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GATT TRADE POLICY REVIEW

NIGERIA

Since the launch of its Structural Adjustment Programme in 1986, Nigeria's trade policy has been directed primarily towards trade liberalization and market-oriented reforms, although some reform measures have been reversed in recent years, according to the GATT Secretariat's report on Nigeria's trade policies and practices.

In drawing particular attention to import prohibition measures the report states that while they may have contributed significantly to encouraging domestic production in some of the protected sectors, they have not helped raise international competitiveness of those sectors. The report further points out that import prohibition has raised domestic prices of these products, caused distortion of resource allocation, which in turn has disrupted other sectors which use the prohibited items as raw materials. Import bans have also, according to the report, harmed the interests of many of Nigeria's trading partners.

However, the report emphasizes that Nigeria has embarked upon significant economic and trade reforms on its own initiative to let market forces operate more efficiently, by removing government controls on trade, foreign exchange and investment. These reforms have been received by Nigerian trading partners as a positive step to integrate the Nigerian economy more closely into the world economy. These steps have injected dynamism in the Nigerian economy and helped improve stability and predictability in its trade régime.

The GATT Secretariat's report, together with a report prepared by the Nigerian Government, will be discussed by the GATT Council on 1-2 October 1991.

The comprehensive examination of Nigeria's trade policies is conducted under the trade policy review mechanism (TPRM) which was launched in December 1989 to enable a regular collective evaluation by the GATT Council of the full range of trade policies of individual GATT members.

The reports cover all aspects of Nigeria's trade policies, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; and the wider economic and development needs.

Attached are summary extracts from the reports. Full reports are available for journalists from the GATT Secretariat on request.

The complete trade policy review of Nigeria, including these two reports together with a record of the Council's discussions and of the Chairman's summing-up, will be available in due course from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

Since December 1989, reviews of the following countries have been completed: Australia, Canada, Chile, Colombia, the European Communities, Hong Kong, Hungary, Indonesia, Japan, Morocco, New Zealand, Sweden, Thailand and the United States.

TRADE POLICY REVIEWNIGERIAReport by the GATT Secretariat - Summary Observations

Over the past three decades since its independence in 1960, the Nigerian economy has undergone radical structural changes. In the 1960s, agriculture was the most important sector of the economy, with the largest share of GDP, employment, and export earnings. However, during the last two decades, petroleum became the leading sector of the economy, accounting for more than 90 per cent of Nigerian exports and over 70 per cent of Government revenue.

During the oil boom of the 1970s, efforts were made by the Government to use the oil revenue to restructure the economy and to expand the economic base, largely through the establishment of numerous public enterprises and public investments in large scale industrial projects. Manufacturing activities also grew, but many were heavily dependent on imported materials.

The heavy dependence of the economy on petroleum and imported inputs made the economy highly vulnerable to external changes, particularly those in world demand and prices for petroleum. As a consequence of the sharp decline in demand and prices for petroleum in the early 1980s, Nigeria faced a series of economic difficulties including large negative growth of GDP, deficits in trade and current account balances and Government budget, and massive increase in external debt.

Against this difficult economic situation, the present military Government, in power since 1985, gave the highest priority to structural economic reform, particularly by diversifying the productive base away from heavy dependence on petroleum and imported inputs. Under the Structural Adjustment Programme (SAP), launched in 1986, trade policy is basically directed towards trade liberalization and market-oriented reforms, despite remaining protective measures in certain areas.

Nigeria in World Trade

Nigeria ranked 46th among world exporters and 57th among world importers in 1989, with a share in world merchandise exports of 0.3 per cent. Nigeria's exports are estimated to have grown much faster than world exports in 1990. Nigeria is both the biggest exporter and importer in Sub-Saharan Africa excluding South Africa.

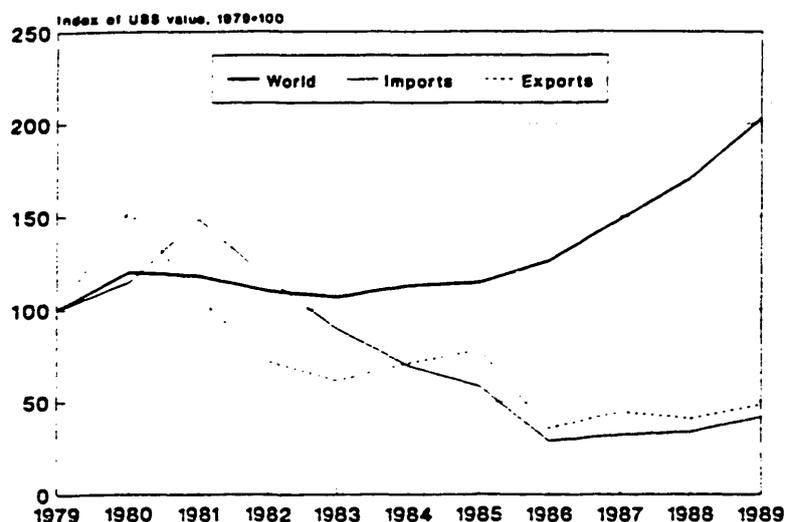
Over 90 per cent of Nigeria's export earnings come from crude petroleum. Nigeria is estimated to be 9th among world exporters of fuels in 1989, accounting for about 3.5 per cent of world fuel exports.

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Nigeria is also one of the world leading producers of cocoa beans, yams, taro, cassava, roots and tubers, sorghum, and millet. While Nigeria was the world's fourth largest exporter of cocoa beans in 1988, exports of other agricultural products have been either very limited or prohibited in order to secure domestic food supply.

Largely due to the fall in petroleum export volume and prices since 1981, Nigeria's merchandise exports in dollar terms declined sharply during the period 1981 to 1986 (Chart), resulting in rapid increases in external debt. Growth in both exports and imports turned upwards in more recent years, but the estimated value of merchandise exports and imports in 1990 was still only half their 1980 level.

Nigeria and world merchandise trade, 1979-89



*Source: International Monetary Fund,
International Financial Statistics.*

Since 1986, the Nigerian Government has undertaken a series of trade and foreign exchange reforms under the Structural Adjustment Programme (SAP). They include trade liberalization measures such as elimination of import and export licences, reduction in the number of prohibited imports, removal of price controls, export promotion initiatives, and market-oriented changes in the foreign exchange system.

