Learning from our Past Responses: How Oil Prices define Nigeria's Trade Policies

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Abstract
Beginning from independence and up till today, Nigeria has employed import substitution industrialization (ISI) strategy as a way to achieve its industrial development. But available evidence shows that little has been achieved due to the nature and costs of trade protectionism as well as some inconsistency in the choice of instruments. This paper looks at one of the drivers of this inconsistency; namely, crude oil price. Nigeria's trade policies are analyzed from 1970 to 2017, looking at their differential applications between the regimes of high and low oil prices. The country's commitment to ISI strategy appears to be impaired by improved availability of foreign exchange during periods of high oil price as well as the pressure to generate revenue in low oil price periods. The study offers some policy recommendations towards a more effective trade policy based on Nigeria's past experience and relevant literature.

Introduction

Nigeria has made various efforts to industrialise and reduce the spending of its scarce foreign exchange on products it deems can be produced locally. For example, some of the key objectives of the 2017 Economic Recovery and Growth Plan are to move Nigeria towards becoming self-sufficient in food production and promote the Made-in-Nigeria campaign by encouraging local production and import substitution. This objective is quite familiar and has not changed from that of the first National Development Plan (NDP) of 1962-1968 which identified import substitution industrialization (ISI) strategy to drive Nigeria's industrial development.

A quick conclusion from this static policy focus is that Nigeria is yet to realise the benefit of its ISI strategy. The country has applied a number of trade instruments such as high tariffs, import quota and outright banning of certain products. Accordingly, these have led to increase in the domestic prices of trade-protected items with the attendant loss in consumer welfare and increased smuggling cases. The fact that the country's manufacturing contribution to GDP is still less than 10% after all the years of trade protection calls for a re-evaluation and re-think of Nigeria's trade and industrialisation policies.

A recent case that easily comes to mind, is that of rice industry protection. The Central Bank of Nigeria (CBN) launched the Anchor Borrower Programme in 2015, with one of the aims being to aid sufficiency in rice, wheat, fish, oil palm, cotton/textile, and sugar production. Rice is also one of the 41 items excluded from accessing foreign exchange at the Nigerian foreign exchange market. In 2016, its importation was restricted to only designated seaports and banned from land borders. Despite all these barriers, smugglers still find it profitable to bring in rice. This has stretched the country's customs surveillance machinery, leading to the threat of shutting down some land borders and using air force drones to combat rice smuggling. These show that the cost of monitoring smuggling is quite high and may need to be revisited.

A simple economic analysis will show that smuggling is a symptom of an inefficient trade policy. Lower border price of items compared to domestic prices will definitely encourage importation. Trade barriers will only increase the landing price, but as long as the import price plus the barrier costs are less than the domestic price, traders are bound to move goods, legally or otherwise. Raising the barrier will only lead to higher cost of monitoring and reduction in consumer welfare.

What is interesting is that Nigeria always finds itself in this situation, casting doubt on whether the country really learnt from past experience. There are conditions under which ISI strategy can work for a country like Nigeria, but the country is not walking this path in a consistent manner. This paper looks at one of the drivers of this inconsistency; namely, crude oil price. The paper analyses Nigeria's trade policies from 1970 to 2017 and evaluate differential applications between the regimes of rising and falling oil prices. Lessons are drawn from the literature and past Nigeria's experience towards a more effective trade policy in Nigeria.

Trade Protection and Industrialisation Outcomes

The 'infant' industry argument is often used by countries to justify the protection of certain industries from international trade competition. This argument is that manufacturing industries in low-income countries operate with different economic conditions that prevent them from competing effectively with their developed country counterparts in term of costs and prices. They therefore need to be shielded from competition of low-priced imports (Bardha, 1971; Slaughter, 2004).

Tariffs and non-tariff barriers (import prohibitions, import licensing and import quota) can be used to protect the domestic industries, allowing them charge higher prices. Further, the tariff structure is often designed such that the rates are much higher for final consumer goods than for capital goods and raw materials (Oyejide et al, 2012). Generally, trade protectionism has costs and benefits, with the former likely to be greater; but tariff based protection can be more transparent, easy to negotiate and revenue-generating for the government compared to non-tariff barriers (Moschini and Meilke, 1991).

