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Nigeria: Time to Take the Lead on Regional and Global Trade Integration in West Africa

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Nigeria: Time to Take the Lead on Regional and Global Trade Integration in West Africa^{*}

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Abstract

The birth of a middle class across the continent gives room for expanding regional trade in ECOWAS. However, as a first step, commitments under the Ecowas Trade Liberalization Strategy (ETLS) should be carried out. Implementation of the ETLS is a prerequisite for raising the low levels of intra-regional trade that are attributable to the imposed barriers to trade, formal and informal. That regional strategy should not provide a distraction from the need to acquire competitiveness on world markets. In addition to comparing Nigeria's trade performance on a comparative basis and documenting the high costs of these barriers to trade, the report makes two recommendations. ... / ...

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... / ... First import bans should be replaced with a uniform MFN tariff (at 35%) on a non-discriminatory basis. This tariffication should be accompanied by zero tariffs for regional trade. Second, the many cost-raising technical barriers to trade should be progressively removed or streamlined. These could be removed first at the regional level by mutual recognition of regulations across the Community. Finally, the report notes that the paradigm for regional integration has changed. Whereas regional integration around the developing world was previously a bargain involving an 'exchange of market access', it is now an exchange of 'foreign factories for domestic reforms'. This is why in the fast growing Asia region, and increasingly elsewhere, much trade liberalization has taken place unilaterally in a 'race to the bottom' to attract FDI. With fast-growing Asian countries losing competitiveness in labor-intensive products, a window of opportunity is within reach. By removing its many barriers to trade, Nigeria could take advantage of this opportunity and at the same time take leadership in the ECOWAS Community.

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Executive Summary

With a population of 155 million, Nigeria is the seventh most populous country in the world. Per capita income of around \$2100 (at PPP) is larger than Bangladesh's and equal to the Philippines'. This potential is further enhanced by a rapidly growing middle-income class. Nigeria should enjoy a 'home market' effect according to which large economies produce more goods and export a greater variety of products. However, this is not the case. Even when compared with oil exporters and other exporters of natural resources extracted from a narrow economic base, at less than 4 percent of exports, Nigeria's share of non-mineral manufactures is over ten times smaller than the average for comparator groups. Export spells are of shorter duration than for the average of any comparator group of countries and, the complexity of Nigeria's export basket is ranked third from bottom in a sample of 122 countries.

Though it has been volatile, over the past decade Nigeria's growth has picked up and tracked quite closely the average performance of comparator groups. Growth has been by factor accumulation rather than by productivity improvement and under small-scale low-paying activities in agriculture and manufacturing. Thus, in spite of low-wages, Nigeria has missed the opportunity to export labor-intensive goods. Two aspects of the resource curse are identified as contributing to this outcome: a weaker institutional environment in resource-rich countries (exacerbated by ethnic fragmentation in the case of Nigeria) and a real-exchange overvaluation, both far more prominent in Nigeria than in Indonesia, Nigeria's traditional comparator. The weak institutional environment also contributes to resistance towards reforms since those in power have vested interests to oppose reforms that would diffuse rents and political power.

Nigeria's trade performance has lagged behind its overall improved growth. This will create a bottleneck to sustaining growth. The report dresses a depressing tally of indicators reflecting Nigeria's poor trade, regulatory and governance environments that account for the country's continued poor trade performance. The report argues that the market potential gives room for integration to world markets could start with greater trade integration at the regional level, but that the regional should not be a distraction from removing barriers to trade on a non-discriminatory basis. An example of what should be avoided is Nigeria's proposal insisting in 2009 on a 5th tariff band in the ECOWAS Common External Tariff at 35%). In addition, although difficult to carry out for political-economy reasons, a sustained depreciation of the real-exchange rate would be helpful, and might even be necessary, to kick-start exports of manufactures.

With China and other fast-growing Asian countries losing wage competitiveness, a new window of opportunity presents itself to Nigeria. This opportunity is ready to be exploited since Nigeria has adequate physical connectivity and faces low barriers in importing countries for the goods in which it is likely to develop a comparative advantage. But Nigeria faces two obstacles to establish a sustainable export base. First, its regulatory environment and governance is very weak. Nigeria lacks the soft

infrastructure (backbone services) to establish the logistics needed to exploit its comparative advantage which is also hampered by high energy costs (and frequent power outages). Nigeria's governance is also weak. For example, in the case of ECOWAS, there is no mechanism to seek redress when rules such as removing import bans under the ETLS commitments are not applied. Second, Nigeria has pervasive non-tariff barriers, both formal (policy-imposed) and informal (roadblocks). In addition to import bans on light manufactures like textiles that are produced domestically, Nigeria has far more technical barriers than other countries at its per-capita income level (average tariff equivalents of these barriers are around 50% on an ad-valorem basis). These technical regulations are largely protectionist in intent.

