the establishment of small-scale industries in rural areas. Not only would such a development save on imports, but it would help curb the flow of population from the country to the towns. He appreciated however that it was often difficult to obtain capital for such ventures. The Nigerian expert commented that a greater emphasis on import substitution would carry with it certain dangers and the United States expert also alluded to the harmful effects of a country's relying too much on production for the domestic market in a world where cost structures were continuously evolving.

Nigeria's commercial and fiscal policies

23. The Nigerian expert explained that the Nigerian tariff had undergone some major modifications in recent years and, as a result, was now a much more sensitive instrument for the protection of domestic industry and for determining the pattern of imports. Between 1959 and 1963 the country had enjoyed a remarkable wage stability but in 1964 wages had been increased substantially. At the same time, however, the Nigerian Government had raised tariffs on a number of items to absorb some of the increased purchasing power created by the wage increases and to limit the effect of these increases on imports. The Nigerian Government had also resorted to quantitative restrictions, in particular in connexion with the cement industry, but was aware of the dangers inherent in this policy.

24. The experts noted the reliance of the regional governments on taxes from exports and mention was made of the desirability of strengthening the tax base by diversifying production.

Further meeting

25. The Group agreed that the examination it had held, whilst being most useful, could be regarded as of a preliminary nature only and that it should meet again for further discussion at a later date, when, on the basis of more up-to-date information, and further data to be supplied by the secretariat, it would attempt to reach conclusions and formulate recommendations on the issues presented.