Nigeria - U.S. Trade Relations in the Non-Oil Sector

Gbadebo Olusegun Odularu

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DEDICATION

"Eight years after its enactment into law, AGOA continues to have a profound and positive impact on U.S. trade and investment with sub-Saharan Africa," - U.S. Trade Representative Susan Schwab.

This whole project is dedicated to the glory of GOD. For his steadfast love, divine protection and guidance which abides forever. Furthermore, it is dedicated to my heavenly father who is the author and finisher of my faith. He has enabled me to see this day and complete this project. I am so grateful because without GOD, I am nothing and with him I can do all things. I would like to acknowledge God once again for giving me the inspiration to start and finish this work. He was and still is my source of strength at all times.

I also dedicate this thesis to my family, especially my parents who have financed my education and encouraged me throughout this study.

PREFACE AND ACKNOWLEDGEMENTS

EUREKA! The doctoral project is concluded and it is time to write the acknowledgment. I must write that being a Ph.D student has its ups and downs. On the positive side, you are given an immense amount of freedom. Freedom to explore new ideas, to always learn new things, and not least, to choose your own work hours. Life as a Ph.D is varied, exciting, flexible and fun.

On the other hand, there are moments when that freedom is less enjoyable, such as when you discover that the great idea you had was not so great after all. Or when you find that the freedom to always learn more also means that you never know enough, or that being able to choose when to work also includes the option to spend all your time in the office. To be frank, when I started the Ph.D programme in Economics (Trade) five years ago, I never knew that it would take so long a time because I was so eager to finish it and join the clique of Economics doctors, and also due to my burning desire to be a professional and licensed lecturer / researcher. I know right form the start that it would consume a considerable percentage of my time, and I got prepared for it.

I realise that despite the countless lonely hours of hard work that I have put in the doctoral programme, several people played invaluable roles in its completion. My benefactors are too numerous to be mentioned individually, but the following have been particularly helpful.

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ABSTRACT

In as much as trade fosters economic development, it also exacerbates poverty, especially in the sub Saharan African (SSA) countries. Against this backdrop, this study will increase our understanding of the estimation of non-oil commodity trade flows between Nigeria and the U.S. More specifically, the study aims to analysing the impact of African Growth Opportunity Act (AGOA) on the U.S. imports of non-oil products from Nigeria. The research objectives are woven around the following questions:

- What is the nature of Nigeria's and U.S.'s foreign trade policies with particular reference to non-oil trade?
- What are the patterns, magnitude, composition and trends in Nigeria-US non-oil trade?
- Which economic sectors possess greatest potential for fostering trade in the non-oil sector between Nigeria and the U.S.?
- What is the impact of AGOA on the diversification and growth of non-oil exports in Nigeria?

This study adopts the difference-in-differences (DiD) as the research methodology. Within the Nigerian context, DiD intuitively compares the trends in imports of AGOA non-oil products before and after AGOA with the pattern of imports of non-AGOA non-oil products before and after AGOA, controlling for the timing of AGOA, import capacity and economic performance of both U.S. and Nigeria.

Using the World Trade Organisation (WTO) Integrated Data Base (IDB), the empirical analysis reveals that AGOA non-oil products increased by as much as 182 per cent with the implementation of AGOA, while the non-AGOA non-oil products fell by 76 per cent. Conclusively, AGOA has had a considerably positive impact on the Nigerian non-oil sector at the general level.

The policy implication of the empirical analysis is the need for the U.S. to expand the product coverage and opportunities of AGOA non-oil products in order for AGOA to achieve its objectives of using trade as a potent tool for promoting economic growth in SSA.

Keywords: non-oil trade, Nigeria, US, econometric models, difference-in-differences.

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NIGERIA – US TRADE RELATIONS IN THE NON-OIL SECTOR

1.0 INTRODUCTION

1.1 The Statement of the Problem

International trade is an interesting topic which continuously attracts the increasing attention of policy-makers and trade scholars. This is partly due to the completion of the Uruguay Round of General Agreement on Tariff and Trade (GATT) negotiations in 1986 - 1994, and the seemingly inconclusive Doha Development Round which was declared during the 4th World Trade Organisation (WTO) Ministerial Conference in Doha, Qatar, in November, 2001 (http://www.wto.org/English/tratop_e/dda). More importantly is the fact that trade and development are crucial and deeply intertwined issues in the achievement of the United Nations (UN) Millennium Development Goals (MDGs) (Foreign Policy, 2005).