The report documents these costs and the benefits of removing them. The report also gives evidence of the very low level of intra-regional trade and attributes it largely to formal and informal barriers to trade rather than to a deficient physical infrastructure. Besides the benefits from an overall improvement in governance--which is beyond the scope of this study-- the report makes two recommendations.

First import bans should be replaced with a uniform MFN tariff (at 35%) on a non-discriminatory basis. This tariffication for MFN trade should be accompanied by zero tariffs for regional trade. While this reform will meet with resistance since some officials and some informal operators extract rents from the bans, there is much smuggling so losses to producers will be attenuated. Resistance to removal should be less than for other reforms. Besides the potential for government revenue, this policy would have three added benefits. First, it would provide greater transparency in the incentive structure. Second, this would help Nigeria in implementing the ECOWAS Trade Liberalization Scheme (ETLS) which stipulates that the FTA should not only involve duty-free regional trade, but also that traded products should not face any quantitative restrictions (currently Nigeria has the lowest implementation record for several measures agreed in the ETLS). Third, it would help Nigeria establish a leadership role in ECOWAS, leadership that would be difficult for Nigeria to establish without prior implementation of the ETLS.

Second, the many cost-raising technical barriers to trade should be progressively removed. The report gives examples of costly Nigeria-specific mandatory standards (registration for regular exports and certification for agricultural products). These would be removed first at the regional level. Mutual recognition of regulations would then be the first step towards deeper integration. ECOWAS members, however, should avoid adopting technical regulations in services that are beyond their needs and implementation capabilities (e.g. in accounting or in SPS).

As to deeper integration, it should be in Nigeria's interest as it has been for Brazil who has taken the lead in MERCOSUR. At the same time, the deepening of integration in ECOWAS would benefit from taking note that the traditional bargain driving regionalism was an 'exchange of market access' has

changed. In the fast growing Asia region and increasingly elsewhere, the bargain has shifted towards 'foreign factories for domestic reforms' which explains why so much trade liberalization has taken place unilaterally in a 'race to the bottom' to attract FDI. If ECOWAS is to be successful at integrating world markets it should follow suit and become attractive to investors, domestic, regional, and foreign. This means lowering protection, reducing technical barriers to trade and improving the regulatory environment.

1. Introduction

Over the past decade Nigeria has done well, averaging over 6% growth per annum even though the oil sector-- which accounts for 95% of exports--has been stagnant. As detailed in a recent book (Treichel ed. (2010)), this growth has taken place by factor accumulation rather than by productivity growth and under small-scale low-paying activities in agriculture and manufacturing. As a result, Nigeria has had little structural change. Thus, in spite of low-wages, Nigeria has missed the opportunity to export labor-intensive goods that require sound logistics and low production costs to compete successfully on world markets. Without developing it fully, the book concludes that because of the absence of a well-functioning infrastructure, Nigeria's new growth strategy should first be domestic led, then it should focus exports to the regional market before aiming for international markets.

This paper explores whether an open strategy geared first to regional markets, might help. It argues that while there is a case for regional strategy, it cannot be at the expense of increasing at the same time the transparency of its overall trade regime by removing import bans and replacing these by equivalent tariffs. This would increase government revenues and remove some of the market power in the hands of shielded domestic firms. Furthermore, the first step in the regional strategy should be to implement the ECOWAS Trade Liberalization Scheme (ETLS) signed in 1993 but which is currently far from being implemented. Having implemented the commitments made under the ETLS, the regional strategy would then move towards 'deep integration' i.e. a substantial reduction in the behind-the-border (BTB) measures and Non-tariff Barriers (NTBs).

