

**NESG Foreign Trade Alert**

September 2019

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**External Trade in Goods Rises to N8.6 trillion, but Trade Balance Narrows**

Nigeria’s external trade value inched up to N8.6 trillion in the second quarter of 2019 (2019Q2), 24.2% higher than the same period in 2018. Equally, this marks a marginal increase of 4.4% over the previous quarter (2019Q1). The ratio of export to import remained favourable at 53:47 with a positive trade balance of N588.9 billion, albeit a 63.1% decline relative to 2018Q2. Consequently, in the first half of 2019, total value of foreign trade increased by 15.4% to N16.8 trillion, compared to the same period in 2018.

**Figure 1: Foreign Trade in Export, Import and Trade Balance (N’ Trillion)**

**Source: National Bureau of Statistics and NESG Research**

**Export Earnings by value remained undiversified**

Total value of goods exported stood at N4.6 trillion in 2019Q2, a marginal increase of 1.3% over the previous quarter and 2.1% over 2018Q2. Growth in exports was triggered by an increase in oil exports, which grew by 2% and 11%, when compared with 2018Q2 and 2019Q1, respectively. Crude and other Oil Products continued to dominate exports earnings, accounting for 95% of total earnings in the quarter. Non-oil export, on the other hand, fell to N228 billion in the second quarter of 2019, from N604.4 billion in the previous quarter. The performance of key sectors such as agriculture, raw material, solid mineral and manufactured exports, dragged down the total value of non-oil export.

**Figure 2: Sources of Export Earnings – 2019Q2 Table 1: Top 5 Export Items in 2019Q2**

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| --- | --- | --- | --- |
|  | Export Item | Share of Export (%) | Value (N’ Billion) |
| 1 | Mineral Products | 94.9 | 4,362.2 |
| 2 | Vessels | 1.0 | 43.7 |
| 3 | Sesamum Seeds | 0.5 | 21.1 |
| 4 | Cashew Nut | 0.4 | 19.3 |
| 5 | Urea | 0.3 | 13.8 |
| 6 | Others | 3.0 | 136.1 |
| Total | | **100** | **4,596.2** |

**Source: National Bureau of Statistics and NESG Research**

Europe remained Nigeria’s top trading partner, accounting for 46% of Nigeria’s exports in the quarter. Nigeria’s top five export trading partners accounted for 53.5% (N2.5 trillion) of total export value in 2019Q2, dealing mainly in crude oil.

**Figure 3: Major Export Trading Partners in 2019Q2 – Share of Export (%)**

**Source: National Bureau of Statistics and NESG Research**

**Import Trade Transactions Gain Momentum**

Value of trade Import increased by 65.2% to N4 trillion in 2019Q2, relative to the previous quarter. Manufacturing items dominated Nigeria's imports, accounting for 61.7% (N2.65 trillion). This Suggests that manufactured goods have a more overwhelming effect on external reserves relative to agricultural goods, which accounted for only 6.2% of trade import in 2019Q2.

**Figure 4: Share of Imports by major category in 2019Q2**

**Source: National Bureau of Statistics and NESG Research**

Higher imports have been the main driver for the recent compression of the trade balance. A further assessment, however confirms that the recent surge in import has been largely as a result of increase in the importation of items such as machinery and transport equipment. This, in itself, is a welcomed development and could have a positive impact on the economy.

**Figure 5: Share of Machine and Transport Equipment Import to Total Import**

**32.4%**

**2019H1**

**2017**

**2018**

**2016**

**2015**

Non-capital Imports

Capital Imports

**Source: National Bureau of Statistics and NESG Research**

China Emerged the top trading partner by a far margin, accounting for 25.5% (N1 trillion) of Nigeria's trade imports. Nigeria's top five import trading partners controlled 59% (N2.4 trillion) of the economy‘s trade in import merchandise. Key import items were petrol (14.4%), used vehicles (3.7%), kerosene (3.3%) and diesel (3.3%).

**Figure 6: Major Import Trading Partners in 2019Q2 – Share of Export (%)**

**Source: National Bureau of Statistics and NESG Research**

**Conclusion**

* **Nigeria has successfully maintained a positive trade balance since its exit from recession.** Since 2017Q1, the Nigerian economy has maintained a favourable balance of trade for nine consecutive quarters. This favourable balance is helpful for external reserves accretion. However, trade balance has narrowed considerably in the last four quarters.
* **Machinery and transport equipment accounted for 41.2% of trade imports in 2019H1.** Higher import value recorded in 2019H1 was largely as a result of the importation of heavy machineries – investment in the production value chain. This is positive for the economy in the medium term.
* **Need to further diversify foreign exchange receipts.** The Nigerian economy remains highly dependent on crude oil revenue to earn foreign exchange. This makes the economy more vulnerable to the international oil market. Hence, the government needs to facilitate the growth in non-oil export items – this could be achieved by a combination of favourable regulatory framework and infrastructural support.
* **Favourable business environment could prop up activities in the manufacturing sector.** Manufactured goods accounted for only 1.6% of total export in 2019Q2. Nigeria needs to attain comparative advantage in key activities under this sector – due to the impending adoption of the African Continental Free Trade Area (AfCFTA) Agreement. The capacity to export manufactured goods – semi-processed or processed – will be a critical success factor when the pact kicks off. Hence, the need to promote export-oriented reforms.

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