Trade protection allows domestic producers charge higher price, government make more revenue from tariff while consumers pay higher price and consume lower quantity. The net effect is often a deadweight loss to the economy coming from inefficient domestic high-cost production as well as reduced domestic consumption below the free-trade level. Despite these costs however, domestic industries are still protected with the expectation that such industries will be able to increase their productivity over time and can eventually compete when the protection is terminated. Thus, it is only when the measured benefits of protection exceeds its costs that it can be seen as successful. Oyejide and Olowookere (2015) identified the following conditions as necessary to guarantee the attainment of a successful protection:

The protection of manufactured products should be selective and discriminatory, rather than universal and general.

i. The selected products must be those that enjoy significant economies of scale, have a sizeable domestic market and possess strong and positive linkages with other sectors.

ii. It is important that the production process be one that the country is (or have the potential to be) better at producing (comparative advantage).

iii. The level of protection should not be excessive and should increase with value added. For instance, final consumer goods should attract high tariff rates, intermediate inputs would have low tariff rates, while raw materials and machinery would, probably, be zero-rated.

iv. The period of protection must be clearly specified.

v. There must be a credible mechanism for monitoring and evaluating the success of the protection

vi. Producers of protected products should be able to produce profitably at reduced costs after the protective cover is lifted.

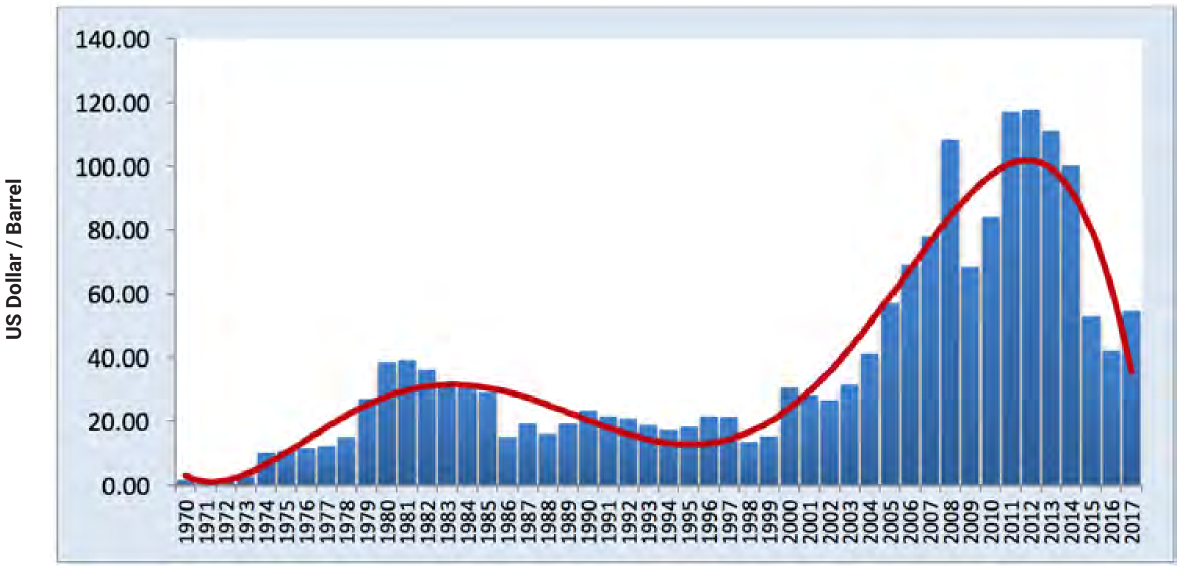
In their analysis of trade protection from 1960, Oyejide and Olowookere (2015) showed that most of these conditions were violated, except for some relative success recorded around the Structural Adjustment Programme (SAP) which was later reversed at the return to civilian rule in 1999. Equally, Somorin (2017) opined that tax incentives given to 'Made in Nigeria' firms will be effective, only when they are well focused and available to only deserving companies and sectors. And monitored such that the government revenue forgone, does not exceed the anticipated benefits from granting such incentives.