The paper also places Nigeria's trade performance in a comparative perspective. The result is a depressing tally of indicators summarizing Nigeria's trade, regulatory and governance environments. This tally is supported by evidence that these barriers are very restrictive on an absolute and on a comparative basis. Jointly with poor service delivery (electricity and other services), they are the source of the country's continued poor trade performance. Importantly, a regional strategy should not be a distraction as it has been in the past (most recently by insisting in 2009 on a 5th tariff band in the ECOWAS CET at 35%). Non-tariff barriers need to be removed on a non-discriminatory basis. In addition, although difficult to carry out for political-economy reasons, a sustained depreciation of the real-exchange rate would be helpful, and might even be necessary, to kick-start exports of manufactures.

These recommendations are not new and have already been made. Here, an effort is made to couch these recommendations by showing how Nigeria has performed relative to 'comparator countries' while recognizing that it is difficult to find an appropriate benchmark for Nigeria which has many characteristics that set it apart from other countries. It is hoped that credence is lent to these recommendations by couching them in this comparative setting.

Section 2 places Nigeria's challenge in historical perspective comparing it with countries it could aspire to. Section 3 explores two aspects of oil wealth that have impeded the implementation of an export-oriented strategy: overall institutional weakness and the low profitability of non-oil tradable export activities resulting from a non-competitive (i.e. overvalued) exchange rate. Section 4 shows how Nigeria's trade and regulatory policies have essentially closed the non-oil economy to foreign trade. Consequences in terms of lack of diversification and the extreme lack of complexity of its export structure are drawn in section 5. Section 6 then examines the role for a regional development strategy in this setting. It concludes that in the present highly discretionary environment, the first step must be to implement the ETLs. This will contribute to raise intra-regional trade and is likely to build a constituency for deeper integration that would then be less prone to capture by protectionist interests.

2. A Comparative perspective: 1982-2010.

At independence in 1960, like most African countries, Nigeria geared its industrial policy successively to import-substitution, then to the processing of natural-resource-based products and finally towards the development of skills to improve enterprise efficiency and not towards the more capital-intensive manufacturing activities. This strategy took place amidst a major discovery of oil, estimated by Sala-i-Martin and Subramanian (2003) to have netted \$350 billion (in 1995 prices) over the period 1965-2000 (after deducting payments to foreign oil companies). Over the 35 year period, oil revenues per capita increased by a factor of 10 while per capita GDP stagnated.¹

Fifty years on since independence, in spite of a tariff protection structure close to most other African countries (see table A4), Nigeria's industrialization has been disappointing: oil now accounts for over 90 % of its export revenues, and the share of exports of manufactures are among the lowest in the world (see table 1 below).² Moreover, out of a sample of 124 countries with population over 2 million,

¹ Using 1995 prices, Sala-i-Martin and Subramanian estimate that per capita GDP in both years was around (\$245) while oil revenue per capita climbed from \$33 to \$325 per capita. Figure 1a, a 3-year moving average based on more recent data also shows stagnation until around 2005.

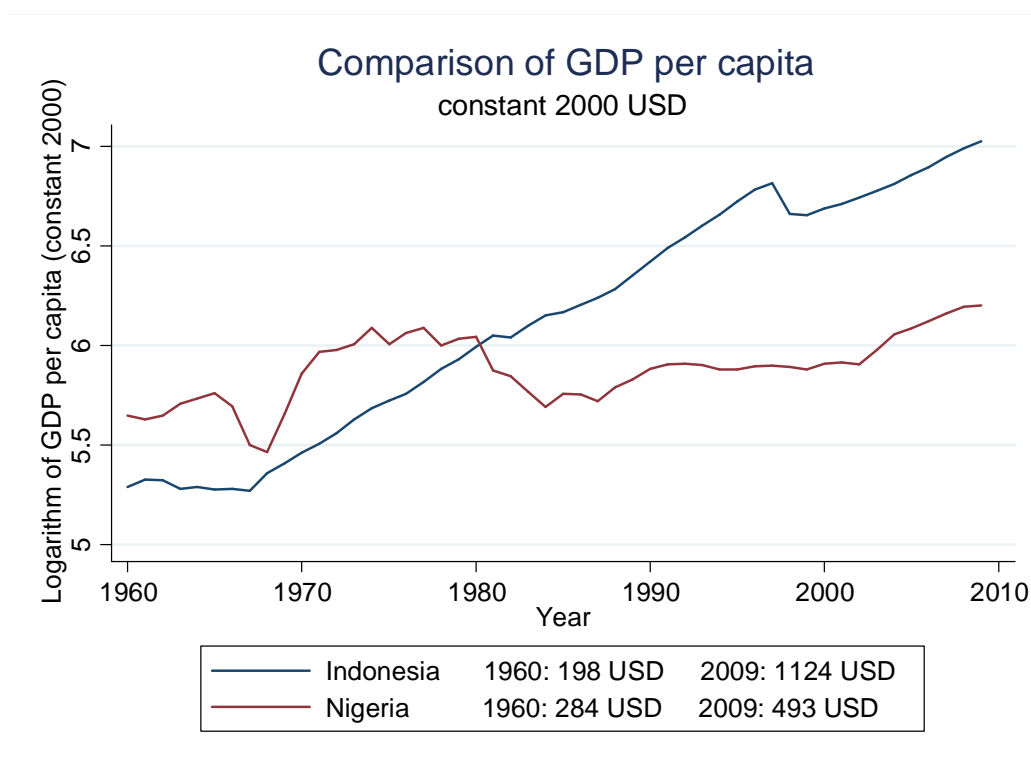
² The World Bank report (chp. 3) shows how little structural change occurred in Nigeria compared with other LI countries. The share of Nigeria's manufacturing exports over 1994-2003 was only 2 percent compared with 17 per cent for Low Income (LI) countries. Nigeria's exports of manufactures have remained concentrated in resource-based manufactures such as food and wood products which usually compete on a regional basis. In contrast with the average of LI countries, Nigeria's exports have barely shifted towards labor-intensive manufacturing like apparel, footwear and electronics that compete with global exports. Nigeria's share of value-added in services is about 20 percent of GDP, half the average of other LI countries.

