

# Commonwealth Trade Case Studies: Nigeria

*(David Hearne, Centre for Brexit Studies, BCU)*

## Summary

- Nigeria is the most populous country and largest economy in Africa with substantial oil and gas reserves
- There remain significant ties between the UK and Nigeria, facilitated by education and a large Nigerian diaspora in Britain
- Nigerian tariffs are high by European standards and are particularly severe in the automotive sector
- Non-tariff barriers are extremely challenging with border compliance taking 284 hours compared to an OECD average of 9 hours
- Corruption and organised crime are rife, posing problems for potential exporters
- Violence, extreme poverty and political fragmentation are likely to inhibit UK export growth in the near and medium term

## Overview and Prospects

Nigeria has the largest economy in Africa with a rapidly growing population of some 190 million, in addition to being a major oil producer and exporter. Nigeria is already the 7<sup>th</sup> most populous country in the world and is projected to overtake the United States of America as the world's third most populous country during the 21<sup>st</sup> century. Nigeria is a major commodities exporter and is a significant potential market, leading it to be considered a target to grow post-Brexit trade within the Commonwealth. The country has the world's 10<sup>th</sup> and 9<sup>th</sup> largest oil and natural gas reserves respectively. Nigeria is the number-one recipient of FDI in Africa<sup>i</sup>, although the country is extremely poor relative to European standards and has problems in infrastructure, power supply and mass unemployment.

Several factors facilitate trade between the UK and Nigeria – not least the use of English. Additionally, the UK is home to a substantial Nigerian diaspora and ongoing educational links (most notably at the higher education level where Nigerians are the third largest group of overseas students in the UK) continue to strengthen ties between the Nigerian elite and upper middle classes and the UK. In addition, flights are regular and time differences modest (certainly relative to the American and East Asian markets). 134,000 Nigerians visited the UK in 2014.

One result of this is that British luxury brands are comparatively well-known in Nigeria, which together with the oil industry may help explain why a number of major British firms already have extensive relations with (and operations in) Nigeria. The country also runs a number of investment incentives that may be of interest to UK companies considering investing and infrastructure is being developed by the Nigerian authorities in partnership with a number of western firms.

The British government is generally positive regarding the prospects for greater exports to Nigeria, noting that UK exports account for a greater share of Nigerian imports of merchandise goods - 4.4% in 2016 - than they do for EU merchandise goods imports - 3.8% in 2016<sup>ii</sup>. There are not sufficient

data on Nigerian service imports to be able to make any comparison with confidence, although it's worth noting that some 8.8% of all EU services imports came from the UK, according to the OECD<sup>iii</sup>.

Whilst these figures suggest comparatively successful penetration of the Nigerian market, it should be noted that the comparatively small volume of total imports into Nigeria mean that the overall market is modest. Sub-Saharan Africa (excluding South Africa) as a whole accounted for just 1.6% of UK exports of goods & services in 2015, according to the ONS<sup>iv</sup>. Data from HMRC suggest that Nigeria accounted for a mere 0.3% of UK goods exports in 2016. For the West Midlands, Nigeria is an even less significant export destination: just 0.1% of the West Midlands' exports are destined for the country.

Nigeria is heavily dependent on the oil and gas sector, both as a source of government revenue and foreign exchange. The fall in oil prices since 2014 has therefore led to a fall in exports and economic growth (particularly when combined with recent unplanned shutdowns and reductions in production as a result of militancy in the Niger delta). IMF data indicate that the Nigerian economy shrank by 1.6% in 2016 and is expected to grow by just 0.8% this year before staging a modest recovery. Imports have fallen by around 30% since their peak. In the absence of a rebound in oil prices or an end to violence in the Niger delta (which has had a major impact on oil production), the economic situation means that Nigeria is likely to prove a challenging market over the next few years. Also noteworthy is that the present situation means that payment (particularly in foreign currency) can be slow.

### An outline of Nigeria's present tariff regime

Nigeria is a member of the Economic Community of West African States (ECOWAS). Members of ECOWAS have adopted a common external tariff (CET) with five bands: zero tariffs on "essential social commodities", 5% on raw materials, capital goods and certain commodities, 10% on intermediate products, 20% on consumer goods and 35% on goods for economic development. ECOWAS also permits a number of further "trade defence" measures (either in common or at the discretion of member states).

One wide-ranging measure is the so-called "safeguard measure". This permits the imposition of additional import duties or quantity restrictions either for ECOWAS as a whole or on behalf of a member state for a period of up to 10 years in order to protect specific industries. ECOWAS additionally may impose more conventional anti-dumping measures or countervailing duties (in order to stop "dumping" or cancel out export subsidies offered by trading partners).