Oil Price Regimes and Direction of Nigeria's Trade Policy

Oil price regimes

The global crude oil prices vary widely over the years; rising from an average value of \$1.9pb in 1970 to peak at an average of \$117.7pb in 2012 and later fell to an average of \$54.64pb in 2017. The crude oil price can be seen to average \$37.1pb in the period 1970-2017. As shown in figure 1, statistically fitting a polynomial line of best fit over this period identifies five (5) regimes, namely; low and stable (1970-73) with an average price of \$2.1pb; low and rising (1974-85) with an average price of \$24.3pb; low and stable (1986-99) with an average price of \$18.71pb; high and rising (2000-14) with an average price of \$71.3pb; and high and falling (2015-17) with an average price of \$49.9pb.

Figure 1: Trend of Crude Oil Price (1970-2017)



Source: OPEC - Organisation for Petroleum Exporting Countries

Nigeria's trade policies under oil price regimes

This sub-section reviews Nigeria's policies to encourage or discourage import of certain items under different oil price regimes. From the information presented in table 1, one can make four conclusions from the history of Nigeria's trade policies and crude oil price regime as follows:

First, in all the regimes, preference is consistently given to the importation and importers of raw materials and capital goods. For instance, i) 1970 – Removal of wartime restrictions on importation of machinery and spare parts, agricultural equipment and certain plants; ii) 1975 – Reduction in import duties of raw materials for soaps and detergents; iii) 1979 – Duty free concession to include irrigation machinery; iv) 1986 – 30% import levy abolished and import duties reduced on various items such as basic industrial raw materials, agricultural inputs including tractors (CKD), grain, chocolate powder and rubber tiles; v) 1997 – VAT exemption on plant, machinery imported for gas utilization in downstream petroleum operations; vi) 2009 – Various trade incentives granted on importation of inputs into cement manufacturing; and vii) 2015 – Zero duty on CKD, 5% and 10% on first and second grade semi-CKD parts.

Second, Nigeria over years has been adopting import substitution industrialization (ISI) strategy to discourage importation of items with estimated domestic production capacity, alongside various incentives to local producers and exporters of substitutes. Some of the examples include: i) 1972 – Restrictions on importation of goods with adequate local supplies in terms of price and quality; ii) 1975 – Introduction of quota on importation of cars under 2000cc to protect local assembly plants; iii) 1980 – Import restrictions on bicycle tyres and tubes of certain specification, concentrated malt extract, jute bags and fabrics for furniture; iv) 1988 – Dealings in prohibited items (wines, rice, maize, wheat, fruits, and vegetables, poultry, and used tyres) to attract forfeiture and life imprisonment and 7-year plan tariff structure to provide more protection for local industries; v) 2001 – Introduction of backward integration policy for cement giving quota to importers based on their investment in local cement plant; and vi) 2016 – Importation of rice restricted to only designated seaports and banned from land borders

Third, in regimes of rising oil prices, Nigeria's commitment to the ISI tends to soften as restrictions on importation of consumer goods become less stringent, perhaps due to improved availability of foreign exchange. For instance, i) 1975 – Priority given to ships carrying consumer items like rice, milk, sugar and corned beef; reduction in import duties on salt, maize, rice, tomatoes, fish and meat reduced from 50% to 10%, duties on milk cream, raw salt, asbestos, tractors and cement were abolished; lift of ban on stockfish, corned beef, margarine, edible nuts, imitation lard and other prepared edible fats; ii) 1976 – Bulk importation and subsidisation of certain essential goods by the National Supply Company; iii) 1980 – Less restrictions on the importation of stockfish and the earlier ban on rice lifted; iii) 2010 – Lifting of ban and replacement with tariff on some items including: cassava, toothpicks, furniture, textiles, water and beverages and vehicles that are more than 10 years old.

Fourth, in regimes of low oil prices, the pressure to generate revenue can also lead to the replacement of import prohibition with tariff, thereby allowing importation of items earlier banned. Examples of this can be found in: i) 1983 – Huge increase in import duties on many items to generate revenue and relieve external reserves; these include: Starch, confectionary Sticks, cotton yarns, sacks and bags of jute; fabricated structural steel, wheel barrow, toilet soap, detergent, paper and paper labels, real mandras, blankets, sheets and plates, knives; ii) 1998 – Liberalization of imports of used vehicles and motorcycles at the appropriate duty rate to enhance government revenue from import duties. (iii) Reduction in the number of items in import prohibition list, making used vehicles and motorcycles dutiable.

