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# A seven-point agenda for Nigeria's trade growth

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## A SEVEN-POINT AGENDA FOR NIGERIA'S TRADE GROWTH

*Given the country's enormous trade potential in the African continent and the world, it is important to raise the agenda of Nigeria's trade and development. This is in light of empirical evidence that shows trade can help in reducing poverty.*



Nigerian President Bola Ahmed Tinubu

Nigeria, Africa's largest economy, has a great need, and strong potentials, to grow its export sector. For decades, the country was a top-six crude oil producer among the trade cartel, Organisation of the Petroleum Exporting Countries (OPEC), and currently has an export quota of 1.8 million barrels per day. But from contributing more than a quarter of the GDP for decades, crude oil accounted for just 5.67 percent of the aggregate economic output in 2022, according to the country's statistics agency, National Bureau of Statistics (NBS). Nevertheless,

revenue from the exportation of the mineral commodity still accounts for more than 90 percent of government's foreign exchange receipts. This over-reliance on oil proceeds subjects Nigeria's public finance, national currency, and indeed the entire economy to external shocks.

Several sectors of the economy can help broaden the base of Nigeria's exports and foreign exchange revenue of the government. The Nigerian Export-Import Bank (NEXIM), the country's export credit agency, has been promoting four of these sectors, namely manufacturing, agriculture (with

emphasis on agro-processing), solid minerals, and services. As per NBS data, manufacturing accounted for 8.40 percent of Nigeria's real GDP in Q4 2022. The country's large population, estimated in July 2023 at 224 million by Worldometer.info, provides a major theme for investment in local manufacturing. Nigeria can also leverage its status of a regional economic giant to manufacture consumer products for export to the West African subregion and the rest of the continent under the auspices of the African Continental Free Trade Area (AfCFTA) agreement that came into force in 2019 and operationally launched in 2021.

Agriculture contributed 26.46 percent to Nigeria's aggregate output in the last quarter of 2022. Security challenges currently undercuts the sector's output growth, even as the country has continued to rely on low-yield crop varieties. The absence of adequate investments, including in infrastructure, results in significant post-harvest loss of farm produce. Meanwhile, Nigerian agricultural products continue to face challenges in accessing export markets of Europe and the United States due to various technical issues as well as non-tariff barriers including subsidies offered to local farmers that make agricultural imports into the developed economies uncompetitive.

Nigeria boasts of 34 solid minerals in commercial quantity, including silver, tin, columbite, calcium, and limestone, which can be extracted and processed to serve local and export demands. In the meantime, artisanal mining dominates the poorly organised and little-funded sector. However, Nigeria has a vibrant services sector, which accounted for 56.27 percent of the real GDP in Q4 2022. The entertainment subsector is already quite



Stakeholders at the unveiling event of the navigational charts of the Lower River Niger at part of efforts towards the operational launch of the Sealink project being facilitated by NEXIM Bank, at Abuja, on 16 March 2023

internationalised through Nollywood – the country’s movie industry – which is reputed to be the world’s second-largest movie industry by film turnover, after India’s Bollywood, and ahead of US Hollywood. There is also the music industry which, as of 2021, according to the international business publication Stears, is the second best-performing Entertainment and Media consumer market in the world with a gross revenue of over \$2 billion in revenue per year. Nigerian banks have also expanded to many jurisdictions in Africa, Europe, Asia, Middle East, and North America. Their sizeable balance sheets enable them to provide trade finance and advisory services to boost Nigeria’s external sector.

But in spite of these potentials, trade contributed only 16 percent to Nigeria’s GDP, after inflation has been accounted for, in 2022. To underscore the underperformance of the sector’s contribution to the country’s total output, trade accounted for 57 percent of global GDP in 2021, according to World Bank data. Only Sudan had lower trade

contribution to GDP than Nigeria among Africa countries in 2021 or 2022, the last two years for which the Bank provided comprehensive global data. The average for sub-Saharan Africa was 46 percent.

Given the country’s enormous trade potential in the African continent and the world, it is important to raise the agenda of Nigeria’s trade and development. This becomes even more important as the country has been performing negatively in fighting poverty in recent years. A 2018 study by the World Bank, “Trade and Poverty Reduction: New Evidence of Impacts in Developing Countries,” provided eight case studies that demonstrated ways trade can help reduce poverty in developing countries.

To significantly increase trade contribution to real economic output and harness its potential impact on poverty reduction, Nigeria needs to tackle the challenges faced in the sector by implementing the following seven-point agenda. First, Nigeria must prioritise the diversification of its economy.

