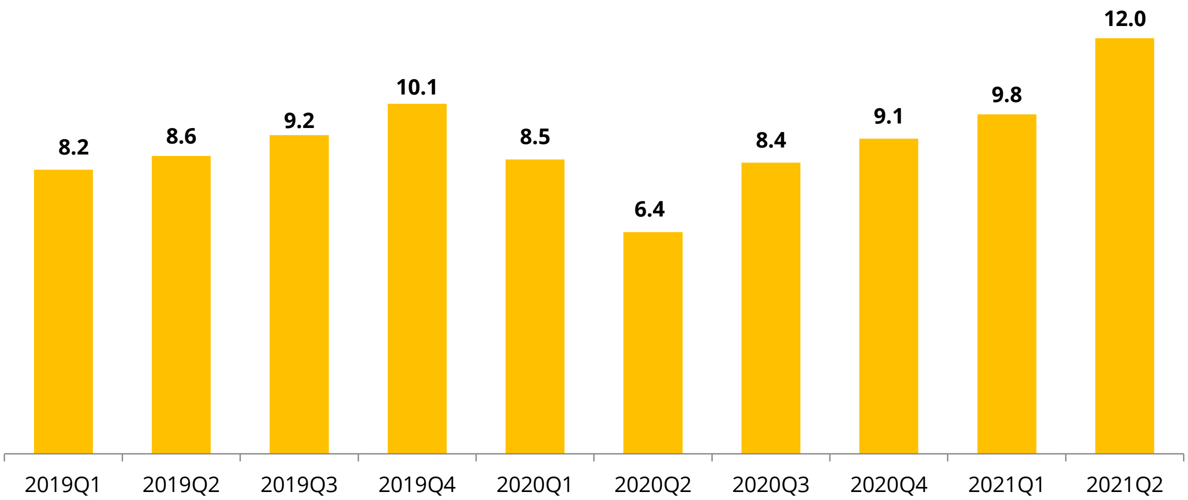
NESG 2021Q2 Foreign Trade Alert

October 2021

Nigeria's External Trade for 2021Q2 improved on less stringent COVID-19 restrictions, amid new variants

Nigeria's external trade value rose sharply by 88.7% (year-on-year) to N12 trillion in the second quarter of 2021 from N6.4 trillion in 2020Q2. Cumulatively, the value of external trade stood at N21.8 trillion in the first half of 2021, 46.3% higher than its level (N14.9 trillion) in the corresponding period of 2020. Similarly, the external trade value in Q2'2021 was over one-fifth higher than Q1'2021 value (N9.8 trillion) (see **Figure 1**). The rapid improvement in the country's external trade value could be largely attributed to the relaxation of pandemic-induced restrictions, amidst persistent spread of the Delta variant of COVID-19.

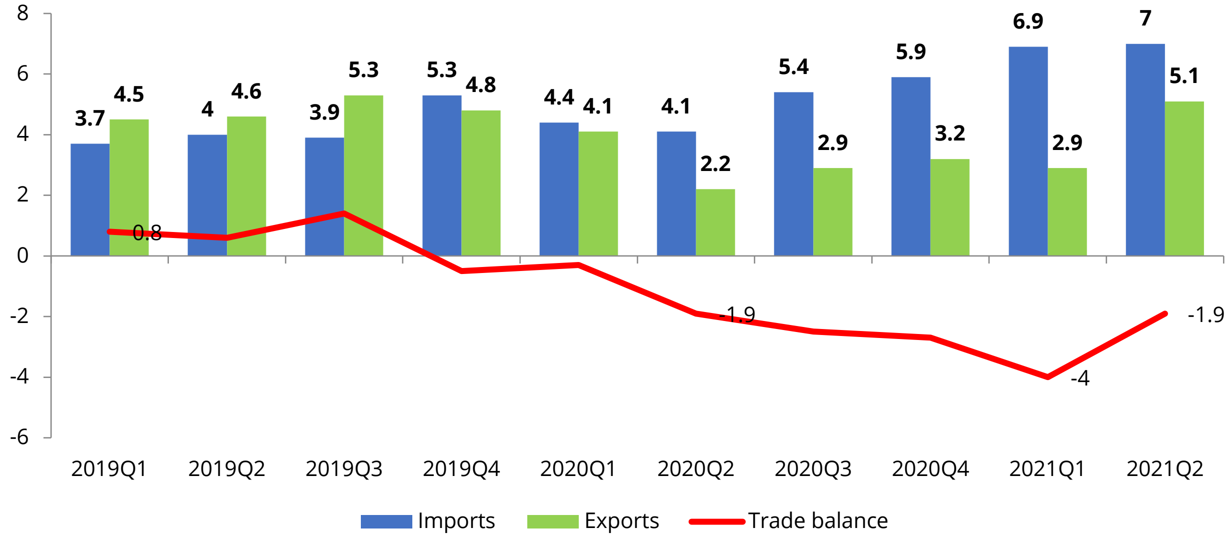
Figure 1: Value of External Trade (N'trillion)



Data: NBS; Chart: NESG Research

Merchandize imports were higher than merchandize exports, leading to a trade deficit of -N1.9 trillion in 2021Q2, same as in 2020Q1 (see **Figure 2**). On a cumulative basis, trade deficit for the first half of 2021 stood at –N5.8 trillion, larger than its level in the corresponding period of 2020 (-N2.3 trillion). It is noteworthy that Nigeria's trade deficit has persisted since 2019Q4.

