NESG 2019 Foreign Trade Alert

March 2020

Trade Surplus shrinks in 2019 as Nigeria's closure of land borders led to a trade deficit in 2019Q4

Summary

2019 full year trade figures were slightly better due to impressive performance from Q1-Q3. However, trade figures in the last quarter of 2019 were largely unimpressive due to the land border closure.

- **Positive but declining trade balance recorded.** For full year (FY) 2019, export was higher than import in terms of value but import rose faster than export; hence, the shrinkage in trade surplus.
- **For FY 2019, crude oil export declined, but non-oil export increased.** Crude oil and other oil-related products export declined from N15.2 trillion in 2018 to N14.7 trillion in 2019. However, non-oil exports increased significantly from N1.2 trillion to N2.5 trillion in 2019. In terms of contribution, the former consisted of 87% of total exports, while non-oil export accounted for 13% of total exports in 2019.
- **On a quarterly basis, Nigeria's land border closure had negative impact on overall trade in the fourth quarter of 2019.** In the last quarter of 2019, crude oil exports declined by 3.2%; non-crude oil exports fell by 25.9%, while non-oil exports plunged by 43.9%. With this, overall import in the quarter was N5.35 trillion while export stood at N4.77 trillion. This implies that Nigeria's trade balance slipped into a deficit of N579 billion ($1.6 billion) for the first time since the third quarter of 2016.

External Trade in Goods jumps to N36.2 trillion in 2019, whilst Trade Surplus narrows

Nigeria's external trade value (import + export) rose by 14.2% to N36.2 trillion in FY'2019 from N31.7 trillion in 2018. Similarly, the value of external trade advanced to an 18-month high of N10.1 trillion in Q4'2019 from N9.2 trillion in Q3'2019 (see Figure 1). It also represents a 26.3% increase compared to its level in the corresponding quarter of 2018 (N8 trillion). While the ratio of export to import continued its declining trend since 2017, trade surplus narrowed further to N2.2 trillion in FY'2019 from N5.4 trillion in 2018. This is as a result of faster growth in imports relative to exports (see Figure 2). Meanwhile, trade balance for Q4'2019 moved into a deficit of N579 billion from the recorded surpluses of N1.4 trillion and N879.3 billion in Q3'2019 and Q4'2018, respectively (See Figure 3).

Figure 1: Value of External Trade from Q1'2018 to Q4'2019 (N'trillion)

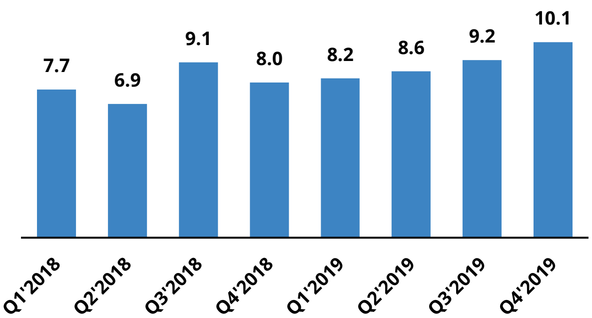
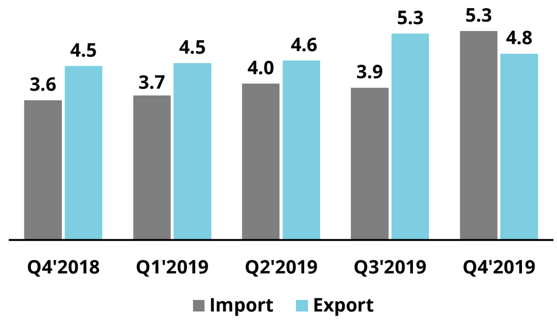
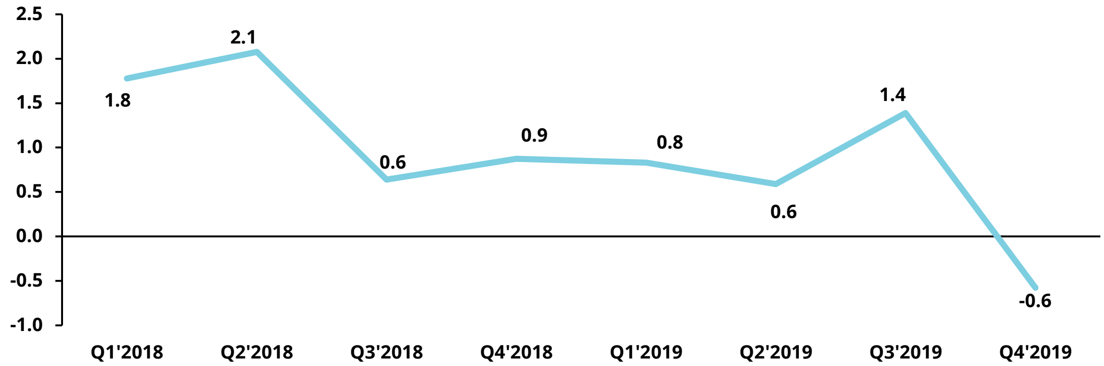