Statistically, the Nigerian economy, which is often described as an “oil economy”, is broadly diverse. But it has a narrow export base, which is defined by the outsized contribution of the proceeds from crude oil export to government revenue. Several non-oil sectors, including the aforementioned ones, are at a low base of development, lacking needed investments. The structural coagulation of government’s foreign exchange revenue has been a source of both economic and financial instability in the country. Therefore, adequate investment in the non-oil sectors will help broaden the export base, increase the revenues of government and corporates, create Nigerian jobs, reduce poverty, and increase local know-how.

Second, investment in physical infrastructures like roads, rails, airports, sea-ports, as well as power is imperative. The inadequacy of the supply of these infrastructure means Nigeria cannot have an efficient productive sector and trade efficiency. The good news, however, comes



*National security icon*

from two fronts: the government has recently increased investment in rail projects and reform in the power sector has opened opportunities for private sector to invest where government's monopoly has been dismantled after decades of underperformance. More recently, legal reform has empowered state governments to invest across the power value chain, opening more avenues for public private partnership for investments in the sector. On a broader note, the country needs to improve its transportation sector, including harnessing its inland waterways to boost the transfer of cargoes within the Nigerian borders. Financial Nigeria magazine has extensively reported on the efforts of NEXIM in this regard, including the recent charting of the lower River Niger to make navigation in the country's inland waterways safe and in preparation for the Sealink project, which aims to provide direct maritime links between African countries.

Third, Nigeria needs to strengthen its border controls to improve border security and customs checks, while also curbing smuggling. Cross-border smuggling and informal trade – which is often not covered by official trade data – undercut government revenue. They also undermine domestic policy and efforts to boost local production. For years, smuggling of petroleum products (for which the government provided expensive subsidy) to neighbouring countries, contributed to the reasons why the subsidy became unsustainable and was, thus, abolished at the end of May this year.

Apart from training for the border personnel, the government has to introduce strong anticorruption measures at the borders and introduce technology to enhance data collection and trade facilitation.

Fourth, trade facilitation should be taken more seriously by Nigeria's federal government. The country failed to play a leading role in the creation and facilitation of the AfCFTA agreement. After what looked like an initial hesitation, the country finally assented to the agreement. Nigeria now needs to start to play a traditional leading role in the operational phase of the AfCFTA. After the major reforms that established the country's One Stop Investment Centre (OSIC) at the Nigerian Investment Promotion Commission (NIPC) in 2006, a rash of other legislative and institutional reforms have been introduced to promote Nigerian trade and investment. The country now has to bring vitality into the implementation of its trade and investment facilitation frameworks. While AfCFTA provides a framework for Nigeria's continental trade, the country must begin to establish or operationalise bilateral trade agreements with countries outside the continent. Nigeria's foreign missions should leverage their mandates to initiate and facilitate trade agreement between their home country and the countries of their assignment. Nigeria's diplomacy should support the country's trade policy and aspiration.

Fifth, the new administration in Abuja has recently responded to the call for a flexible exchange rate system which would also

remove arbitrage by eliminating the wide gap between official exchange rates and parallel market rate. This move has seen a sharp depreciation in the value of the naira. But if the market exchange rate regime is allowed to take root with other complementary reforms, including transparency and accountability, it would ultimately restore investor confidence in the Nigerian economy. More inward foreign direct investment (FDI) flows will bolster the economy and provide a boost for trade.

Sixth, the country needs to strengthen the rule of law and regulatory impartiality. Like many frontier markets, Nigeria has struggled with impartial governance of market rules and sanctity of contracts – which sometimes imposes significant liability on the government. These issues will not disappear overnight. But efforts should be made in addressing them in a transparent manner.

Seventh, the Government must overcome decades of insecurity in the country, especially in the northern part of the country as being fomented by Boko Haram and allied insurgencies, and in the Niger Delta region where the sabotage of oil installation as a form of agitation for economic justice has given way to the flourishing of crude oil theft. Insecurity has continued to be a major theme deterring foreign investors' interest in Nigeria. Military campaigns should be complemented by political will to end the security debacle. The country can certainly overcome this major challenge.

Nigeria's trade challenges are both numerous and enormous. But with comprehensive and coordinated efforts by the government, private sector, and international partners the country can overcome the challenges and dramatically improve its trade structures and potentials over the medium- to long-term.

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