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HOW WERE NIGERIAN HOUSEHOLDS AFFECTED BY THE COMMON EXTERNAL TARIFF OF THE ECONOMIC COMMUNITY OF WEST AFRICAN STATES?

CONTEXT

Nigeria's integration into global markets presents both opportunities and risks for the government in its efforts to improve the overall welfare of its citizens. The country has experienced continuous growth averaging 7 per cent over the past five years, but the benefits of this growth have not trickled down to the majority of the population. This has reinforced Nigeria's status as a rich country populated by poor people. In fact, the share of the population living below the international poverty line increased from 54 per cent in 1986 to 68 per cent in 2010.

Explaining this phenomenon demands a careful analysis of government policies – including trade-related policies – and their effects. In 2005, Nigeria adopted the Common External Tariff (CET) of the Economic Community of West African States (ECOWAS), which reduced tariff rates from a high of 150 per cent to a maximum of 50 per cent within the transition period of 2006–2007. Overall, Nigeria's simple average tariff on agricultural imports dropped from about 32 per cent in 2000 to 15 per cent in 2010, while its average tariff on manufactured products fell from 25 per cent to 11 per cent over the same period. These tariff reductions correspondingly increased agricultural imports from $963 million to $3.4 billion and manufactured product imports from about $4.9 billion to $30.2 billion between 2000 and 2010.

Considering these increased imports, it is important to understand how and to what extent the ECOWAS CET has been reflected in the domestic prices of agricultural and manufactured products, and how this has affected household welfare. Our analysis focuses on price, labour income and welfare effects, and leaves out other factors, such as employment, agricultural outputs and investment that also influence household welfare. It is the first investigation of the household welfare effects of the ECOWAS CET in Nigeria, and thus likely to be of interest to policymakers, academia, and civil society working in the field of trade and development.

METHODOLOGY AND DATA

The study follows a three-step approach to measure the impact of trade policies on household welfare through domestic prices of goods and workers' income. The first step examines the extent to which the ECOWAS CET is transmitted to domestic prices. In addition to tariffs, the study covers other factors influencing domestic prices of agricultural and manufactured products, such as international and domestic producer prices, and trade costs related to imports. Data on consumer and producer prices across states come from the National Bureau of Statistics of Nigeria (NBS). International prices of commodities (agricultural items and manufactured processed goods) were sourced from the World Bank's Commodities Price Data.

The second step focuses on the relationship between domestic prices and wages. Besides domestic prices, wages also depend on other factors that are included in the analysis, such as the sector of occupation, gender, education, region (urban or rural), and workers' skills. The data used are individual average monthly wages taken from the NBS household surveys, particularly the 2010 General Household Survey-Panel (Post-Planting), and the 2011 General Household Survey-Panel (Post-Harvest).

The final step investigates the effect of price changes on household welfare by calculating the gains or losses across different categories of households. The data for this welfare analysis were sourced from the two above-mentioned household surveys. The effect of wage changes on household welfare is not considered because the study found an insignificant relationship between wages and prices.

FINDINGS

The results show that the ECOWAS CET reduced domestic prices of agricultural goods between 2006 and 2011. The tariff pass-through – i.e. the percentage of the tariff change transmitted to the domestic prices of these goods – is estimated to be between 74 and 99 per cent. Consequently, during the period of analysis, consumers of agricultural goods benefited from the tariff reduction induced by the ECOWAS CET, while the income of Nigerian producers from the sales of agricultural products declined. With regard to the pass-through related to manufactured products, the estimated values are out of a plausible band, possibly due to the quality of the available data, which makes it difficult to come up with a consistent interpretation.

The study also shows that states located closer to ports or borders of entry of goods, such as Lagos, Rivers, Yobe and Borno, benefited more from tariff reductions because of lower transaction costs. Conversely, the lowest transmission of tariff reductions to domestic prices was found mostly in the North-Central states, which, except Kwara, are far from ports of entry and do not share borders with Nigeria's neighbouring countries

(Niger, Benin, Cameroon and Chad). The lower transmission may be explained by higher transaction costs needed to bring the imported goods to these states.

The price reduction due to the tariff pass-through had adverse effects on domestic producers of agricultural products, whose earnings from the sales of these products fell due to the availability of cheaper imported goods. Households that are engaged in the production of these goods and are closer to ports or borders of entry were more affected than those further away.

The study finds that wages fell as a result of the price reduction, but this decrease was statistically insignificant, and, therefore, a link between prices and wages could not be established.

The findings also show that the welfare effects of the ECOWAS CET varied across households with different income levels and depending on whether households are net consumers or net producers.

In general, the overall effect of the CET has so far been positive, largely due to the lower expenditure on agricultural products. Although the income of agricultural producers was negatively affected by the tariff reductions via lower prices, their losses were outweighed by the expenditure gains. The poorest households experienced higher welfare gains from the ECOWAS CET, due to the high share of agricultural products in their expenditure. Richer households benefited relatively less because of the lower share of agricultural products in their total expenditure.

POLICY RECOMMENDATIONS

This study provides relevant findings about the welfare implications of the ECOWAS CET that could serve in the formulation of Nigeria's national economic transformation agenda in the areas of trade and investment, agricultural productivity, and wealth and job creation.

The application of the ECOWAS CET alone is not sufficient to significantly improve household welfare. The capacity of producers should be enhanced through an informed, integrated, and inclusive policy for both the manufacturing and agricultural sectors that would stimulate productivity and value addition. The government should boost investment in vital sectors of the economy by taking such steps as improving access to finance, and the quality of education, promoting science and technology, and facilitating land acquisition. For instance, the Commercial Agriculture Development Programme and other programmes of the Ministry of Agriculture and Rural Development should be reinforced. This could enhance the competitiveness of domestic producers and increase the volume of output, employment and income levels.

Investment in roads and transportation should also be among government priorities. The study finds that states far from seaports and land borders are the least affected by the decline in tariffs due to higher transaction costs, and therefore they do not benefit from price reductions as other states do.

Policy measures are also needed to mitigate the domestic effects of government trade policies. In this context, the National Poverty Eradication Programme, the National Directorate of Employment's Programme, the Subsidy Reinvestment and Empowerment Programme, and other relevant government programmes should be strengthened to create jobs and wealth in agriculture and manufacturing. Social safety nets and security measures should also be put in place at the rural level, especially for vulnerable populations, in order to mitigate the negative income effects of the CET on rural households.

Finally, efforts should be made to reduce the number of banned products, as such import bans may tend to encourage smuggling, given that some of the banned goods are in demand because of limited domestic production. This leads to a situation whereby government bans, while attempting to protect domestic producers, end up resulting in a proliferation of illegal and informal importation.

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