Nigeria Trade Brief

Trade Policy

Nigeria's tariff policy is mostly governed by the recently revised Common External Tariff (CET) regime of the Economic Community of West African States (ECOWAS). Initially adopted in 2005, the four-band CET with a maximum rate of 20 percent, was revised in June 2009 to include a fifth band of 35 percent, primarily at the behest of Nigeria. Nigeria applies the 35 percent rate to 167 (of 5,671) tariff line items, and the new CET covers about 80 percent of the country's tariff lines that had non-zero import values in 2008.[1] Besides tariff barriers, Nigeria has a long list of prohibited imports (and a shorter list of prohibited exports), making smuggling prevalent in the country. Smuggled imports typically enter Nigeria from its regional neighbors (Benin, Niger, Cameroon, and Chad). In September 2008, the trade regime was amended to lower tariffs for a wide range of goods and replace a number of import bans by tariffs. Based on the country's latest (2006) MFN Tariff Trade Restrictive Index (TTRI)[2] of 11.4 percent, it ranks 98th (where 1st is least restrictive) of 125 countries. Based on this index, Nigeria is as open to trade as the average sub-Saharan Africa (SSA) country but is more restrictive than the average lower-middle-income country (TTRI of 8.6 percent). With the government's aim of enhancing food security, the agricultural sector is afforded a high level of tariff protection (TTRI of 28 percent) compared to the non-agricultural sector (TTRI of 8.5 percent).

The country's average MFN applied tariff (including ad valorem equivalents of specific duties) has decreased dramatically from the late 1990s and early 2000s when it was well over 20 percent and now stands at 12 percent. The maximum applied MFN tariff (excluding alcohol and tobacco) has also decreased in the last decade and was 50 percent as of 2008. The country's trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), is very large at 106.4 percent, compared to 48.1 percent on average for its regional neighbors and 29.5 percent for the lower-middle-income countries. The country ranks 91st (out of 148) on the GATS Commitments Index, reflecting ample room for committing to further multilateral liberalization in services trade.

Faced with high food prices in 2008, the government drastically lowered the import tax on rice from 100 percent to 2.7 percent and allocated a special fund for rice imports to fight food shortages.

External Environment

More than 95 percent of Nigeria's exports are oil and gas, which face very few barriers of entry in overseas markets. This is reflected in the country's Market Access TTRI[3] (including preferences) of 0.8 percent, which is significantly below the SSA and lower-middle-income country group averages of 3.9 percent and 2.3 percent, respectively. The weighted average rest of the world tariff faced by Nigerian exports is also low at 0.2 percent, driven primarily by the low tariff of 0.2 percent faced by its non-agricultural exports. Agricultural exports face a higher tariff of 1.7 percent. Over the course of 2008, the Nigerian naira appreciated by 10.7 percent in real, trade-weighted terms, reducing the competitiveness of the country's exports.

As negotiations between ECOWAS and the EU towards a comprehensive Economic Partnership Agreement (EPA) stalled prior to the December 2007 deadline, Nigeria opted not to sign a bilateral "interim" agreement with the EU. As a result, the preferences under the Cotonou Agreement elapsed. Nigeria's non-oil exports, as those of a non–least developed country (LDC), may now only benefit from lower preferences under the General System of Preferences (GSP) scheme. The country continues to negotiate an EPA with the EU as part of the ECOWAS.

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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Behind the Border Constraints

Global rankings point to a somewhat weak institutional environment, with Nigeria being ranked 125th in the 2010 Ease of Doing Business index, which looks at the business environment in 183 countries. The Logistics Performance Index (LPI), a measure of the extent of trade facilitation, rates Nigeria at 2.4, on a scale of 1 to 5, compared with 2.35 for the SSA region and 2.47 for countries in the lower-middle-income group. It ranked 93rd (out of 150) in the world and 14th (out of 39) in the SSA region (with South Africa leading the regional group). Among the LPI subcategories, its best performance was in lowering domestic logistics costs while its weakest performance was in the quality of transport and IT infrastructure for logistics and the efficiency and effectiveness of customs procedures.

Trade Outcomes

Real growth (in constant 2000 U.S. dollars) of trade in goods and services increased slightly from 3.5 percent in 2007 to an estimated 3.9 percent in 2008. Although exports fell by an estimated 0.6 percent in 2008, this was a significant improvement over the contraction of 8.9 percent in 2007. Imports managed to register estimated growth of 7.1 percent, but this was lower than the growth rate of 14.9 percent in 2007. The performance of both exports and imports is expected to worsen in 2009.

In nominal terms, growth of the trade in goods and services accelerated from 9.9 percent in 2007 to an estimated 26.6 percent in 2008, but a large decline in trade of 26.1 percent is expected in 2009. Export of goods and services registered an impressive growth of an estimated 31.1 percent in 2008, after a growth of only 2.9 percent in 2007, while import growth remained at an estimated 20.5 percent. The bulk of export growth came from goods exports which increased by an estimated 33.7 percent in 2008, boosted by high oil prices. However, a fall in oil prices, coupled with changes in production due to instability in the Niger Delta region, is expected to cause goods exports to drop significantly in 2009. This deterioration in the performance of goods exports already began in the fourth quarter of 2008 when goods exports fell by 22 percent in nominal U.S. dollar terms compared to the same period in the previous year. Goods exports in the first half of 2009 were less than half their value in the same period in 2008, dropping by 51.5 percent on a year-on-year basis. Exports did improve in Q2 2009, as oil prices rose. Services exports did not perform as well as goods exports in 2008, growing by an estimated 1.3 percent after increasing by 49.4 percent in 2007, and are expected to fall by 6.2 percent in 2009. The drop in goods imports was less steep than that of exports, with a 24.5 percent reduction in the first half of 2009 compared to the same period in 2008. Foreign direct investment as a share of GDP was 3.7 percent in 2007.

Notes

1. Nigeria Customs Service 2009, and WITS Database.
2. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
3. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.

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