Due to the insignificant contribution of Africa to global trade in commodities and investments, trade experts had thought of a new form of trade preferences exclusively for Africa, in addition to already existing Generalised Systems of Preferences (GSP). Some of these include the American African Growth Opportunity Act (AGOA), the European Union / African, Caribbean and the Pacific Economic Partnership Agreement (EU/ACP EPA), and the Canadian Least Developed Countries Initiative (LDCI). Thus, in promoting the trade relations between Africa and the United States, the AGOA was signed into US law in May 18, 2000, as Title 1 of The Trade and Development Act of 2000. The Act offers tangible incentives for African countries to intensify efforts to open their economies and build free markets. It was put in place to provide preferential access to SSA products in US markets. In return, beneficiary countries must be committed to improve their economic policy environment, participate more actively in the globalization process, promote political and economic stability, and foster human and workers' rights in Africa (Nouve and Staatz, 2003).

In the 1960s and early 1970s, the Nigerian export scene was dominated by some agricultural commodities such as cocoa, groundnut, cotton and palm produce. From the mid-1970s, crude oil became the major export commodity in Nigeria, thus, constituting about 96 per cent of the total exports (Iwayemi, 1995). In the 1970s, the economy experienced a dramatic decline in the non-oil export sub-sector so much so that the annual production of cotton, groundnut, cocoa and rubber waned by 65 per cent; 64 per cent; 43 per cent; and 29 per cent respectively (Ayodele 1997). In addition, the proportion of non-oil (agricultural) imports in total imports more than doubled itself between the late 1960s and early 1980s.

Nigeria emerged from the 1967 – 1970 civil war with a resource surplus oil-booming economy. While the 1973 – 74 oil prices quadrupled the world market price of petroleum, the price doubled again in 1979 – 1980, and by 1980, the terms of trade for Nigeria's oil export (relative) to imports recorded nearly 7 times its 1972 level.

In fact, at the end of the 1970/80 decade, Nigeria exhibited the distinct features of the 'Dutch Disease'. Corden and Neary (1982) pioneer the theoretical framework of the Dutch Disease Syndrome in their study of how small open economies could be de-industralised after having enjoyed a massively booming primary export sector. Furthermore, Michael Roemer (1985) applied the theory to developing countries in exploring the growth potential of the primary sector. The term is a reference to the experience of the Netherlands after its 1960's natural-gas and oil discovery. The discovery resulted in an export boom and balance of payments surplus for the Dutch economy. However, this was short-lived as the economy suffered rising inflation, rising unemployment, declining manufacturing exports, and lower income growth rates during the 1970s.

The Dutch Disease theory states that a 'resource export boom has an inherent tendency to distort the structure of production in favour of the non-traded goods sector vis-à-vis the sectors producing the non-booming tradeables (Ayodele 1997). Massive increases in primary export revenue result in a temporary appreciation of the exchange rate of the currency. The immediate impact of this is to reduce the world demand for other exports. Also, as it is not likely to adjust the nominal

exchange rate downward to maintain the previous level, the booming primary export will result in domestic inflation in excess of the rest of the world's inflation rate, and this causes profit declines for exporters (as wages and other domestic input prices rise faster than the world prices of exports). As their profits fall, exporters produce less for export, and this will reduce incomes and employment in export industries. In validating the evidences of Dutch disease in Nigeria, Olopoenia (1991) confirms that the crude oil boom led to some structural changes such as the decline of non-oil tradeable goods sectors; the expansion of non-traded goods production; and the 'de-agriculturalisation' of the economy.