Nigeria is the third country (after Cambodia and Papua and New Guinea) with the least complex export basket.

With a population of 155 million, Nigeria is the seventh most populous country in the world. Even though PPP per capita income is around \$2100, and income inequality is high, Nigeria's market potential is larger than Bangladesh and equal to the Philippines (though smaller than Belgium's). This compensates for Nigeria being surrounded by less populous low-income countries. One would then expect that the 'home market' effect (large economies produce more goods and hence export more products) would be applicable for Nigeria. However, as documented here, this is not the case. Nigeria's exports are more concentrated and export spells are of shorter duration than in any group of comparator countries.

Indonesia, another populous oil exporter, is the closest single-country comparator country for Nigeria. Figure 1 is suggestive of the consequences of missed opportunities over a long period. In 1965, when oil started flowing, Nigeria had a higher per capita GDP and a larger market size than Indonesia. Now, Indonesia's market is two and half time Nigeria's while population is only 50 percent higher.

Figure 1: Nigeria and Indonesia: Per capita GDP Trajectories: 1960-2010



If Indonesia and Nigeria also have similar climatic conditions, with over 250 ethnic groups, Nigeria is more fragmented ethnically. Nigeria's ethnic groups are often separated by a border³. Political instability, including a civil war (1966-70), and many coups contributed to a twenty-year decline in per capita income until the early 1980s and to instability up until the more recent years.

The comparative retrospective starts in 1982 when continuous data became available for a large sample of countries (115). Then, Nigeria was classified in the World Bank's Lower-middle (LM) income category. As shown in the mobility analysis in annex 1, between then and 2010, Nigeria fell to the Low (L) income group over the period 1982-1996, and then rejoined the LM group by 2010. Nigeria's performance was poor but, as discussed in Annex 1, so was the performance of many other countries in the LM group who descended to the Low (L) income category before rejoining the LM group by 2010.

To cover countries that share Nigeria's characteristics and evaluate progress, Annex 1 draws up four comparator groups, three from an observation rule (population size (LARGE), oil exporters (OIL), point-source exporters (POINT)) and a fourth residual called 'COMPARATOR' which is subjective and includes 11 countries (Bangladesh, Côte d'Ivoire, Ethiopia, Ghana, Indonesia, Kenya, Morocco, Pakistan, Philippines, South Africa, Tanzania).⁴ Along several indicators, Nigeria's performance is then compared with the averages for these four groups and also with the average for the LM group (see Annex 1 discussion on per capita income mobility).⁵

A comparison of performance according to the WB GNI per capita classification ladder is coarse. Figure 2 compares Nigeria's smoothed per capita growth with the average for the LARGE and OIL groups and to the price of oil. Three patterns emerge. First, during the period of oil price decline Nigeria underperformed the LARGE group but its growth was close to that of the OIL. Second, starting in the late 1990s, coinciding with less political instability, Nigeria started registering positive and sustained per capita growth. Third, during the past decade, Nigeria tracked quite closely the average performance of both comparator groups.