These reforms have contributed to substantial growth in Nigeria's real GDP in recent years (6.2 per cent in 1989), supported by growth in both oil and agricultural sectors. While Nigeria's external debt is still large (\$33 billion total external debt stock in 1989), debt service ratio has been kept under the target rate of 30 per cent in recent years, as a result of successful debt rescheduling agreements.

However, despite various Government efforts to promote non-oil exports, heavy dependence on crude petroleum exports still continues (95 per cent in the first half of 1990), and progress in diversifying and

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increasing non-oil exports has so far been limited. Foreign investment in Nigeria, apart from the petroleum sector, has so far been limited despite a number of incentive schemes introduced by the present Government.

Heavy export dependence on crude petroleum limited the favourable impact of the sharp depreciation of the Nigerian currency on exports. While some effects of the depreciation are discernible in reduced import volume and changed composition of imported products, the total dollar value of Nigeria's imports has been essentially determined by the availability of foreign exchange, that is export earnings mainly from petroleum which are not susceptible to changes in the value of the Nigerian currency.

The greater part of Nigerian exports is directed to developed countries, especially the United States and the EEC. While most imports have also been supplied by developed countries, the share of developing countries has grown from about 10 per cent in 1977 to about 30 per cent in 1989. Asian developing economies now account for about 20 per cent. The share of Africa in Nigeria's total trade, particularly that of ECOWAS member countries, has also been growing, albeit to still less than 10 per cent. However, unrecorded trade with neighbouring African countries is estimated to be substantial.

Institutional Framework

The Federal Republic of Nigeria is currently governed by a military Government. Federal laws are made by Decree of the Armed Forces Ruling Council (AFRC), of which the President is head. The military régime is scheduled to be replaced by a civilian Government by October 1992, when a new Constitution is to enter into effect.

Current Nigerian trade and investment policies are executed under various Decrees made by the AFRC. A vast number of Decrees relating to trade and investment has been enacted in recent years. Although this indicates a high degree of transparency in the implementation of Government policies, the large number and frequent amendment of such Decrees reduce the predictability and stability of Nigerian trade and investment policies.

A number of Ministries and Government bodies are involved in formulating and implementing trade policies. The Nigerian Government has created numerous Councils and Committees to implement trade and investment policies. A part of customs inspection (pre-shipment inspection) is currently carried out by foreign firms. The Nigerian private sector also takes part in trade policy formulation through presence in various Councils and advisory bodies.

A Tariff Review Board has been created as an independent body to review the Government's trade policies, particularly the level of import duties. Members of the Board include representatives from both the public and the private sector. Industry requests for tariff protection are reviewed by the Board.

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Trade Policy Features and Trends

Nigeria became a contracting party to the GATT in 1960. It is a signatory to two of the Tokyo Round MTN Agreements (the Import Licensing Code and the Bovine Meat Arrangement), and an observer in seven other Tokyo Round Codes. Nigeria has been participating actively in the Uruguay Round.

Nigeria accords m.f.n. treatment to all countries, whether GATT contracting parties or not, except for South Africa imports from which are banned. Tariffs are currently applied to most of Nigeria's imports on an m.f.n. basis. Nigeria's participation in the GSTP is limited to concessions of lower duties or tariff binding for 10 items. The ECOWAS preferential tariff scheme is yet to be implemented.

Nigeria's exports receive GSP treatment from most developed countries, and ACP preferences from the European Communities. However, certain agricultural products and/or textiles are often excluded from these preferences or subject to ceiling quotas.

Nigeria has bound only one tariff item (stockfish) under GATT. Since December 1989, Nigeria has banned the importation of all kinds of fish except those caught and landed by vessels licensed and authorized by the Nigerian Authority. In the Uruguay Round negotiations, Nigeria has offered the reduction of tariffs on a number of products.

Recent evolution

The principal aim of Nigeria's reforms under its Structural Adjustment Programme (SAP) is to restructure and diversify the productive base of the economy and to reduce dependence on the petroleum sector and imports.

With respect to external trade, the reforms under the SAP have included elimination of the import and export licensing system, reduction of import prohibited items, and a more market-oriented exchange rate policy. A tariff reform was also introduced in 1988 to provide a more stable and predictable tariff régime through the establishment of a tariff structure for seven years. The Government also introduced a number of duty or tax concessions and other incentive schemes for non-oil exports and foreign direct investment in Nigeria.

In agriculture, the removal of price controls and the abolition of Commodity Marketing Boards for cocoa, cotton, grains, groundnuts, palm products and rubber helped to increase domestic production of many of these crops and their exports. However, little trade liberalization has been made in this sector, and a number of key agricultural products such as poultry, vegetables, fruits, rice, wheat, maize and processed wood have remained subject to import prohibition.

Despite various Government incentives to use local raw materials, Nigerian manufacturing industries, largely manufacturers of consumer products, are still heavily dependent on imported raw materials. While certain sectors such as food, beverages and textiles have managed to increase local sourcing of raw materials, others like electrical and motor vehicle assemblies have suffered from increased difficulties in obtaining imported materials. Capacity utilization in a number of key manufacturing sectors remains at a very low level. For example, capacity utilization in electrical and steel industry is currently about 15 per cent of the installed capacity.

The Government continues to accord heavy assistance and subsidies for certain selected industrial sectors, such as steel, petrochemicals, and fertilizers. A high level of protection by either import prohibition or high tariffs remains in force for textiles and clothing, wood and cork, furniture, articles of jewellery, plastic ware, footwear, semi-manufactured steel products, batteries and certain other products.

Nigeria's major trade partners are developed countries, but initiatives to increase trade relations with developing countries have been taken in recent years. Nigeria has participated in the GSTP among developing countries, and supported the ECOWAS trade liberalization scheme. The move to formulate a free-trade area among the 16 West African member States of ECOWAS has been slow, and its impact on Nigeria's trade has been limited so far.

In recent years, some trade liberalization measures taken between 1986 and 1988 have been reversed. Tariff changes in 1989, 1990 and 1991 contained increases of import duties up to 100 to 300 per cent for certain products. Meat, chicken, and fish have been added to the list of absolute import prohibitions since December 1989. Reversing the 1986 reform, exports of timber, a number of food crops, raw hides and skins, and raw palm kernels have been successively banned since 1988.