In Nigeria, the booming oil exports and the influx of foreign exchange from it created a surplus of foreign currency, thus driving down the Naira price of foreign exchange. The result, of course, was an extraordinary increase in imports while exports declined. Due to the fact that the high oil incomes created greater demand for all goods and services in the economy, this demand translated into more imports (whose prices were relatively stable since their prices depend on the entire world market and not solely on Nigerian demand). Since a good portion of the oil-boom demand was for domestic non-tradable goods (such as utilities, transport, construction, food-crops and staples) which were heavily protected and insulated from external competition, there were significant increases in their prices, leading to domestic inflation, given their limited supply, especially in the first few years of the boom.

Against this background, the federal government introduced the Structural Adjustment Programme (SAP), due to the glaringly evident deficiencies in the pre-SAP macroeconomic policies. Three of these major deficiencies that characterize the pre-SAP macroeconomic policies are: regulation of price and marketing systems; inadequate financing of non-oil activities, especially agriculture and manufacturing; and inability to create an economically competitive and conducive environment to foster private sector growth (NISER 1983). The second problem appears to be the most serious issue due to the imposition of heavy taxes by non-oil commodity boards; retention of producer payments; and fixing of producer prices that had weak correlation with international prices.

These had resulted in the decline in the non-oil activities and exports in Nigeria with their attendant problems. Thus, the policy concern over the two decades has been the expansion of non-oil exports in a bid to diversify Nigeria's exports/revenue base. The diversification is a sine qua non partly because of the volatility of the international oil market, and the fact that crude oil is an exhaustible asset which is unreliable for Nigeria's sustainable development potentials.

More importantly, since the introduction of SAP, trade policies have aimed at liberalisation of the economy and signing of bilateral, regional and trade preferential agreements with different countries. The liberalization policies adopted include the abolition of marketing boards, expansion of export incentive schemes, and the deregulation of the foreign exchange market. Nigeria is also a signatory to the WTO, the EU-ACP EPA, AGOA and one of the founding members of the Economic Community of West African States (ECOWAS) (Ogunkola and Oyejide 2001).

This study seeks to analyse empirically the flow of non-oil trade between Nigeria and the US. Specific research questions to be answered include the following:

- What is the nature of Nigeria's and US's foreign trade policies with particular reference to non-oil trade?
- What are the patterns, magnitude, composition and trends in Nigeria-US non-oil trade? and
- What is the impact of the expansion of US trade preferences on Nigeria's exports to the former.

1.2 Rationale for the Study

To our knowledge, an empirical analysis of non-oil trade relations between Nigeria and the US has barely been studied. Though, a number of empirical studies on the validation of export-led growth hypothesis has revealed that exports are significantly crucial in Nigeria's growth performance (Olomola 1998; Oladipo 1998; Ekpo and Egwakhide 1994), there is, however, a growing need for information on the relations between Nigeria and the US in the non-oil sector.

The major rationale for undergoing this study includes:

- The central contribution of this paper is the use of the "difference-in-differences approach, which has rarely been used in empirical studies of trade preference schemes and has never been used to examine the questions in this study.
- On the side of Nigeria, the economy is highly dependent on the industrially advanced countries both as markets for exports and as sources of imports of capital goods (Ogunkola, 2002). This is because the industrial countries are traditionally the major consumers of Nigeria's primary commodities.
- Furthermore, in frantic efforts to diversify Nigeria's economic base, the Federal Executive Council (FEC) has approved duties – free exports for non-oil products. The tax-free exports will cover agricultural products (cocoa, cotton, cassava, gum Arabic, sesame seeds, cashew, sheanuts, ginger, vegetable, fruits and other Nigerian food items), a group of locally manufactured items (textile, films and music, vegetable oil, rubber products, foot wears, pharmaceutical products, leather, beverages, soft drinks, and bottled water) and solid minerals (kaolin, coal, bauxite, tin, zinc, tantalite, columbite, iron ore, clay products, gems and precious stones). In order to ensure the success, the Federal Government has abolished several goods duties and taxes, reduced delays in the processing of exports at the ports and the institution of Export Expansion Grant (EEG). Some of the duties that were abolished include N25, 000 levy per container by the NAFDAC (National Agency for Food, Drug Administration and Control), 1 per cent export duty, N1, 000 sales tax, cocoa development duty, and several other charges levied at state levels. All these are efforts geared at diversification into new export categories by reducing the dependence on exports of traditional primary commodities.
- According to the International Monetary Fund (IMF) World Economic Outlook (April, 2008, pp 114), "robust non-oil sector growth offset the drag from a decline in oil production in the Niger Delta". Central Bank of Nigeria (CBN) economic report for the third quarter of 2007, was estimated at 6.05 per cent compared with 5.73 per cent in the second quarter. The growth was

driven by major agricultural activities in the non-oil sector such as yam, Irish and sweet potatoes, groundnuts, and maize, which was estimated at 9.47 per cent.