Figure 2: Quarterly Import and Export Value (N'trillion)



Source: National Bureau of Statistics and NESG Research

Figure 3: Quarterly Trade Balance* from 2018 to 2019 (N'trillion)

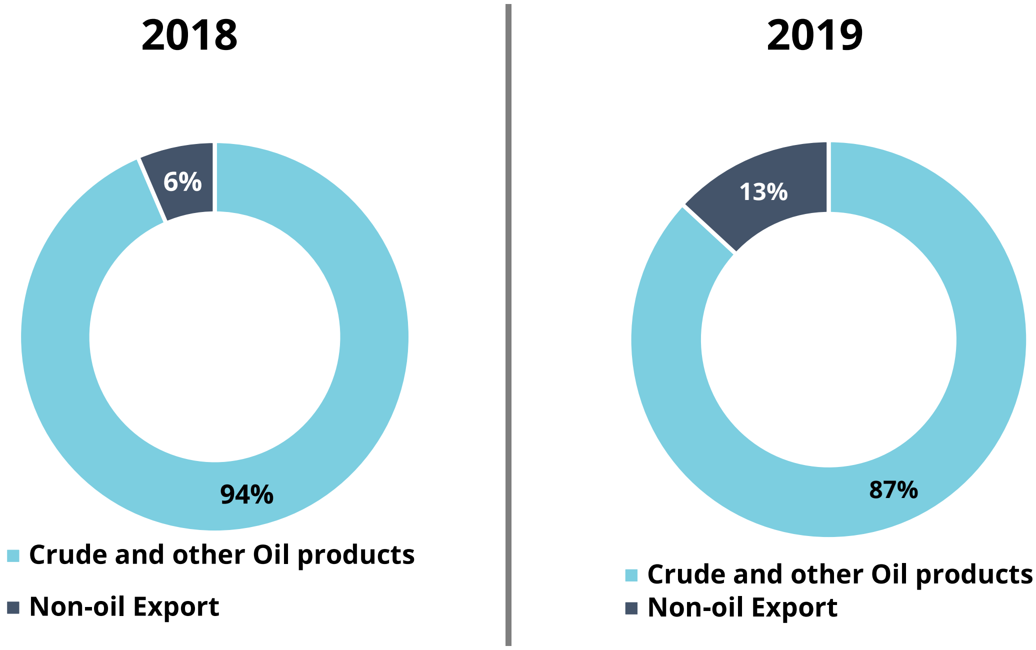


Source: National Bureau of Statistics and NESG Research
***Trade balance represents the difference between Export and Import**

Export Earnings rise marginally as Non-Oil Exports gather momentum

Total value of goods exported grew by 3.8% to N19.2 trillion in FY'2019 from N18.5 trillion in 2018. Growth in exports was triggered by an increase of 33.4% of non-crude oil export in 2019 from 31.3%. On a quarterly basis, total export earnings increased for the first three quarters of 2019 but fell to N4.8 trillion in the fourth quarter, driven by a decline in both oil and non-oil exports. This suggests that closure of the country's land borders negatively impacted trade in Q4'2019. In FY'2019, Crude oil and other oil products export continued to dominate exports earnings, albeit at a lower share of 87% of total earnings. The contribution of non-oil exports improved to 13% of total exports in 2019 from 6.4% of total exports in 2018 (compare Figures 4).

Figure 4: Composition of Export Earnings in 2018 (%)



Source: National Bureau of Statistics and NESG Research

Moreover, the non-oil exports – which excludes petrochemicals and oil-related items – spiked 108.3% to N2.5 trillion in 2019 from N1.2 trillion in 2018. This could be attributed to higher export of manufactured goods, whose share of total non-oil exports jumped to 82% (N2.1 trillion) in 2019 from 54% (N645.7 billion) in 2018. Meanwhile, other non-oil export commodities – agricultural products, raw materials, solid minerals and energy products - suffered a decline in 2019 (see Table 1).