³ According to Alesina et al. (2008), with an index value of 58, Nigeria, ranks 12 out of 132 countries in terms of the percent of population belonging to groups partitioned by a border (maximum value of index is 100). Posner (2004) also finds that Nigeria always ranks among the top 5 (out of 42) African countries according to his two measures of fractionalization.

⁴ The definition and list of countries in each of the four comparator groups is given in table A1. The POINT group includes natural-resource rich countries whose exports are extracted from a narrow, as opposed to diffuse, resource base. The COMPARATOR group includes two ECOWAS members (Cote d'Ivoire and Ghana), several populous countries (Indonesia, Pakistan, Philippines and Morocco), including the larger countries in SSA (Kenya, South Africa and Tanzania).

⁵ When Nigeria's mobility on the per capita income ladder is compared to the countries in this 'comparator' group, Nigeria's performance is mixed as it descended from LM to L status in the first period (1982-1996) and recouped to LM status in the second period (1996-2010). Others in the group descended the ladder in the first period (1982-1986) and two, Kenya and Ghana, did not recoup in the higher (1996-2010) period. However, no country in the comparator group managed to go up a rank in the ladder to UM status. In conclusion, Nigeria's performance along the mobility ladder was not atypical of those of the LM group.

Figure 2 :Trend Per capita GDP growth rates and oil prices (5 year moving averages ; oil price on right-hand axis)

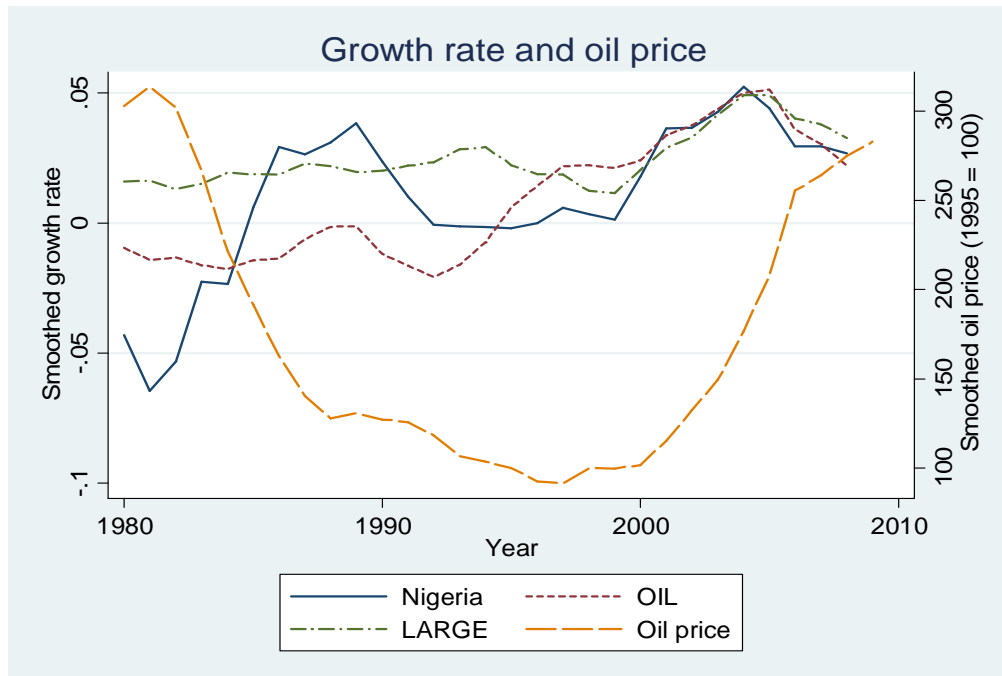


Table 1 gives further indicators of performance for Nigeria and these comparator groups. The first two sets of rows A and B take the averages by income groups. Although Nigeria's growth (1.24%) over the period was low, it was about equal to growth of the LM group to which it belonged in 1982 (and higher than those in the L group in 2010). When evaluated against the LARGE group of 19 countries with a population above 25 million in 1982, Nigeria growth was only half of the group's average. However, Nigeria grew as fast as the average for the comparator group and more rapidly than the natural-resource-based and oil (excluding Gulf countries) groups. Over the period, Nigeria's growth was almost twice as volatile as it was for the LARGE and COMPARATOR groups. Most striking is the high volatility of the REER, another form of instability.