- Merchant adventurers, traders, and foreign investors from America have in the past decades brought about a continuous exchange of goods, interests, and ideas with Nigerians. In more recent times, mutual cooperation between Nigeria and the US has led to the creation of African Growth Opportunity Acts (AGOA).
- Though Nigeria's total exports to the US have increased substantially since 2001, but looking behind the numbers indicates that only a small share of the increment is directly attributable to AGOA (Brenton and Hoppe, 2006). For instance, under the AGOA development policy, the US imported about 90 per cent of Nigeria's crude oil in 2004. By implication, these oil imports have not been stimulated by AGOA and would have occurred in the absence of AGOA. According to Brenton and Hoppe (2006), US imports under AGOA increased three-folds between 20001 and 2004, but 89 per cent of this increase is due to imports of crude oil. In fact, the increasing global price of crude oil worsens the situation in the sense that about half of the increase in the value of oil imports reflects increased quantities and the other half reflects higher prices. They find that 24 of the AGOA beneficiaries experienced a growth in non-oil exports since 1999, while exports declined for the remaining 13 beneficiaries. Hence, a detailed analysis of the Nigeria – US trade relations needs to be based upon non-oil imports, which is the approach the study attempts to adopt.
- According to some studies by Rodrik (1998), Collier and Gunning (1999), and Limao and Veneables (2001), tariffs and non-tariff barriers (NTBs) are not the impediments to growth in Africa, but distorted product and credit markets, high risk, inadequate social capital, inadequate infrastructure, and poor public services.
- In relation to the above and particularly in view of the importance of the non-oil commodities sub-sector in Nigeria, Nigeria has taken special interest in encouraging the US to liberalise its trade in the non-oil sector. Nigeria hopes that with liberalisation, it will be able to improve its market access for non-oil commodities in the US. Thus, Nigeria welcomed the Uruguay Round

Agreement on Agriculture, which put certain limits on the US's traditional agricultural policies, and reduced the scope for isolating domestic markets. The launching of the Doha Development Agenda and future WTO negotiations (WTO 2001) provide an important opportunity for extending the process of trade liberalization; and

- The US, which represents one of the viable markets for Nigeria's non-oil exports, has a considerable influence on the structure of world trade. Furthermore, the US is an attractive and very sought-after market for exporters throughout the world. The US remains an important destination for Nigeria's non-oil exports.

1.3 Objectives of the Study

Against the background of the foregoing, the primary objective of the study is an economic analysis of the trade relations between Nigeria and the US in the non-oil sector. This is further aimed at empirically evaluating whether the US initiative in the name of AGOA had any impact on the expansion of non-oil exports in Nigeria. Specifically, the study aims at achieving the following objectives:

1. Examine and explain the pattern, magnitude, composition, structure and trends in Nigeria's export structure in relation to trade with the U.S. in the non-oil sector
2. Discuss the barriers that impede the growth of the non-oil exports in general;
3. Estimate the impact of the expansion of US (non-reciprocal) trade preferences on Nigerian non-exports to the US; and
4. Make policy recommendations on how Nigeria can benefit from its non-oil exports to the US.

1.4 Scope of the Study and Sources of Data

The success of any econometric analysis ultimately depends on the availability of the appropriate data. This section discusses the nature, sources and limitations of the data. The empirical analysis of this study will be conducted with a sample of annual data that covers Nigeria's major

commodity non-oil exports to the US. The volume and value data on US total imports will be obtained from the WITS Database as well as the United States International Trade Commission (USITC) database.