Table 1: Performance of Non-Oil Exports and Components in 2018 and 2019

Period	Non-oil exports (N'trillion)	Share of Non-oil commodities in Non-oil exports (%)				
		Agric products	Raw materials	Solid minerals	Energy goods	Manufactured goods
2018	1.2	25	12	5	4	54
2019	2.5	11	5	1	1	82

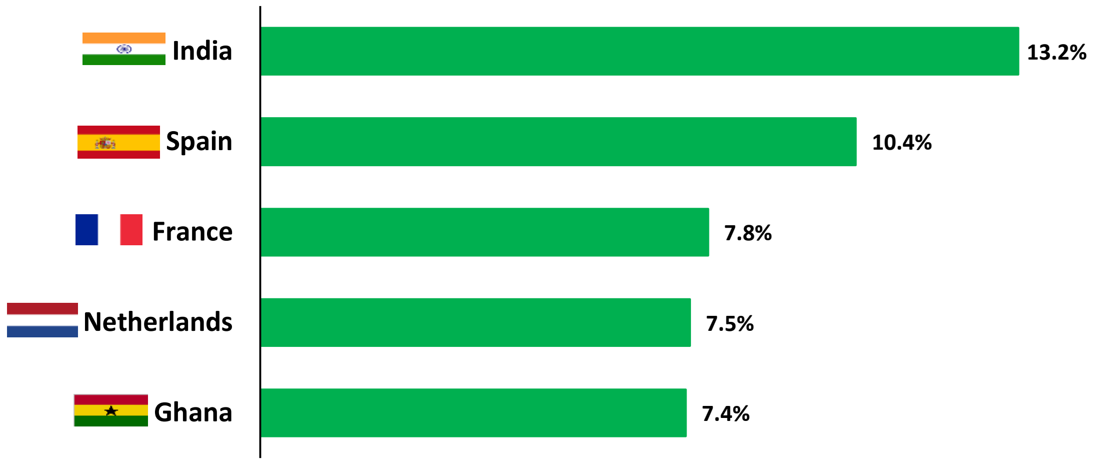
Source: National Bureau of Statistics and NESG Research

African country joins the list of Nigeria's top export trading partners

By Continent, Europe maintained its position as Nigeria's largest export trading partner, accounting for 40% of total exports in 2019, followed by Asia whose share of total exports stood at 29%. On a country level, Nigeria's top five export trading partners led by India accounted for 46% (N2.2 trillion) of total export value in Q4'2019, with crude oil being the dominant export commodity (see Figure 5).

In Q4’2019, Ghana emerged among Nigeria’s major trading partners, with a contribution of 7.4% to total exports. This, however, represents a drop in the ranking of Ghana as Nigeria’s largest export destination in Q3’2019 to the fifth largest export market in Q4’2019.

Figure 5: Major Export Trading Partners in Q4’2019 – Share of Export (%)

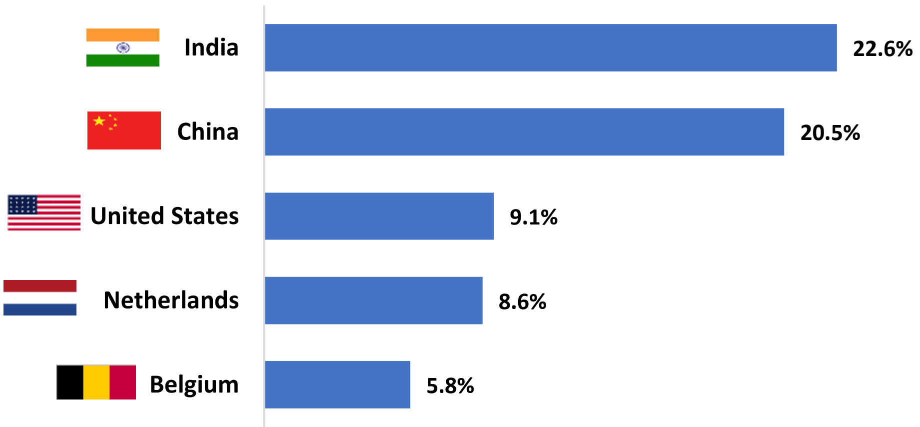


Source: National Bureau of Statistics and NESG Research

Asia remains Nigeria’s largest import source

The Asian region was the largest source of Nigeria’s imports, accounting for 50% of total merchandize imports, followed by Europe with a share of 30% of total imports in 2019. On a country level, India and China were Nigeria’s largest import trading partners with a combined share of 43.1% in total imports in the fourth quarter of 2019 (see Figure 7). Other top import trading partners in Q4’2019 were United States (9.1%), Netherlands (8.6%) and Belgium (5.8%). Top among the imported products were electro-diagnostic apparatus and premium motor spirit (petrol), which accounted for 27% of total imports in Q4’2019.