Table 1: Growth and its Volatility: 1982-2010

	<i>Mean growth¹²</i>	<i>Share of non- mineral exports³</i>	<i>REER volatility⁴</i>
Columns	(1)	(2)	(3)
(A) GNI per capita 1982			
Low (19)	2.15 (2.76)	87.60	53.39
Lower Middle (46)	1.25 (3.52)	75.71	34.52
Upper Middle (26)	1.77 (2.63)	70.89	34.35
High (28)	1.62 (1.98)	81.93	10.64
(B) GNI per capita 2010			
Low (25)	0.72 (7.58)	80.48	50.54
Lower Middle (31)	1.66 (2.70)	73.21	43.21
Upper Middle (26)	1.84 (2.49)	75.30	32.35
High (37)	1.92 (1.83)	80.54	12.25
Nigeria	1.24(3.22)	3.75	156.80
COMPARATOR (11)	1.35(2.85)	84.00	42.66
LARGE (19)	2.49 (1.85)	81.60	44.05
OIL EXPORTERS (10)	0.99 (5.31)	26.85	58.01
POINT (19)	1.15 (4.34)	48.66	55.43

Notes:

See table A1 for definition of country groupings(Number of countries in groups in parenthesis)

¹ Mean growth is the average growth rate over the period 1982-2010. i.e. approximately 38 observations per country resulting in sufficiently large samples to produce statistically significant indicators in each sample.

² Standard deviation divided by the mean in parenthesis.

³ Average share of total merchandise exports over the period.

⁴ The Real effective exchange rate (REER) is taken from IFS. The standard deviation is computed on a monthly basis over the period 1980-2010.

The most striking outcome of Nigeria's industrialization is reflected in the difference in the share of non-mineral exports. Even when compared with oil exporters and other exporters of natural resources extracted from a narrow economic base (the POINT group), at less than 4 percent of exports, Nigeria's share of non-mineral exports is over ten times smaller than the average non-mineral export share of the POINT group.

This end-result is the outcome of the access to oil wealth and its subsequent squandering as the increased oil revenues gave rise to an increase in government size with a lack of service skill exacerbated by the conflicts over access to that wealth. Investment (mostly public capital spending) surged in the 1973-80 period, but most of that investment never came on stream. In brief, the oil windfall enabled the government to increase its expenditures and thus provide increased opportunity for kickbacks. The government shielded these investments from foreign competition by tariff protection and import bans so as to maintain the plundering.

The best known example is probably the infamous Ajaokuta steel complex. Started nearly forty years ago under the shelter of high protection, it is yet to produce a commercial ton of steel. A few months ago, it was described as "a grave yard".⁶

3. Oil and the Political Economy of Reforms

3.1. Oil and Institutional Weakness

The natural-resource-curse is the most invoked reason for Nigeria's poor performance in non-oil exports. Several inter-related channels are usually invoked. In the case of Nigeria, it is mostly institutional weakness with excessive concentration of power in the hands of a predatory government that has, and continues to be, the major obstacle to needed reforms, including trade reforms.

For many resource-rich countries, but most importantly for Nigeria, natural riches have been found to engender institutional weaknesses as groups attempt to capture rents. This curse-via-politics is largely endogenous to the political environment and difficult to diffuse. This is because governments in power have a vested interest in blocking institutional change.⁷

Drawing on the Doing Business data, in a large sample of countries, Amin and Djankov (2008) find that the proclivity to undertake micro-reforms that reduce regulation is much less pronounced in countries whose exports are concentrated in natural resources. Along the same lines using the same data,

⁶ See the «People's Daily » October 31, 2011 summary of the history of the steel complex «Ajaokuta Steel Company still in the Woods» which details the succession of fraud and plundering (<http://www.peoplesdaily-online.com/news/special-report/23318-ajaokuta-steel-company-still-in-the-woods>). The long survival of this project is an example of Nigeria's *comparative-advantage-defying* growth strategy (see Treichel (2010)).

⁷ See Sala-i-martin and Subramanian (2003), Isham et al. (2005), Mehlum, H., K. Moene and R. Torvik (2006). Sala-i-Martin and Subramanian show that the lower growth in countries with exports concentrated in natural resources is not directly associated with export concentration in natural resources, but operates via lesser institutional quality.