Figure 2: Value of Import & Export Trade and Trade Balance (N'trillion)



Data: NBS; Chart: NESG Research

Oil and Non-Oil Export Earnings rose in 2021Q2

The total value of goods exported spiked by 128.3% to N5.1 trillion in 2021Q2 from N2.2 trillion in 2020Q2. Cumulatively, the overall export earnings rose by 25% to N7.9 trillion in H1'2021 from N6.3 trillion in H1'2020, buoyed by higher oil and non-oil exports. Oil exports – which accounted for 91% of total export earnings in the quarter – rose sharply from N1.6 trillion in 2020Q2 to N4.1 trillion in 2021Q2. This is attributable to rapid increases in global oil price – which averaged US$68.7 per barrel in 2021Q2, 147.1% higher than the average oil price of US$27.8 per barrel in 2020Q2. On the other hand, non-oil exports – which accounted for 9% of total export earnings in the quarter - increased to N352.9 billion in 2021Q2 from N462.9 billion in 2020Q2. The stellar performance of non-oil exports – which exclude petrochemicals and oil-related items – was largely driven by an increase in earnings from all categories of non-oil exports (see **Table 1**).

Table 1: Performance of Non-Oil Exports and Components (2020Q2 Vs. 2021Q2)

Period	Share of Non-oil commodities in Non-oil exports (%)

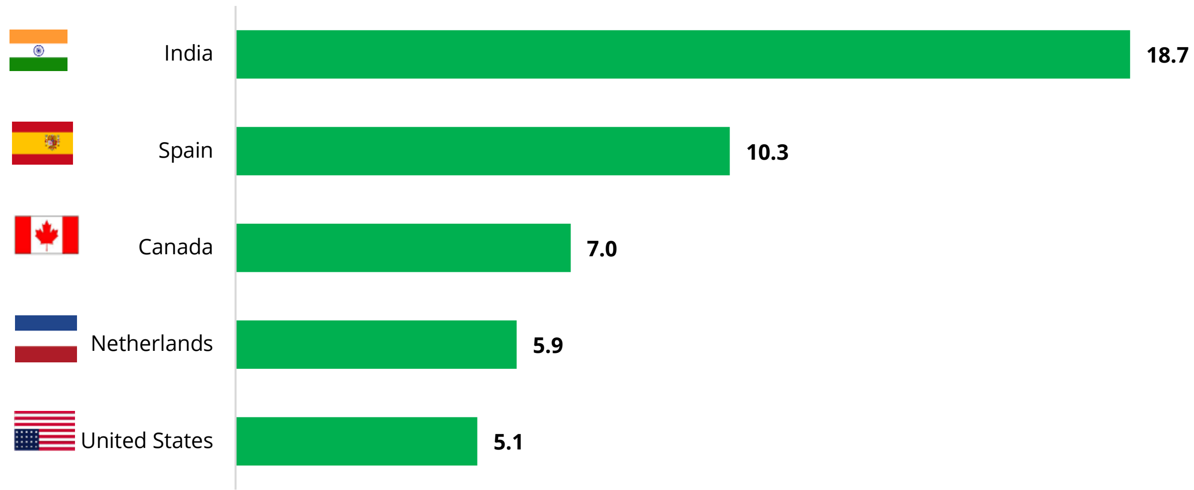
	Non-oil exports (N'billion)	Agric products	Raw materials	Solid minerals	Energy goods	Manufactures
2020Q2	352.9	22.1	4.2	0.4	1.2	72
2021Q2	462.9	36	14	3	2	46

Data: NBS; Table: NESG Research

Asia becomes Nigeria's largest export trading partner

Europe - with a share of 35.9% total exports - lost its position as Nigeria's largest export destination to Asia (36.3%) in the second quarter of 2021. On a country level, India remained Nigeria's largest export market, accounting for 18.7% of total exports in 2021Q2 (with higher crude oil contents - the largest importer of Nigeria's Bonny Light), followed by Spain (10.3%), Canada (7%), the Netherlands (5.9%) and the United States (5.1%) in 2021Q2 (see **Figure 3**).