ECOWAS also allows certain "supplementary protection measures" to be enforced. Import adjustment taxes may be used until 2020 in cases where member states initially had higher tariffs than the agreed common external tariff. In addition, a "supplementary protection tax" may be added to imports when the volume of a particular product being imported exceeds certain thresholds (or the price is below a certain threshold – linked to the average price over the past 3 years). Supplementary protection taxes can be imposed on up to 3% of product types (and the maximum additional tariff is 70%).

Interestingly, in light of the UK's decision to leave the European Union, economic integration between ECOWAS members has increased (albeit slowly) in recent years. ECOWAS has moved in a

direction very akin to the European Economic Area, and has the stated intention of developing a Common Market. The Protocol on Free Movement of People ostensibly gives the right to freedom of movement (albeit imperfectly implemented in the case of residency), whilst the ECOWAS Trade Liberalisation Scheme (ETLS) effectively functions as a Free Trade Agreement (FTA). The CET may also help facilitate the free movement of goods. There has been speculation that ECOWAS may seek to introduce a single currency (the “eco”).

Nigeria is also a founding member of the African Union, which aims to become an economic and political union<sup>v</sup> via the integration of existing regional economic communities. Whilst implementation of all of these initiatives has been extremely slow and patchy at best, the move towards regional integration will likely make conclusion of trade agreements or other measures to enhance British exports to Nigeria more difficult. The European Union has an economic partnership agreement with ECOWAS, covering trade in goods and economic development.

### Tariffs in Practice: The Automotive Sector

In 2013, Nigeria announced that it was going to introduce an “Automotive Industry Development Plan”<sup>vi</sup>. This imposes a punitive 35% additional tariff on top of the 35% tariff already levied by the CET (cars are classed as ‘goods for economic development’). This tariff varies depending on precisely what components are to be imported and whether the company in question also manufactures in Nigeria. Thus, for example, companies who assemble cars in Nigeria are permitted to import 2 vehicles with a tariff of “only” 35% for every 1 vehicle they assemble in the country.

Tariffs on “completely knocked down” parts for local assembly are free of additional import tariffs, whilst “partially knocked down” kits are taxed at 10% or 5% depending on whether they are painted or unpainted, respectively. Machinery and equipment for tyre production and vehicle assembly are free of VAT, giving domestic producers an additional price advantage over foreign competitors. Domestic vehicle assembly and tyre firms also qualify for so-called “pioneer status”, exempting them from income tax for a five-year period.

Importation of vehicles over land borders is prohibited in Nigeria, constituting a non-trivial non-tariff barrier for the sector. Given the strength of protectionist sentiment in Nigeria, it seems improbable that these barriers will be eased in the near future. Additionally, given the scope for rent-seeking and corruption that such restrictions upon external trade give rise to, such measures may prove increasingly difficult to unwind.

### Non-Tariff Barriers to Trade

Nevertheless, the Nigerian market is also associated with significant challenges and risks. The World Bank’s “Ease of Doing Business” ranking places Nigeria at 169<sup>th</sup> (out of 190 countries), between Iraq and the Syrian Arab Republic<sup>vii</sup>. Comparative strengths include protection of minority investors and ease of gaining credit. Major areas of weakness include trading across borders, access to electricity, paying taxes and registering property (all 180<sup>th</sup> or worse out of 190 countries).

Border compliance is a particular challenge, taking an average of 284 hours and costing over US\$1000. Comparative figures for the OECD are 9 hours and US\$115<sup>viii</sup> whilst those for sub-Saharan Africa as a whole are 144 hours and US\$676, suggesting that Nigeria lags not only the UK’s present

major trading partners but also its own peers in developing Africa. Border compliance for the UK's largest markets in the EU is essentially zero-cost (in terms of both time and money) due to the regulations surrounding the Single Market and EU Customs Union.

In addition to import tariffs, Nigeria has a relatively extensive list of imports that are completely banned. These include beef, pork, frozen poultry, mayonnaise, cakes, spaghetti, paracetamol, aspirin and a wide range of other everyday goods. The Nigerian central bank also does not provide foreign exchange for a variety of imports (thus making import of these items more difficult and costly). Examples of things in this category include cold rolled or galvanised steel sheets, wire rods, steel drums, steel pipes, glass, textiles, cosmetics, soap, plastics and some financial products (Eurobonds, foreign currency shares and bonds).

In common with many less developed markets, corruption in Nigeria is a major inhibitor of trade. Corruption is widespread throughout Nigerian institutions and is particularly pervasive in relation to oil and commodities. Enforcement is extremely weak with high rates of corruption amongst the police and judiciary. Political interference in the judicial process is also common, rendering the business environment uncertain and disadvantaging exporters vis-à-vis their domestic counterparts (who are likely to be both better connected and more au fait with the system).