Table 1: Nigeria's Trade Policies (1970 – 2017)

Regime	Encourage Import	Discourage Import
Low and stable (1970-73)	1970 – Removal of wartime restrictions on importation of machinery and spare parts, agricultural equipment and certain plants 1972 – Reduction of import duties on raw materials by between 10 and 50 per cent; Lift ban temporary on importation of stock fish	1970 – Tax exemptions to exporters of locally-manufactured goods 1972 – Restrictions on importations of goods with adequate local supplies in terms of price and quality
Low and rising (1974-85)	1975 – Reduction in import duties of raw materials for soaps and detergents; Importation and subsidisation of fuel and beef; priority given to ships carrying consumer items like rice, milk, sugar and corned beef; reduction in import duties on building materials from 50% to 20%, on salt, maize, rice, tomatoes, fish and meat reduced to 10%, on milk cream, raw salt, asbestos, tractors and cement were abolished; lift of ban on stockfish, corned beef, margarine, edible nuts, imitation lard and other prepared edible fats 1976 – Bulk importation and subsidisation of certain essential goods by the National Supply Company; Reduction in import duties of raw materials for textiles and footwear; raw materials for electronics, metal fabrications and kitchen utensils and equipment manufacturing industries were exempted from duty 1977 – Raw materials for livestock feeds imported duty free; reduction in duties on synthetic rubber latex, carbon black, steel tire cord all used in tyre manufacture, parts for the manufacture of primary batteries and electric filament lamps, sodium and potassium silicates and nickel wire for the manufacture of welding electrodes, and barley and hops used in the brewing industry; abolition of duties on acylic alcohol and poly carboxylic acids 1979 – Duty free concession to include irrigation machinery; reduction of duty for fish caught and landed in Nigeria in Foreign chartered ships 1980 – Less restrictions on the importation of stockfish, sport wear and equipment, industrial protective footwear, and apparel of the discipline forces, louvre frames, insulated electric wire, plastic pipes, water closet etc; Ban lifted	1975 – Introduction of quota on importation of cars under 2000cc to protect local assembly plants 1977 – Increase in import duties on outer garments for adults, imported tires of certain dimensions, primary flash batteries, electric filament lamps, adult shoes, razor blades, touch light batteries, socks, kerosene cookers, zip fasteners, typewriter ribbons, blanket and gramophone records; import licensing requirement on common salt, carpets, typewriter ribbons, furniture, matches, canned beer, soft drinks and passenger cars with engine capacities exceeding 2,000 cc; ban on all cars over 2500 cc, lace, tulle (except tulle grass) and net fabrics, galvanized buckets, carbon paper, beer bottles, evian water, real madras (George) and all textile fabrics; Tax relief via the Pioneer Certificate for five years for any agricultural or agro-allied project with locally-produced raw materials; 1979 – Duties raised on record players, camera films, plastic pipes, printing ink, sheets and plates of iron and steel, CKD refrigerators jewelry, pearls and precious stones; 25 items placed under import licence including plastic pipes, blankets, roofing sheets (asbestos and galvanized), sugar, wheat, and muslin, rice, cereal flours and frozen meat; Items banned were artificial flowers, fireworks, footwear uppers and toothpaste; Guaranteed protection of 8 years of selected industries with evidence of plan to produce their raw materials locally 1980 – Import restrictions on bicycle tyres and tubes of certain specification, concentrated malt extract, jut bags and fabric for furniture, under the Approved User Scheme, duty reliefs on raw materials were graduated in such a way that the farther an industry is located from the coastal areas the higher its rate of relief 1982 – Increase in tariff on 49 imports items. 1983 – Huge increase in import duties on many items to generate revenue and relieve external reserves; these include: Starch, confectionary Sticks, cotton yarns, sacks and bags of jute; fabricated structural steel, wheel barrow, toilet soap, detergent, paper and paper labels, real mandras, blankets, sheets and plates, knives