Despite these setbacks, the Nigerian Government has expressed its determination not to abandon the process of deregulation and liberalization in its domestic economy, external trade and foreign exchange market. Privatization and commercialization of major public enterprises have also been pursued with vigour, despite delays in the original schedules.

Type and incidence of trade policy instruments

As already mentioned above, a number of significant steps have been taken recently to liberalize and streamline Nigeria's trade and foreign exchange régime, and to reduce impediments to trade and investment. Deregulation of Government controls on price and marketing has resulted in the abolition of Commodity Marketing Boards and one major State-trading enterprise (although a number of important public enterprises remain), the suspension of countertrade, the privatization and commercialization of a number of public enterprises and many other measures.

Consequently, the current key trade policy instruments affecting Nigerian imports are import prohibitions and tariffs. However, foreign exchange allocation by the Central Bank is a major constraint on imports, as the private inflow of foreign exchange to the market is limited.

Prohibitions

Import prohibitions mainly affect key agricultural and industrial sectors where the Nigerian Government has been promoting domestic production. Prohibited products include most livestock products, major grains, vegetables, fruits, certain beverages, processed wood, textile fabrics, plastic products and others. The main GATT justification by Nigeria for these import prohibitions has been balance-of-payments reasons, noted below. Import prohibitions covered about 29 per cent of agricultural products and 20 per cent of industrial products (in terms of tariff line numbers) at the beginning of 1989. Meat, chicken, fish and some other products were added to the prohibition list in December 1989. It is not clear whether these measures were meant to support Nigeria's efforts to safeguard its external financial position temporarily, or to promote the industries concerned from a longer time perspective.

While import prohibition may have contributed significantly to encouraging domestic production in some of the protected sectors, it has not helped raise international competitiveness of those sectors, as evident from the slow growth of exports of these products. Import prohibition has also raised domestic prices of these products to the cost of consumers. Moreover, the distortion of resource allocation caused by the import prohibition has disrupted other sectors which use the prohibited items as raw materials. For example, the import ban on maize caused a shortage of feed for the poultry industry, and as a consequence poultry production in Nigeria has declined.

Import prohibitions have created vested interests not only among domestic producers of prohibited products, but also in smuggling activities of those products from outside the country. Where smuggling is substantial, the prohibition has only deprived the Government of tariff revenue. Recognizing the problem to some extent, the Government of Nigeria has replaced import prohibition by tariffs on cigarettes, articles of jewellery, and gaming machines since 1989.

Tariffs

Simple average tariff rates are currently 40 per cent for agricultural products and 36 per cent for industrial products. Much higher rates apply to those sectors which the Government aims to protect from external competition. Tariff peaks of 100 to 300 per cent apply to certain foodstuffs, cut flowers, beverages and spirits, tobacco, certain crude minerals, some steel products, certain chemical products, batteries, transport equipment, footwear, toys and some other products. On the other hand, tariff rates have been kept low and a duty drawback scheme is in place for certain raw materials needed for Nigerian local industries.

Tariff reforms in 1988 were meant to provide a stable long-term tariff structure for seven years up to 1994. However, tariff rates for a number of products have been modified every year since then. Predictability in the tariff régime has been greatly reduced by the absence of binding of Nigerian tariff rates under GATT, except for one item, and the frequent modifications of tariff rates made at the Government's discretion.

Various surcharges make the nominal rate of protection higher than tariff rates. Currently, three import surcharges are levied together, composing a 7 per cent across-the-board surcharge.

Predictability and stability in the Nigerian tariff régime are also reduced by the fact that tariff rates incorporate landing charges equivalent to excise duties on domestic products. The system implicitly means that the rate of tariff protection can be raised or lowered without changes in nominal tariff rates, if excise duties are changed.

Higher than average tariff rates are applied to such categories as tobacco products, beverages and spirits, dairy products, foodstuffs, precious stones, footwear, textiles and clothing, soaps and detergents, steel products, batteries, passenger cars, and works of art. Relatively low tariff categories include a number of import-banned products, such as fruit and edible nuts, oilseeds, grains, meat and wood and cork. Relatively low rates are also applied to those products which are either abundantly available in Nigeria (e.g., coal, petroleum, hides and skins, and rubber), or difficult to obtain in local markets (e.g, non-electric machinery, transport equipment, professional instruments and chemical elements).

The level of effective protection for selected agricultural and industrial sectors in Nigeria may be much higher than what is suggested by average tariff levels or the nominal rate of protection. Effective rates of protection calculated by the Nigerian Government, although only indicative, indicate levels of sectoral protection varying from negative to about 1,000 per cent, much wider than nominal tariff ranges. This may support the argument that present tariff rates in Nigeria are so constructed as to give much higher effective protection for certain products than nominal tariff rates or nominal rates of protection, and that distortion in output patterns is much greater than suggested by the nominal tariff structure.

Foreign exchange allocation

The Nigerian foreign exchange system has undergone fundamental changes from a Government-fixed exchange rate system to a more market-oriented exchange rate system since 1986. After a number of revisions of the system, the Central Bank of Nigeria currently uses the Dutch Auction system to allocate foreign exchange to authorized dealers.

While private sector receipts of foreign exchange can be sold directly to foreign exchange dealers, over 80 per cent of foreign exchange

in the Nigerian market is provided from official sources. The total amount of foreign exchange offered by the Central Bank has been far short of demand, representing about 14 per cent of total demand in 1989. Reflecting the changes in the foreign exchange system and the persistent gap between supply and demand, the exchange rate of the naira fell sharply in recent years.

Other measures

Apart from tariffs and import prohibitions, other trade measures which currently affect Nigerian imports include pre-shipment inspection requirements, standards and other technical requirements, Government procurement, and various measures to encourage local sourcing of raw materials. Government subsidies are largely directed to agricultural production and selected public enterprises in industries such as steel, petroleum, and fertilizers. For example, since 1980 several billion dollars have already been spent for the construction of the Ajaokuta steel plant which is yet to be completed with more Government financing.

Export incentive schemes include a duty drawback scheme, export finance funds and export insurance schemes introduced under the Structural Adjustment Programme (SAP). However, as the Nigerian Government has acknowledged in assessing the implementation of the SAP, little progress has been made so far in the implementation of these schemes.