Freund and Bolaky (2008) find that increased trade is only positively correlated with income for countries that are the least regulated (50% per cent least regulated) indicating that domestic policies that impede factor mobility blur the positive relation between trade openness and income. This finding upholds the policy package that recommends that trade and regulatory reform are complementary and should go hand-in-hand.

In the face of resistance to change, several authors have suggested an alternative disposition of natural-resource wealth. For Nigeria, Sala-i-Martin (2003) proposed that natural-resource wealth should first be distributed to the people, then taxed, rather than accruing to the government. This recommendation has also been voiced recently by Devarajan et al. (2011) for resource-rich countries in general. Besides political will, a minimum administrative ability to collect taxes is necessary to implement such a redistributive policy that would presumably increase the accountability of expenditures.

Oil wealth has also been the cause of conflicts in Nigeria. During the 1960s, the Biafrans tried to gain control over oil reserves. Later, it was the North that appropriated most of the oil wealth by, among others, occupying a larger share of the civil service.⁸ Other manifestations of natural resource abundance also apply, but are probably less important channels in the case of Nigeria. Three are mentioned.

First, when natural resources are extracted from a narrow economic base ('point-source' sectors), the associated rents and the 'easy life' for the elite in turn have been found to be associated with lower investment in human capital contributing less learning and less innovative capacity. Human capital accumulation in Nigeria has been low, but substantial physical capital accumulation took place following oil exploitation. That investment, however, was largely wasted giving rise to estimates of negative productivity growth, as the share of public investment in total investment rose from 20 percent to 55 percent during the first two oil shocks (Sala-i-Martin and Subramanian (2003), chart 4).

Second, in many cases, natural-resource-based economies have an overvalued real exchange rate. This overvaluation: (i) prevents export growth take-off (Hausman et al. (2007), Freund and Rocha (2011)) and (ii) is an impediment to the needed reforms to kick-start growth (Amin and Djankov(2010)). Table 2 below suggests that, for its level of development, on average, Nigeria's exchange rate was overvalued throughout the period.

⁸ Collier and Hoeffler (2004) were the first to give systematic evidence that conflicts were more likely to be driven by greed to get hold of the rents, than by grievance for ethnic or religious reasons. Bulte and Brunschweiler (2009) contest this result suggesting that conflict increases dependence on resource extraction (captured by the share of primary exports) while resource abundance (measured by resource stocks) is associated with a reduced probability of civil war. Bhattacharya and Hodler (2010) show that resource curse effects disappear when natural resource abundance is in democratic countries. Both greed and grievance are important in the Nigerian experience.

Third, the high level of export concentration in oil has contributed to the high volatility of growth and the high real exchange rate volatility reported in table 1. In turn, this volatility could have contributed to the very low rates of export survival (see figure 7).

3.2. A Real Exchange Rate Devaluation to Increase the Profitability of Non-oil Tradable Activities

Annex A4 lists ingredients the Commission for Growth has associated with a successful development strategy. The list includes good governance, a stable macro environment, sustained investment, and openness to world markets. The annex also summarizes the correlates of successful export-led growth episodes revealed from a growing literature examining the performance of a large number of countries. The most robust finding is the importance of the real exchange rate (RER) - the relative price of tradables to non-tradables ($RER = P_T/P_N$)—for the growth of exports of manufactures.

The RER affects manufactures directly and indirectly. Directly by increasing the relative profitability of tradables which in turn is associated with higher export growth and higher growth (Rajan and Subramanian (2007) and Rodrik (2009)). It also operates indirectly via two other channels: (i) at the micro level, market failures are likely to be more important in industrial production than in other activities; (ii) at the macro level, because of greater penalties in tradables from weak institutions that result in lower appropriability of returns to investment (because tradables depend more on property rights, contract enforcement and hold-up problems). Thus undervaluation (an increase in the relative price of tradables) boosts tradables at the margin, contributing to higher growth.