Figure 7: Major Import Trading Partners in Q4’2019 – Share of Imports (%)



Source: National Bureau of Statistics and NESG Research

Mineral Fuel Imports Dwindle, as Growth in Imports Declines

Value of imported commodities increased by 28.8% to N17 trillion in 2019 from N13.2 trillion in 2018 (see Table 2). This represents a decline compared to the growth in imports of 37.7% in 2018. Similarly, the value of import trade for Q4'2019 rose to N5.3 trillion, which is 35.9% and 47.2% higher than its levels in Q3'2019 and Q4'2018 respectively. The increase in merchandize imports could be attributed to high importation of industrial products - including chemical products, manufactured goods and machinery & transport equipment - which jointly accounted for 75% of total imports (N12.8 trillion) in 2019. This compares unfavourably with the same basket of commodities which had a combined share of 60% in Nigeria's imports in 2018. Meanwhile, the share of mineral fuel in Nigeria's imports fell sharply to 16% of total imports (N2.6 trillion) in 2019 from 30% of the total (N3.9 trillion) in 2018.

Table 2: Performance of Merchandize Imports and Components in 2018 and 2019

Period	Total Imports (N'trillion)	Share of Total Imports (%)					
		Food & Live Animals	Mineral Fuel	Chemicals	Manufactured goods	Machinery & Transport Equipment	Others
2018	13.2	10	30	11	8	36	5
2019	17.0	9	16	12	11	46	6

Source: National Bureau of Statistics and NESG Research

Conclusion

- **Nigeria's export felt the heat of land border closure**

While Nigeria's trade figures improved significantly in the first three quarters of 2019, the land border closure, which kicked off temporarily in August 2019 and became full closure in October, plunged Nigeria's external trade account into deficit in Q4'2019. Non-oil export, which performed impressively in the first three quarters of the year declined by 43.9% in 2019Q4. Not only has the closure led to a trade deficit, it has also triggered a rise in inflation from 11% in August 2019 to 12.1% in January 2020. The NESG urges the government to work expeditiously with regional neighbours towards resolving the issues and reopening the borders as the adverse impact of border closure especially on trade, employment and cost are mounting.

- **Prospect of lower oil demand and falling crude oil prices raise some concern**

The outbreak of Corona virus (COVID-19) in China and its faster spread to other countries could cripple the demand for Nigeria's crude oil by major trading partners, such as, India. For instance, the global rating agency - Moody's – has recently revised India's growth forecast for 2020 downwards to 5.3% from 5.4% due to the pervasiveness of the virus. Lower export demand for Nigeria's crude oil coupled with persistent decline in oil prices would shrink the fiscal space and further constrain the country's trade balance.

- **Dominance of manufactured imports implies more pressure on external reserves**

Nigeria's increasing dependence on the importation of industrial products would put more pressure on the external reserve position. The growing demand for imported industrial products in Nigeria is an indication of weak domestic production base, especially given that the manufacturing sector accounted for 9% of GDP in 2019. The country's external reserves have fallen below $40 billion since November 2019. Persistent decline in external reserves in light of higher demand for forex could weaken the domestic currency, thereby hurting the operations of import-dependent manufacturing sector players. Meanwhile, the coming on board of Dangote refinery by 2021 would reduce Nigeria's reliance on imported fuel and petro-chemical products in the medium term. Equally important is sincere commitment in the revitalization of the existing refineries – whose production capacity is currently sub-optimal relative to growing demand for PMS (petrol) in the country. Making the local refineries work as well as addressing issues of power, infrastructure challenges among others, would improve the performance of the manufacturing sector going forward.

About NESG

The NESG is an independent, non-partisan, non-sectarian organization, committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought so as to explore, discover and support initiatives directed at improving Nigeria's economic policies, institutions, and management.

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