Since 1988, export prohibitions have been reintroduced for certain crops and their derivatives, raw hides and skins, raw palm kernels, and processed or unprocessed timber and wood with a view to either avoiding their shortage in the domestic market or promoting local processing of them for exports.

Temporary measures

In 1982, faced with a sharp decline in oil export revenues and worsened external trade account, Nigeria invoked GATT Article XVIII:B for the first time for a number of trade restrictive measures introduced in the year for balance-of-payment reasons. The measures were meant to be temporary.

Some of the 1982 measures have been subsequently removed, and the list of import-prohibited items has been shortened. However, over 1,000 out of a total of about 5,000 tariff items (in terms of HS six-digit tariff items) still remain subject to conditional import prohibition on grounds of balance-of-payments reasons. A number of others are also subject to absolute import prohibition. The list of prohibited items has increased since 1989. In many cases, as noted above import prohibition is used as an effective means to protect and promote specific domestic producers.

Some tariff increases have been justified on the ground of a need to combat alleged dumping or subsidies on imported products. The Customs Duties (Dumped and Subsidized Goods) Act 1958 provides for necessary

domestic procedures for counter-actions. However, for administrative reasons, import duties on these products have been raised against all countries, rather than solely against alleged exporters. The Nigerian Government is considering the review of the 1958 Act to give clear definitions of dumping.

New initiatives

Recognizing the limited progress in the implementation of various incentive schemes for non-oil exports, Government assistance has been reinforced in this respect. In his 1991 Budget Speech, the President of Nigeria announced increases in fund to the Duty Drawback Scheme and the introduction of a new bond scheme for importers of raw materials for production of exportable products. Export processing zones are planned to be established.

In order to encourage more foreign direct investment into Nigeria, the Government of Nigeria has recently offered a number of incentives, including tax exemption on dividends for 3 to 5 years. With effect from January 1991, restrictions on the repatriation of dividends and profits were removed.

In the Uruguay Round negotiations, Nigeria has shown particularly keen interest in negotiations on improving market access to trading partners in such area as agriculture, tropical products, natural resource products, and non-tariff measures. Nigeria has also been one of the leading countries seeking to promote the development of international rules on domestically prohibited goods and other hazardous substances.

Trade Policies and Foreign Trading Partners

A number of recent measures to liberalize Nigerian market and foreign exchange system have been received by Nigerian trading partners as a positive step to integrate Nigerian economy more closely into the world economy. These steps have injected dynamism in Nigerian economy and helped improve stability and predictability in Nigerian trade régime.

Increased international confidence in Nigeria's economy is evident from recent successful debt rescheduling arrangements with creditor nations and banks. Members of the GATT Balance of Payments Committee have also expressed, in a recent meeting, their appreciation for Nigeria's efforts in trade and exchange liberalization.

The degree to which Nigeria is integrated into the multilateral trading system can, however, be further improved. A temporary derogation from GATT obligations for balance-of-payment reasons has been continuing since 1982. Although Nigeria is a signatory to the Tokyo Round Codes on Import Licensing and Bovine Meat, import prohibitions on a wide range of products including meat deprive Nigeria of the benefits which these Codes are meant to provide for member countries. Greater stability in the application of tariff rates, surcharges and landing charges, and a wider scope of tariff bindings, would constitute to transparency and predictability.

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Import bans have harmed the interests of many of Nigeria's trading partners; for example, exports of wheat from the United States, stockfish from Norway, and many agricultural and textile products from neighbouring African countries. A recent increase in tariffs on a number of steel products up to 100 per cent is reported to have virtually halted imports of those products since the beginning of 1991.

Import and export prohibitions as well as excessively high tariff rates insulate a number of key agricultural and manufacturing industries from external competition. They may encourage or discourage domestic producers, irrespective of their efficiency and international competitiveness. They may also prevent the emergence of export activities, or reduce expected export earnings. Through the distortions they cause in the allocation of natural and financial resources, these protective policies are unlikely to contribute towards the objectives of diversifying the productive base of the Nigerian economy and to increase non-oil exports.

Nigeria knows only too well how protective trade policies by many countries have inflicted serious damage upon world trade. This is why Nigeria has actively participated in the Uruguay Round, particularly in market access areas where protection in many developed countries still remains high. The main products of export interest to Nigeria are shared by many developing countries, such as roots and tubers, nuts, vegetable products, cocoa beans and cocoa products, rubber products, wood products, textile products, furniture and others.

The Uruguay Round is considered by Nigeria as offering the best prospect to help its efforts to promote and diversify exports, and to reduce the present excessive dependence on petroleum. Improved access in external markets of these products would also improve Nigeria's capability to import more and ease domestic pressures against further trade liberalization of its own.

For its part, Nigeria has embarked upon some significant economic and trade reforms on its own initiative to let market forces operate more efficiently, by removing certain Government controls on trade, foreign exchange, and investment. More thoroughgoing liberalization of the trade and exchange system would foster Nigeria's comparative advantage in trade and, by reducing distortions in production patterns and resource allocation, would benefit both Nigeria's domestic producers and consumers and its trading partners.

As the biggest economy and trading nation in sub-Saharan developing Africa, Nigeria's stable and balanced economic and trade growth will have important, positive effects on other African countries as well as on many other trading partners. Stronger integration of Nigeria's economy into the multilateral trading system and its firmer commitment to the system will contribute to mobilize international support to Nigeria's efforts to achieve these economic objectives.

TRADE POLICY REVIEW

NIGERIA

Report by Nigeria - Summary Extracts

Economic Background

Nigeria with an estimated population of over 100 million has the largest economy in sub-Saharan Africa (except South Africa). The GNP per capita in 1988 was US\$290, which was lower than the 1983 figure of US\$770, while the GNP average annual growth rate for 1965-83 was 3.2 per cent, the growth rate for 1965 to 1988 was only 0.9 per cent (World Bank Development Reports, 1985 and 1990).