British law prohibits any business or other body incorporated in the UK (as well as British citizens and UK residents) from taking part in bribery. The law is extensive in this regard – irrespective of the locale in which the alleged offense takes place. Businesses are also liable in many circumstances for the behaviour of their employees and agents (irrespective of their nationality). This is a risk factor that businesses seeking to export to (or operate in) Nigeria should be cognisant of and is likely to further inhibit their ability to compete in the Nigerian market.

Bribery is a significant problem in the customs procedure (including at port). Whilst many consider the present Nigerian president, Muhammedu Bahuri, to have been elected partly on the basis of a promised anti-corruption drive, practical progress in more than a handful of areas has yet to match the rhetoric on this issue. The problems of corruption and bribery are magnified for many smaller exporters due to byzantine customs and import procedures.

Political stability and the security situation in Nigeria are notable problems facing British exporters (and even more so for foreign investors). This impacts demand directly – political instability and a deteriorating security situation tend to have a negative impact on import demand – and indirectly. The latter effect operates primarily by making it more difficult and complex to move goods around the country and increasing the risk of loss of inventory and sales (e.g. by wanton destruction, hijacking etc.) as well as making business visits to the country much more difficult. Whilst larger exporters may be able and willing to bear this risk (or at least insure against it), it may prove prohibitive for some smaller exporters. Additionally, political instability and poor security tend to be inimical to long-term economic growth, lessening Nigeria's future attractiveness as a market for British goods.

Terrorism is a major threat throughout much of the country, particularly focussed on the poorer north. *Boko Haram* is the most notable terrorist group, and the Foreign and Commonwealth Office (FCO) warns that further attacks are likely to be indiscriminate and are likely to target public places.

This may have ramifications for business trips and is certainly likely to constrain economic development and demand for British exports. Additionally, there is a risk of kidnapping (either for terrorist or other purposes). The FCO reports in its travel advice that *Boko Haram* and Islamic State West Africa may be actively planning to kidnap foreigners. In addition to the aforementioned, Ansaru (Vanguard for the Protection of Muslims in Black Africa) is an active terrorist threat, having kidnapped at least 8 hostages since 2012 (and have murdered 2 British nationals)<sup>ix</sup>.

In addition to terrorist threats in the north of the country, there is militant conflict in the Niger delta in the far south. The groups operating in the Niger delta have a variety of different political aims, although there is a notable ethnic dimension. In part, this appears to have been fuelled by resource competition (most obviously over the uses of the area's oil wealth). Again, there is a degree of ethnic (and regional) conflict around possession and use of oil and the area is highly militarised with many groups actively challenging the Nigerian military. Recent violence has reduced Nigeria's oil production to a 20 year low, causing additional strain on government revenues and hampering exports, both of which had already been reduced by a falling oil price. The area has strong secessionist tendencies.

Organised crime is a further significant problem in Nigeria and kidnapping for ransom is not unusual. Cybercrime is a major threat and the role of organised crime in both the drugs trade and human trafficking may be noteworthy risks for potential exporters. Intellectual Property rights are poorly enforced in Nigeria. This may create an additional risk factor for certain exporting sectors. Registration of trademarks and patents is done by the Nigerian Trademark Patents and Designs Registry. The Department for International Trade recommends taking legal advice from a Nigerian lawyer prior to selling into the Nigerian market if businesses have substantial IP protection needs.

---

<sup>i</sup> Department for International Trade (2016a). Exporting to Nigeria. London: Retrieved from [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/572979/NIGERIAGuide2116.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/572979/NIGERIAGuide2116.pdf).

<sup>ii</sup> International Monetary Fund (2017). Direction of Trade Statistics. (Edition: October 2017)

<sup>iii</sup> Organisation of Economic Co-operation and Development (2017). EBOPS 2010 - Trade in services by partner country. Retrieved from: [https://stats.oecd.org/Index.aspx?DataSetCode=TISP\\_EBOPS2010](https://stats.oecd.org/Index.aspx?DataSetCode=TISP_EBOPS2010)

<sup>iv</sup> ONS. (2016). *The Pink Book 2016. Geographical Breakdown of the Current Account*. Retrieved from: <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/9geographicalbreakdownofthecurrentaccountthepinkbook2016>

<sup>v</sup> World Trade Organisation (2017). *Trade Policy Review - Report by the Secretariat: Nigeria*.

<sup>vi</sup> United States Trade Representative (2015). Nigeria. Retrieved 11th October 2017, from <https://ustr.gov/sites/default/files/files/reports/2015/NTE/2015%20NTE%20Nigeria.pdf>

<sup>vii</sup> The World Bank, *Ease of Doing Business Rank*, [online], June 2016, Available at: <http://www.doingbusiness.org/rankings> [Accessed on 11<sup>th</sup> October 2017]

<sup>viii</sup> *Ibid.*

<sup>ix</sup> Foreign and Commonwealth Office (2017). Foreign Travel Advice: Nigeria. Retrieved from <https://www.gov.uk/foreign-travel-advice/nigeria/terrorism>.