Low and stable (1986-99)	1986 – At the introduction of SAP mid-year, 30% import levy was abolished and import duties reduced on various items such as basic industrial raw materials, agricultural inputs including tractors (CKD), grain, chocolate powder and rubber tiles; banned items reduced from 74 to 16; Exemption of raw materials imported for export production from import levy 1988 – Import duties on some intermediates like battery parts, rolled sheets and tin plates reduced; to reduce transport cost, duties on commercial vehicle parts and tractors reduced to 5% from 25%. 1991 – Introduction of "Manufacturing-in-Bond Scheme" whereby manufacturers could import duty-free the raw materials (whether or not they were under prohibition) for the production of exportable goods backed by a bond issued by a first class bank which guaranteed that all the products would be exported 1994 – Free duties on CKD components for assembly plants, tin ore, billets and raw materials imports for manufactures of spare parts 1997 – VAT exemption on plant, machinery imported for gas utilization in downstream petroleum operations 1998 – Liberalization of imports of used vehicles and motorcycles at the appropriate duty rate to enhance government revenue from import duties. (iii) Reduction in the number of items in import prohibition list, used vehicles and motorcycles to make them dutiable.	1986 – With SAP, duties increased on capital goods, milk, cement and medicaments and dairy 1988 – Tariff Review Board set up to monitor effectiveness of measures aimed at promoting competitiveness and efficiency in domestic economic activities; 7-year plan tariff structure to provide more protection for local industries; Introduction of anti-dumping tariff on roofing sheets, tomato paste and puree, aluminium coils, batteries; duties on some final locally produced goods raised but to decline annually back to their initial rate in the sixth year; dealings in prohibited items (wines, rice, maize, wheat, fruits, and vegetables, poultry, used tyres, etc) to attract forfeiture and life imprisonment 1990 - In anti-dumping move, import duties on fluorescent tubes, batteries, starch, glass shells jewellery, toothbrush and wheel barrow were significantly raised. 1994 – Duty increase on automobile from 30% to 100%; increasing import duties on soya cake and meal, as well as groundnut cake from 15 to 25 percent; All derivatives of yam, maize, rice and cassava as well as railway slippers, floor and ceiling tiles were removed from the export prohibition list 1996 - Nigerian companies granted tax exemption on profit from some export oriented activities; earnings from dividend, interest, rent, royalties, fees, and commissions from foreign countries attracted 100% tax rebate;
High and rising (2000-14)	2009 – Various trade incentives granted on importation of inputs into cement manufacturing; ECOWAS Common External Tariff (CET) was reviewed to include a 5th band of 35% for final goods that are manufactured locally and which therefore require some protection in order to promote local industries. CET requires ECOWAS members to harmonise ad valorem tariff rates into four bands: i) Zero duty on social goods such as medicine and publications; ii) 5 per cent duty on raw materials; iii) 10 per cent duty on intermediate goods; iv) 20 per cent on finished goods 2010 – Lifting of ban and replacement with tariff on some items including: cassava, toothpicks, furniture, textiles, water and beverages and vehicles that are more than 10 years old 2012 – zero duty on selected agricultural equipment 2014 – Tariff and levy on imported rice were reviewed downwards for investors with rice milling capacity and verifiable backward integration programmes.	2001 – Introduction of backward integration policy for cement giving quota to importers based on their investment in local cement plant 2009 - Campaign for Patronage of Made-in-Nigeria Products was launched; ban on importation of bagged cement 2010 –Nigerian Local Content Policy Bill was signed into law to increase local participation in oil and gas and increase linkage with other sectors. 2012 – increase in tariff on rice, sugar, starch, wheat flour; tax rebate of 12% for bakers that attain 40% cassava content

High and falling (2015-17)	2015 – Under National Automotive Industry Development Plan (NAIDP), zero duty on CKD, 5% and 10% on first and second grade semi-CKD parts; ECOWAS CET (2015-2019) was launched; 2017: Objectives of the Economic Recovery and Growth Plan include: Retain sector-based concessions and waivers and zero per cent duty on the imports of equipment and machinery required for strategic sector; Rationalize tariffs and waivers in line with priority sectors	2015 – Anchor Borrower Programme launched by CBN to aid sufficiency in rice, wheat, fish, oil palm, cotton/textile, and sugar; Exclusion of 41 items from accessing foreign exchange at the Nigerian forex market 2016 – Importation of rice restricted to only designated seaports and banned from land borders 2017 – Vehicles importation banned through land border; Objectives of the Economic Recovery and Growth Plan include: Move Nigeria towards becoming self-sufficient in food production, particularly in rice; Promote the Made in Nigeria campaign to encourage local production and import substitution.