Nigeria is basically an agricultural country. Agriculture currently employs about two-thirds of its labour force. In the 1960s a significant proportion of the Gross Domestic Product originated in agriculture. On the average, agriculture accounted for about 40 per cent of GNP between 1987-1989 (Central Bank, Nigeria, Annual Reports). Nigeria at present produces a number of cash crops with cocoa being the most important non-oil export crop. Other cash crops include oil palm, rubber, groundnuts and cotton. The main food crops are yams, cassava, roots and tubers, sorghum and millet. In general, agricultural productivity is low with considerable potential for improvement. The value added in agriculture at constant factor cost (millions of 1980 US dollars) fell steadily from the 1987/88 value of 5.5 per cent to 4.8 per cent and 4.2 per cent for 1988/89 and 1989/90 respectively (African Development Report, 1991 pages A-10). The industrial sector of the economy is small with the manufacturing sector accounting for less than 10 per cent of GDP. The value added in manufacturing at constant factor cost in millions of 1980 US dollars rose from 2,492 in 1970 to 10,334 in 1990. The growth rate between 1989 to 1990 was 7.3 per cent.

Nigeria came into the league of oil-producing nations in May 1970. It benefitted from the oil shocks of the early 1970s. The rising oil revenue improved Nigeria's prospects. The forceful arrival of oil on the economic landscape made it the most significant event of the 70s and early 1980s. Petroleum soon became the main engine of growth. It had by 1976 become the major source of government revenue and the main foreign exchange earner - over 80 per cent in both cases. The buoyant oil revenues of the 1970s provided the basis for large increases in government expenditures. Substantial amounts of money were spent on the expansion of infrastructural facilities and programmes designed to increase the productivity of the non-oil sector. The substantial revenue also served the political and social purpose of healing the wounds necessitated by the civil war (1967-1969) which actually ended in 1970.

While it is true to say that some successes were achieved in the utilization of the funds from oil, there was also some degree of misuse and inefficiencies. Indeed, it has been alleged that many public

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investment projects were undertaken without due attention paid either to economic viability or the absorptive capacity of the economy. Agriculture was ignored and Nigeria became a monoprodukt economy.

With the increased spending, prices rose especially in the non-traded sector and thereby undermined the necessary incentive framework for the traded sector. In the early 1970s, specifically 1972 and 1973, Nigeria's inflation rate was about 6 per cent. It leapt up thereafter to about 12.5 per cent in 1973/74 and to 33.8 per cent by 1974/75. The exchange rate appreciated substantially.

When the oil market weakened in the early 1980s, Nigeria was hard hit and the vulnerability of the economy to external shocks was exposed. This signalled the beginning of the economic problems. What emerged first were sizeable external and fiscal imbalances. By 1983, the external current account deficit, and the fiscal deficit were 6 per cent respectively of the GDP in 1983, (World Bank, 1990 Trends in Developing Economies, Washington D.C., page 395). Consequently, the deficits were financed by public sector borrowing, running down of international reserves and a large accumulation of payment arrears on external trade credit. The stock of external debt (World Bank, 1990, World Debt Tables 1989-1990 External Debts of Developing Countries, page 282) which was about US\$8.9 billion in 1980 steadily rose to US\$12.8 billion in 1982. By 1984, it had reached US\$18.4 billion. The total external debt - GNP ratio was 8.9 per cent in 1980 but rose to 20.9 per cent in 1983. While the external debt/exports of goods and services ratio was 31.9 per cent in 1980, it rose to 148.9 per cent in 1984. The interest/GNP ratio was about 3.3 per cent in 1980, it rose to 13.0 per cent and 15.7 per cent respectively in 1983 and 1984.

Between 1983 and 1984, the government resorted to austerity measures relying heavily on controls and regulations. Such controls and measures included slashing budgetary expenditures, administrative controls over imports in the form of import licences and prohibitions. Instead of correcting the imbalances and distortions, it worsened the situation.

With the ascendancy of a new government to power in 1985, policies changed towards a desire to combine austerity with adjustment. The dramatic fall in the price of oil in 1986 increased the urgency of reform. By July 1986, the Structural Adjustment Programme was introduced. The programme initially meant for a two-year period was chiefly aimed at redressing the structural imbalances existing in the economy. Specifically it aimed at restructuring and diversifying the economic base in order to reduce Nigeria's dependence on oil.

Since the introduction of the Structural Adjustment Programme, there have been significant changes in the economy. While some of these have been mostly positive, there have been nevertheless some negative effects. Suffice to say that one can look to the future with optimism if the various programmes are judiciously but carefully implemented. It is expected that for 1991 according to the President's 1991 Budget Speech, the Gross Domestic Product at 1984 constant prices will grow at 4.8 per cent. Inflation rate which was reduced to 16 per cent in October 1990

would be further reduced to 8 per cent in 1991. In general, it is expected that the exchange rate will be stable throughout 1991.

Trade Policies and Practices

Objectives of national trade policies

The Federal Government has recently approved the Trade and Tourism Policy for Nigeria. The main thrust of this policy is the encouragement of production and distribution of goods and services to satisfy both the domestic and international markets for the purpose of achieving accelerated economic growth and development. In pursuance of this objective, the government provides a conducive and acceptable domestic and international business environment, the necessary facilities and incentives for engagement in commercial activities by individuals, and an organized private sector.

National sectoral policies: economic goals and significance

The extent of growth of a nation's trade depends crucially on the structure of the economy especially the dominant sector with greatest multiplier effects on the economy. In the Nigerian context, the policies of two sectors of the economy have significant effects on the developments on the trade policy profile. These sectors are agriculture and industry. Both sectors are important to the overall growth of the economy. In the case of agriculture, emphasis is on the production of food crops and exports. In the industrial sector, the incentive packages are for industries which are not only less dependent on imported raw materials but also produce more local value added.

Agriculture

Agriculture is the mainstay of Nigeria's economy. It employs over two-thirds of the total labour force. In the early 1960s over 50 per cent of the Gross Domestic Product (GDP) originated in agriculture. Since the emergence of petroleum in the export sector of the economy, agriculture's contribution to GDP has fallen considerably from the figures of the 1960s. In the 1970s and early 1980s, the contribution of agriculture to the GDP has varied considerably. The share of agriculture in the Gross Domestic Product is shown in Table 2.1.