1.5 Research Hypotheses

This study will be guided by the following hypotheses:

- Whether there is any correlation between the magnitude of benefits from AGOA preferences and growth of Nigeria"s non-oil exports to the US,
- Whether AGOA non-oil benefits are only a modest expansion over the preferential treatment enjoyed by SSA countries under the GSP; and
- Whether AGOA has led to the fostering of export performance in selected agricultural and manufacturing products.

1.6 Outline of Chapters

The study will consist of six chapters. While the second chapter will provide the background information on Nigeria-U.S. non-oil trade relations, it will also take a retrospective perspective of Nigeria's trade policies as well as the U.S. trade policies vis-à-vis AGOA. The third chapter will present the review of relevant literature on trade and the analytical framework on bilateral trade flows. Chapter four will discuss the theoretical framework for the study. It will present the methodological framework that will be used for analysing the bilateral trade prelations. Chapter five will be the empirical analysis. In other words, the validity of the models and variables of interest will be tested in chapter five. The robustness checks, result implications, issues and challenges underlying the study will be explained in chapter six. The final chapter will present a summary of the findings, main conclusions and suggestions for future research.

2.0 BACKGROUND TO NIGERIA – U.S. NON-OIL TRADE RELATIONS

2.1 Economic Survey of the Nigerian Economy

Table 2.1 shows that as at 1980, industrial output contributed almost half of the total output in Nigeria. This is followed by the services sector which accounted for over 30.0 per cent of total output. By 1990, the structure of output had changed slightly with the industrial sector continuing to play the leading role while the agricultural sector had displaced the services sector as the second growth driver. By 1995, there was a further shift in the structure of output in Nigeria, as the agricultural sector had also displaced the industrial sector in terms of its share of total output of the economy which was about 43.0 per cent. Next to the agricultural sector was the services sector, which accounted for 31.0 per cent of total output. In the early 2001, 2003 and 2004, the industrial sector resumed a leading role by contributing 45.0, 49.0 and 39.0 per cent of total output. This is followed by the agricultural sector which recorded between 26.0 and 31.0 per cent of the total output during this period.

Table 2.1: Average Annual Growth Rate and Sectoral Output of the Nigerian Economy

Average and Sectoral Growth	1980-85	1985-90	1990-95	1995-2000	2000-04
[a] Aggregate Output Growth	-3.0	5.0	3.4	2.9	5.96
[b] Sectoral Output Growth					
(i) Agriculture	-1.5	6.4	2.7	4.5	5.27
(ii) Industry	-6.1	2.1	-0.5	1.8	6.78
(iii) Services	-0.3	7.6	6.8	2.5	6.74
Sectoral Share of GDP	1980	1990	1995	2001	2004
(i) Agriculture	27.0	33.0	43.0	30.0	31.0
(ii) Industry	40.0	41.0	26.0	45.0	39.0
(iii) Services	33.0	26.0	31.0	25.0	30.0
Total	100.0	100.0	100.0	100.0	100.0

Source: Ogunkola, E. O., Bankole, A. S., & Adewuyi, A. O. (2006). An Evaluation of the Impact of Nigeria's Trade and Investment Policy Reforms. African Journal of Economic Policy,Vol. 13, No. 1, June, pp. 81 – 118.

2.2 The Nigerian Trade Policy

The main thrust of Nigeria's Trade Policy is to encourage the production and distribution of goods and services to satisfy domestic and international markets, for the ultimate purpose of achieving and accelerating economic growth and development. The overall objectives of this Trade Policy include:

- Integration of the Nigerian economy into the global market through the establishment of a liberal market economy;
- Promotion and diversification of exports in both traditional and non-traditional markets;
- Progressive liberalization of the import regime to enhance competitiveness of domestic industries;
- Effective participation in trade negotiations to enhance the achievement of national economic gains in the multilateral trading system, as well as regional and bilateral arrangements;
- Promotion and development of domestic trade including intra-state trade and inter-state commerce;
- Achievement of accelerated economic growth and development through trade within a network of public-private sector partnership;
- Promotion of the transfer, acquisition and adoption of appropriate and sustainable technologies to ensure competitive export-oriented industries;
- Attraction of foreign capital inflow into export oriented production through special incentive packages and domestic support;
- Promotion of regional integration and cooperation; and
- Effective utilization of information and communication technology (ICT) in electronic commerce.