Source: CBN Annual Reports (various years) and Circulars

Table 2 provides further numeric evidence to the discussions in table 1 above. It is shown that Nigeria has not been able to increase the share of manufacturing in its GDP despite its ISI strategy over the years. The figures also depict lower manufacturing share in the regimes of high oil price; for instance 8.6% in the period 2000-2014. From 1974 till date, the share of non-oil in Nigeria's exports has always been less than 10%, signifying that the country has not been successful in diversifying and expanding its exports. Moreover, the shares of consumer goods in Nigeria's import appear relatively higher in regimes of high and rising oil price while those of raw materials decline accordingly in these periods.

Table 2: Period average values of indicators

	Oil Price Regimes					
Indicators	**Low and stable (1970-73)**	**Low and rising (1974-85)**	**Low and stable (1986-99)**	**High and rising (2000-14)**	**High and falling (2015-17)**	**All period (1970-2016)**
Oil price ($/b)	2.1	24.3	18.7	71.3	49.9	37.1
Inflation rate (%)	6.4	17.8	30.8	12.2	14.5	18.7
Interest rate (%)	7.0	8.1	19.9	18.0	17.1	15.1
GDP (current prices) N'b	20.3	121.6	2,005.9	39,420.9	104,219.9	19,449.9
GDP growth (%)	13.7	23.5	3.0	7.6	0.7	10.3
Agriculture share in GDP (%)	18.1	11.8	23.9	25.9	21.0	20.8
Agriculture growth (%)	4.9	18.0	4.0	8.8	3.8	9.1
Mining & Quarrying share in GDP (%)	6.2	8.6	11.7	13.6	7.0	10.8
Mining & Quarrying growth (%)	39.0	32.3	2.3	0.9	-5.0	12.0
Solid minerals share in GDP (%)	2.6	5.0	1.0	0.1	0.1	1.8
Solid minerals growth (%)	20.4	44.0	-4.0	11.0	-2.2	14.8
Manufacturing share in GDP (%)	13.0	15.9	16.5	8.6	9.0	13.1
Manufacturing growth (%)	16.3	24.2	0.4	10.8	-2.0	10.8
Total Export (N'b)	1.5	8.6	459.5	8,382.2	10,556.3	3,415.5
Share of non-oil export (%)	25.9	5.5	3.8	4.2	7.5	6.4
Total import (N'b)	1.0	7.4	324.7	4,841.0	9,604.4	2,209.7
Share of non-oil import (%)	95.6	97.8	80.9	76.7	77.6	84.8
Current account balance (N'b)	-0.1	-0.5	14.3	2,171.1	334.6	703.4
Exchange rate (N/$)	0.7	0.7	19.8	135.3	250.9	64.0
External reserves ($'b)	0.3	2.4	4.6	30.3	30.7	13.4
Consumer Goods in Imports (%)	32.7	34.1	32.4	43.0	40.4	36.6
Capital Goods in Imports (%)	38.0	38.7	30.4	32.6	43.2	34.2
Raw Materials in Imports (%)	28.0	26.9	37.0	23.8	15.5	28.8
Miscellaneous in Imports (%)	1.3	0.3	0.2	0.6	0.9	0.5
Governments	1 Military	4 Military				
1 Civilian						
	3 Military					
1 Civilian (interim)	3 Civilian	2 Civilian	Various			

Source: CBN Statistical Bulleting, Annual Reports (various years)

Summary and Policy Suggestions

The paper shows that Nigeria's ISI strategy has not been effective and trade protections are implemented with huge costs to the government and consumers. Nigeria's commitment to its ISI strategy appears to be affected by improved availability of foreign exchange during periods of high oil price and also by the pressure to generate revenue in low oil price periods. For desirable success to be recorded therefore, the country needs to implement its trade policy in a consistent manner that is less susceptible to oil price movements. In addition, comprehensive cost and benefit analyses of protectionism should be done to establish that the latter is greater. There is also the need to properly identify the right industry to be protected based on comparative advantage analysis, strict timelines need to be specified over which protection will run and there should be the institutionalisation of adequate monitoring and evaluation mechanism of protected industries and protection outcomes.

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