Table 2.1Share of Agriculture in Gross Domestic Product
at 1984 Factor Cost

<u>Year</u>	<u>Share</u>
1987	40.2
1988	39.8
1989	40.0

Source: CBN Annual Report and Statement of Accounts, December 1989,
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The Ministry of Agriculture and Natural Resources co-ordinates all the policies and programmes of the agricultural sector. The importance of the Ministry vis-à-vis the economy is underscored by the fact that Agriculture provides employment for the majority of Nigerians. Hence, the performance of this sector has a lot of impact on economic growth and development as well as the standard of living of the Nigerian populace. In addition, it is believed that a successful industrial take-off which has eluded the country so far depends largely on a sound agricultural base.

As part of Nigeria's agricultural policy, the importation of a number of its agricultural products is prohibited. These include: meat and chicken (whether frozen or not); fish (except those caught and landed by licensed authorized vessels); poultry; vegetables; eggs; fruits and fruit juices; mineral waters; soft drinks and beverages; beer and stout; malt and barley; sparkling wines; vegetable oils; rice; maize; wheat.

These goods are often banned for such reasons as national food security, public health and safety. In some cases, the import prohibition of a number of products is for balance-of-payments reasons. These import prohibitions apply to locally-produced agricultural and textile products. The measures serve as important instruments for the promotion of local sourcing of raw materials for the manufacturing sector and import substitution in the country. By 1989, about 20 per cent of all agricultural items (using the HS tariff lines) were under import ban.

* Agriculture is defined as Agricultural Crops, Livestock, Forestry and fishing

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Industrial policy

Policies enunciated in the industrial sector also have a direct impact on the trade sector. This is due to the fact that it is the industrial sector which not only enhances the utilization of local resources from the agricultural sector but also the extent of diversification of the export base of the economy. The industrial sector also determines the quantum of unprocessed raw materials that could be exported directly. This in turn influences the prices which the raw materials could attract in international markets.

One of the major objectives of government industrial policy is increasing the local content of Nigerian industrial output. In order to achieve this objective, the government uses various measures including high tariffs, import prohibition, financial assistance to the research and development of domestic raw materials which could be substitutes for imports. Prior to the adoption of the structural adjustment programme, the following minimum local sourcing targets for Nigerian industries were set by the government:

- 100 per cent for soft drinks and breweries;
- 80 per cent for agro-food industries;
- 70 per cent for agricultural processing industries;
- 60 per cent for chemicals;
- 50 per cent for petrochemicals and machine tools.

Bilateral, multilateral, regional or preferential trade agreements: their scope, duration and goals

Like other developing countries of the world, Nigeria's external trade policies are designed to create a niche for her products in international markets, especially those of the developed countries of Europe, America and Japan without prejudice to the promotion of intra-African trade. Trade policies are formulated in such a way as to make access to foreign markets easier for Nigerian products. It is hoped that, in this way, the nation's industrialization process would be enhanced. Additionally, it is hoped that trade in non-oil exports would also be promoted so as to discourage the export of unprocessed agricultural commodities in the long run.

Nigeria has, in pursuit of the above objectives, entered into bilateral, multilateral, regional and preferential trade arrangements with desired export trade environments for its industrialists. To date, several bilateral agreements have been concluded with friendly countries both in Africa and outside the continent, to promote trade and improve economic relations between them and Nigeria.

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There are in existence a number of bilateral trade agreements with a number of countries. These agreements cover some products which are of interest to Nigeria. These include mineral resources (such as crude petroleum, zinc, tin ore, coal, etc.), chemicals, pharmaceuticals and other manufactured products such as canned food, leatherware and shoes, and several agricultural products. Five-year-term trade agreements exist with the Soviet Union, Czechoslovakia and the Federal Republic of Germany. Other trade agreements include those of India and Pakistan which are valid until 1993, Jamaica valid until 1994, Bulgaria valid until 1995 and Uganda valid until 1995. In the spirit of trade promotion and investment promotion, Nigeria has also concluded an Investment Promotion Agreement with France. Similar agreements are being contemplated for some other countries.

Nigeria has since independence been playing a prominent rôle in encouraging the creation of regional and continental markets in Africa such as the Economic Community of West African States (ECOWAS), and the African Economic Community (AEC). The treaty of the AEC was ratified at the OAU summit meeting in Abuja Nigeria in the first week of June 1991.

Lomé Conventions, EEC/ACP Preferential Trade Relations

Nigeria is a member of the EEC/ACP Lomé Conventions. Indeed, Nigeria provided the leadership with successfully led other ACP countries in the negotiations leading to the first Lomé Convention which was signed in Lomé, Togo, in 1975. The Conventions, four in all now, each lasts for a period of five years and brings together sixty-eight African, Caribbean and Pacific Countries on the one hand and the twelve EEC countries on the other, in a multilateral trade preferential scheme.

The major objective of the Lomé Convention is to obtain duty concession for its members' products thereby creating market accessibility. Under the convention's Free Access Provisions, agricultural and manufactured products from the ACP States are in theory admitted free into EEC markets subject to agreed rules of origin contained in Table 1 of Protocol 1 of the Fourth Lomé Convention. Apart from the rules of origins, there is also the requirement of 'Proof of Origin', under Title 11 of Protocol 1.

One of the most innovative aspects of the Lomé Convention is the Stabilization of Export Earnings Scheme (STABEX). The scheme, in broad terms, provides for EEC compensation to ACP States in respect of any revenue loss due to a decline in world prices for their agricultural commodities. The overall aim of the Scheme is to guarantee the stabilization of export earnings derivable from ACP States' export to the Community or other destinations, of products on which their economies are dependent and which are affected by fluctuations in price or quality or both of these factors.

The Generalized System of Preferences (GSP)

This scheme became operative in 1971. It is a preferential arrangement between developed countries on the one hand, and the

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developing nations on the other, which provides global market access for specified commodities from the latter.

The GSP duty rates are significantly lower than those offered under the Most-Favoured-Nation (MFN) arrangements in respect of the commodities that are eligible. In addition, GSP quota restrictions and non-tariff measures are also more liberal than those found in MFN arrangements.

Out of sixteen GSP schemes entered into by the country, that operated by the United States of America does not give any preferential status to Nigeria due to the latter's membership of OPEC.

Until recently, there was inadequate information on the existence of Generalized System of Preferences (GSP) arrangements in Nigeria. As such, business in particular, and the whole country in general, did not benefit much from the operations of the scheme.