Figure 3: Major Export Trading Partners in 2021Q2 – Share of Export (%)

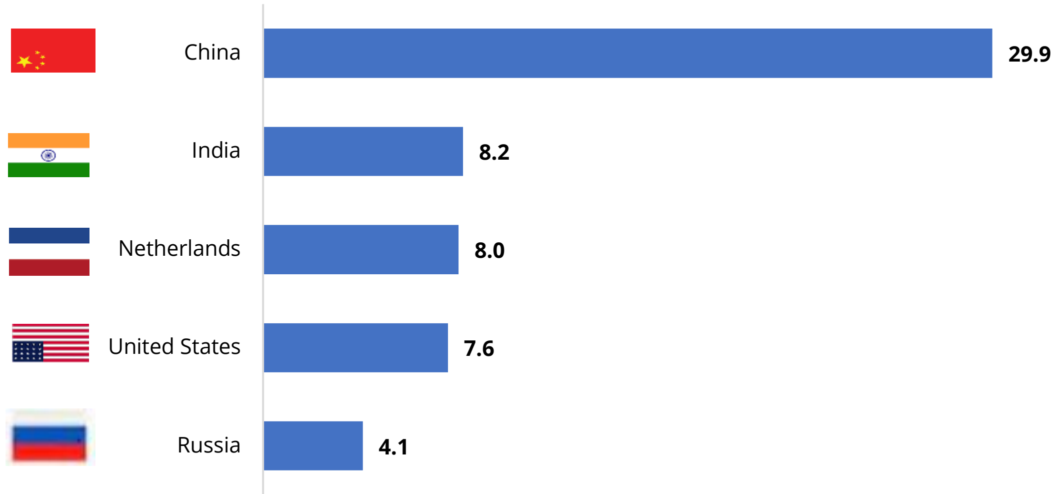


Data: NBS; Chart: NESG Research

Asia maintained lead as the main source of Nigeria's imports

The Asian continent was the largest source of Nigeria's imports, accounting for half of the overall imports in 2021Q2, followed by Europe with a share of 33%. On a country level, China and India were Nigeria's largest import trading partners with a combined share of 38.1% in 2021Q2 (see **Figure 4**). Other top import trading partners in the quarter were the Netherlands (8%), United States (7.6%) and Russia (4.1%).

Figure 4: Major Import Trading Partners in 2021Q2 – Share of Imports (%)



Data: NBS; Chart: NESG Research

Overall imports buoyed by bills on food and live animals and mineral fuels

The value of imported commodities rose from N6.9 trillion in 2020Q2 to N7 trillion in 2021Q2 (see **Table 2**). The slight increase in overall imports was driven by larger import bills in favour of food & live animals, and mineral fuel products. Similarly, the import values of other items – chemicals, manufactured goods, machinery & transport equipment, as well as, other categories of imports - rose in 2021Q2 over their respective levels in 2020Q2.

Table 2: Performance of Merchandize Imports and Components (2020Q2 Vs 2021Q2)

Period	Total Imports (N'trillion)	Share of Total Imports (%)					
		Food & Live Animals	Mineral Fuel	Chemicals	Manufactured goods	Machinery & Transport Equipment	Others
2020Q2	6.9	16.1	5.5	19.3	12	39.7	7.3
2021Q2	7	13.7	16	18.3	9.2	35.9	6.9

Note: The category "others" include beverages & tobacco; crude inedible materials; oil, fats & waxes; miscellaneous manufactured commodities and articles.

Data: NBS; Table: NESG Research

Conclusion

- **Nigeria requires deliberate efforts to promote value chain development in agro-processing and light manufacturing to improve export proceeds, going forward.** The improvement in earnings from agricultural and manufacturing exports suggests the increasing need to stimulate the local production of agricultural value chains and light manufactured products. While this would help to de-emphasize Nigeria's overdependence on petro-dollars, it would equally avail the country the opportunity to spur non-oil sector growth and to diversify its export destination. Considering that Nigeria is a net importer of food items and manufactured products (including refined fuel), the government needs to address the structural challenges bedeviling the manufacturing sector. Efforts should be channeled to improving foreign exchange access amongst the sector players, investing in research and development to explore and leverage local resource endowments and talents, eliminating multiple taxation that threatens business existence, addressing power supply deficit, as well as, removing regulatory bottlenecks. The recently passed Petroleum Industry Act (PIA) should be made to deliver on its key promise of improving investment inflows into the downstream oil and gas sector, as this would reduce or even curb the importation of refined petroleum and oil-related products into Nigeria. Achieving this feat would help the country to save a large chunk of foreign exchange earnings expended on imports and to boost external reserves.

- **There is an urgent need to address transport infrastructure bottlenecks and improve logistics as part of measures to reaping the full benefits of AfCFTA.** Anecdotal evidence has shown that countries with modern transport infrastructure and improved logistics are better positioned to maximize the gains from the African Continental Free Trade Area (AfCFTA) agreement. It is upon this premise that the Nigerian government urgently requires an effective Public-Private Partnership (PPP) framework that could help narrow the country's huge infrastructural deficit. In 2018, the African Development Bank estimated that Nigeria requires as much as US$3 trillion in the next 26 years to plug her infrastructural gap, and this corresponds to US$115.4 billion (N43.7 trillion)[1] per annum. However, estimated the capital releases in 2020 was N1.8 trillion (US$4.7 billion), representing 4.1% of the annual funding requirements to plug infrastructural gap. If the Federal Government of Nigeria maintains a similar spending pattern long into the future, it will take approximately more than 6 centuries to fully plug infrastructural gap in Nigeria. Additionally, there is an urgent need to improve the operational efficiency of the existing seaports

[1]The exchange rate benchmark in the approved 2021 budget (N379/US$) was used for currency conversion.

(about 6 in number) and also create new ones for speedy clearance of consignments henceforth.

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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