The Global System of Trade Preferences (GSTP)

Nigeria is a signatory to the Agreement on the Global System of Trade Preferences (GSTP). The GSTP which was signed by forty-eight developing countries in 1988 came into force for fifteen developing countries including Nigeria on 19 April 1989. Under GSTP, Nigeria granted concessions of lower tariff rates on a number of items. The concessions are extended on a most-favoured-nation (m.f.n) basis to all participants in the GSTP.

Wider economic and developmental needs, policies and objectives of Nigeria

Introduction

As an attempt to establish a good foundation for the country's orderly economic development and trade, Nigeria embarked upon the use of development plans immediately after independence. The First and Second Development Plans of 1962-1968 and 1970-1975 respectively, laid the foundation for the development of the first generation of industries in the country after independence. The policies were designed mainly to promote even development and fair distribution of industries in all parts of the country to ensure rapid expansion and diversification of the industrial sector.

The Second and Third Development Plans sought to establish some institutions that would enhance rapid economic development and trade. It is believed that through this process Nigerians would be able to take greater control in the management of certain key industries and become involved in the country's economic planning and development. The Nigerian Enterprises Promotion Decrees of 1972 and 1977 were the resultant effects of this thought process.

The Fourth Development Plan which was abandoned as a result of serious economic dislocations, also aimed at the acceleration of the rate of industrialization, in the economy in general.

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The introduction of the Structural Adjustment Programme (SAP)

Several factors both internal and external which had unfavourable impacts on the national economy led to the introduction of the Structural Adjustment Programme.

Even though Nigeria benefitted from the oil shocks of the 1970s, the slump in the late 1970s and early 1980s provided the immediate occasion for Nigeria's economic crisis. Corrective measures such as the Economic Stabilization Act of 1982, and the subsequent counter-trade and belt-tightening measures, were introduced by civilian and military régimes between 1979 and 1985. These, however, were unsuccessful in containing the deepening economic and structural problems facing the economy.

It was clear by the end of 1985 that stabilization policies alone were not sufficient to redress the fundamental imbalances in the economy. In other words, what was needed was a complete restructuring and overhauling of the economy to promote agricultural production, encourage industries which depend on local raw materials, while the enterprising spirit of Nigerians would be reawakened and galvanized to build a self-reliant economy within a realistic global situation.

The above thinking informed the introduction of a full-blown Structural Adjustment Programme (SAP) in 1986. The broad objective of the SAP was to free the economy from administrative bottlenecks and give a free rein to market forces. The exchange rate policy and trade policy reforms are aimed at the promotion of economic efficiency and long-term growth of the economy. This, along with stabilization policies, was aimed at the restoration of price stability and balance-of-payment equilibrium.

As part of the transformation process and trade liberalization, some of the new measures emanating from the SAP include a private investment policy which allows greater foreign participation in the Nigerian economy. In some cases up to 100 per cent in foreign equity is permitted. This came into effect in 1989. An inter-ministerial body, the Industrial Development Co-ordinating Committee (IDCC) serves as a one-step approval centre for new ventures in order to reduce delays inherent in application processing before approval is given. The IDCC is also responsible for the issuance of initial expatriate quotas.

As part of the structure of the economy through the SAP, Nigeria embarked upon a comprehensive reform of her ailing public sector enterprises. A committee known as the Technical Committee on Privatization and Commercialization (TCPC) has been set up to prepare and supervise the implementation of this programme. In 1986, seventeen public enterprises, mainly in agro-industries, were privatized. The first public offer was made in February 1989. By February 1990, over 100 million shares in about sixteen other public enterprises were sold. Many other commercial enterprises remaining in the Federal public sector are expected to be either fully or partially commercialized.

Major external economic environment

Major trends in imports and exports

Recent developments in the Nigerian economy have been largely influenced by both domestic and external factors. Distorted prices and the structure of the domestic economy, high inflationary pressures, over-valued exchange rate, global depression and a rising trend in interest rates, among others, have had differing effects on the value and volume of the country's imports and exports. Present developments in the import and export sectors are largely a reflection of the liberalization policy enshrined in the Structural Adjustment Programme.

Imports

There have been occasions when the government in order to boost domestic production for exports, has had to encourage the importation of certain critical inputs. However, in recent times, the policy of the government has been to reduce imports and step up all exports especially of non-oil items.

There was a significant increase in imports between 1987 and 1989, particularly in machinery and transport equipment, manufactured goods, chemicals, food and miscellaneous manufactured goods sectors. The import growth rate during this period was about 32 per cent. The significant increase in imports between 1988 and 1989 was due primarily to the substantial increase in the imports of machinery and transport equipment. The decline in imports in the 1983-1984 period was the resultant effect of the Economic Stabilization Measures of 1982. The import Gross Domestic Product (GDP) ratio increased from 7.7 per cent in 1986 to 22.5 per cent in 1987. The import-GDP ratio was 35.9 per cent in 1989. The import trend reflects the impact of government policy of encouraging as much as possible, the importation of capital goods and raw materials to enhance industrial capacity utilization in the export-based industries. The increasing import trend in certain import groups is no doubt the resultant effect of various factors. These include the depreciation of the naira, the relative ease in procuring foreign exchange from the foreign exchange market, and increased funding of imports from autonomous sources. Western Europe has been Nigeria's major source of imports accounting for about 41 per cent of imports in 1989. The United Kingdom, the United States and Japan accounted for 16 per cent, 12 per cent and 7 per cent respectively. Some countries have managed to increase their share of imports while some have not fared very well. The share of Western Europe was about 49 per cent in 1986. The share declined steadily thereafter to about 41 per cent in 1989. The share of the United Kingdom which was about 20 per cent in 1985 declined to about 16 per cent in 1989.

Exports

Nigeria's exports are affected by international fluctuations in commodity prices and internationally determined oil prices. Over the last

several years, oil has remained the dominant item in Nigeria's total exports. The contribution of oil exports remained at about 95 per cent in 1989. This represents a fall of about 2 per cent from its share of 97 per cent in 1984. The share of the major agricultural products rose from 2.3 per cent in 1983 to about 6 per cent in 1988. The share of the major agricultural products fell to only 3 per cent in 1989 (CBN, Annual Reports and Statement of Accounts, 1985 p. 97 and 1989 p. 108).

It must be noted that Nigeria's export earnings from the oil sector depends largely on the production quota allocated to her by OPEC as well as the prevailing crude oil price in the world market. The price of oil has been affected by the policies of OPEC and developments in the international scene. Before the Gulf War for example, Nigeria benefited from the sudden upsurge in oil prices.

While the exports of goods and services at constant US dollars fell between 1980 and 1985 by 56 per cent, there was a rise of 11 per cent, 6 per cent respectively in the period 1988 and 1989. In general, the exports of merchandise have risen since the adoption of the SAP in 1986. It rose by 43 per cent in 1986/87 and by 21 per cent in 1987/88. The most important country for Nigeria's export was the United States with a share of 53.3 per cent. Western Europe and ECOWAS had shares of 34 per cent and 6 per cent respectively. The exports to ECOWAS which was only about 2 per cent in 1983 rose to about 6 per cent in 1989. The preponderant proportion of oil went to the Americas, Western Europe in that order between 1983 and 1989. The liberalization of trade and the depreciation of the Naira and the long-standing trade links with these trading partners point to potential increases in volume of exports to them. The potential is, however, threatened by recent developments in regional groupings such as Europe 1992, etc. and the imposition of trade barriers.

Over the last several years, Nigeria has not been spared from what has been going on in the international economy. This is the declining terms of trade against primary commodities.

Up to 1989, the lull in the world commodity markets continued. This inevitably affected Nigeria's major agricultural export commodities.

Macro-economic situation and foreign trade

The international macro-economic situation would be seen against the philosophy and conditionalities which necessitated the implementation of the Structural Adjustment Programme in 1986. The Structural Adjustment Programme which constitutes a radical departure from the development strategies since 1970 was designed to get international support for the relief of the external debt problem and the domestic economic adjustment necessary to achieve balance of payments' viability and to place the economy on the path of sustained growth.

There are some problems in trying to reconcile the trade-liberalization conditionality of the Structural Adjustment Programme

and the market access arrangements of the industrialized countries especially when the non-oil exports consist mainly of primary agricultural products the demand for which is low in the industrialized countries.

The essence of the Structural Adjustment Programme is to channel resources into the sectors in which the country has comparative advantage and to export these goods for foreign exchange. Since the major markets for Nigeria's exports remain the industrialized countries of Europe and America and the non-oil exports of the country consist of goods for which import restriction in the industrialized countries is strictest, the volume of trade is bound to be adversely affected.

It is equally difficult to see how the huge foreign exchange which is expected to come from the export of goods to service the outstanding external debt would be generated under the depressed state of the international oil and commodity markets, and some restrictions to international trade (such as non-tariff barriers etc.).

The continuous fall in the prices of oil and agricultural commodities against increases in the price of imported goods cast serious doubts on the ability of Nigeria to secure imports necessary to produce exportable goods and still have foreign exchange left for external debt service.

Re-scheduling and refinancing of external debt which was based on the adoption of adjustment reforms of the economy, has not been done in significantly favourable conditions. The variable interest often charged on the re-scheduled amount coupled with the increase in world real interest rate tends to aggravate the debt-servicing difficulty of the country thereby further depressing investment in export-oriented sectors.

The continuous decline in access to foreign finance to support the adjustment programme tends to inhibit trade and the adjustment effort. The low level of foreign investment in the country has also tended to limit trade. The essence of the various incentives provided in the structural adjustment package was, among other things, to encourage foreign capital inflow into the export-oriented sectors in order to boost and diversify the export base. This is important because foreign investment can contribute directly to economic and social development without giving rise to external indebtedness. Despite these incentives, not much foreign capital has come into the country.

Problems in external markets

Since Nigeria's trade is very much dependent on the growth of the industrialized countries, the rapid growth of these countries and the absence of serious trade barriers would stimulate Nigeria's trade. therefore, the type of problems Nigeria will encounter will depend on the types of products she exports and the economic region in which trade is concentrated.

The estimated component of total exports by 1989 shows that 3 per cent are for agricultural products, 94.9 per cent for crude oil, 0.2

per cent for manufactures and semi-manufactures of agricultural products and 2 per cent for other exports. These exports are heavily concentrated in the industrialized countries of Western Europe and North America. With the emergence of Europe 1992, there is a potential obstacle not only for oil exports but also for other forms of trade from the EEC-member countries.

Since over 90 per cent of exports is in the form of crude petroleum, there is bound to be competition from other oil producing countries particularly the non-OPEC countries. The greatest problem however, lies with the non-oil export consisting mainly of agricultural and other products. These commodities are usually subject to import restrictions by the trading partners through voluntary restraints on quota exported, or tariff and non-tariff measures including preference prices, etc. Generally, industrialized countries use all kinds of discriminatory trade practices against developing countries. With increasing regionalization and the constraints posed by it, Nigeria and other developing countries may face difficulties in trading with the industrialized countries.

There is no doubt that non-tariff barriers do inhibit developing countries' attempts to expand exports. Similarly trying to devise mechanisms to evade the barriers involves costs which may make production inefficient.

In order to show the extent of the potential export gains that a number of highly-indebted countries will reap, consequent to full liberalization of tariff and non-tariff barriers in the industrialized countries, Laird and Nogue (1989) used 1983 data. Using three markets, EEC, Japan and the United States shown in the Table below, the result is very instructive. On the basis of the data, the estimated overall increase in exports to the EEC, Japan and the United States that could have been expected to result from full (non-preferential) trade liberalization is \$35 million, 0.3 per cent of all imports into these markets. If Nigeria had had a relatively diversified export structure with the manufacturing sector constituting a substantial share, Nigeria would have had a more significant increase in exports. The removal of tariffs leads to a greater increase in export earnings than the removal of NTBs (\$25 million as opposed to \$10 million) removal of NTBs would still be of significant importance.

Simulated Effects of Full Trade Liberalization in
the EEC, Japan and United States on Imports From Nigeria
(Millions of dollars)

Increase in imports resulting from full
liberalization of tariffs and NTBs

<u>Imports</u>	<u>Tariffs</u>	<u>NTBs</u>	<u>\$</u>	<u>Per cent</u>
10,196	25	10	35	0.3

Source: Laird and Nogus Op.cit., page 255

The ECOWAS sub-region where there is some reasonable free movement of goods and services and the other African regions where the level of voluntary restraint measures on non-oil exports is generally low, offer great opportunities for trade in the future if properly explored.