Using data from the latest Penn World Tables, we estimate the equilibrium RER over the period 1970-2005 (before 1970 too many countries had missing data) taking 5-year averages for a panel of 8 periods (period and country fixed effects are included to control for omitted variables). The results are:

$$\ln RER = 1.35 - 0.09 \ln GDP_{PC} \quad R^2 = 0.12$$

(15.5) (-9.5)

The estimates confirm the Balassa-Samuelson effect (an increase in the productivity of tradables as income rises brings about a RER appreciation): a 10 percent increase in real income is accompanied by close to a 1 percent fall (i.e. appreciation) of the equilibrium RER. To see how countries are doing relative to the predicted patterns, we take the difference in logs between the actual RER and the one estimated above, i.e. we calculate $\ln UNDERVAL_{it} = \ln RER_{it} - \ln \hat{RER}_{it}$ so that a positive (negative) value implies undervaluation (overvaluation) with a zero value for the indicator corresponding to an equilibrium RER.

Table 2 Deviations from Estimated Equilibrium Real Exchange Rate

	Mean deviation of the RER in percentage ^a	Percentage of periods with Overvaluation
Nigeria	-24.24	87.5
COMPARATORS		
Bangladesh	9.80	12.5
Côte d'Ivoire	-35.04	100
Ethiopia	-8.88	62.5
Ghana	-29.42	75
Indonesia	27.69	12.5
Kenya	-15.91	100
Morocco	-23.54	100
Pakistan	43.14	0
Philippines	13.35	25
South Africa	-14.13	75
Tanzania	-13.17	50
OIL		
Angola	-7.10	62.5
Algeria	-7.98	62.5
Egypt	10.57	12.5
Iran	14.47	37.5
Mexico	16.39	37.5
Venezuela	-20.75	87.5

Notes:

^a A negative (positive) figure indicates an overvaluation (undervaluation)

Results are reported in table 2 for Nigeria and for the COMPARATOR group. Column 1 gives the average deviation over the periods (usually 8) and column 2, the percentage of periods with overvaluation for each country. It is striking that Nigeria had an overvalued RER during 7 of the 8 periods, which is higher than for most comparators. According to the estimates, Côte d'Ivoire and Kenya, two countries with low growth were also always overvalued. So was Morocco. On the other hand, Indonesia, also an oil exporter was on average undervalued (28% on average during the period) with overvaluation only during one five-year period. Since Freund and Pierola found that manufacturing export surges that lasted for 12 years were accompanied by an undervalued real

exchange rate during the entire period, Nigeria's exchange rate policy was not conducive to export-growth.⁹

Effecting a real exchange rate depreciation via a nominal devaluation would need to be accompanied by a removal of import bans and by the streamlining of technical regulations that have the potential to give unlimited protection to incumbents. Such a move to 'level the playing field' would give some protection while avoiding to 'pick the favorites'. However, the high elasticity of fuel subsidies to the exchange rate would make it difficult to implement. Earlier this year, the government had to backtrack on its attempts to reduce subsidies on imported oil. Yet, the evidence that successful take-off of non-traditional exports has been preceded by a substantial increase in the profitability of tradables merits special attention especially in an environment like Nigeria where other industrial policy levers would not be available and would be subject to capture. However, it is unclear for how long a real undervaluation could be maintained as other prices will adjust in the economy.

Policies affecting the nominal exchange rate should therefore by no means be seen as substitutes to policies that will have to address the underlying reasons for low productivity in Nigeria as outlined elsewhere in the note (i.e. poor service delivery in electricity and other services, and pervasive NTBs).

4. Non-Tariff Barriers have Closed Nigeria to Foreign Trade

When putting together the different indicators of barriers to foreign trade, Nigeria comes out as closed to foreign trade, both in absolute terms and especially when compared to other countries. Protection from tariffs is close to averages for SSA, but higher than averages for comparator countries and successful populous economies. Protection, however, comes from the many Non-tariff trade barriers (NTBs). Import bans and technical regulations are particularly high. Protection from competition, foreign and domestic, is also enhanced by a regulatory environment that protects inefficient incumbent firms and prevents entry of new firms.

While opaque and difficult to measure, these obstacles are reflected in Nigeria's low rankings on trade and regulatory indicators summarized in tables 3 and 5. While only suggestive, Nigeria ranking compares poorly with those of countries it would like to emulate such as Indonesia. Indicators of behind-the-border (BTB) and regulatory measures are also high. Taken together, these measures confirm that Nigeria's trade and regulatory environment is not conducive to foreign trade.

4.1. Tariff Protection is still high

Nigeria's (and ECOWAS') tariff schedule is not out of line with that of other lower-middle income countries. The average applied rate is 12%, no applied tariffs are above 50%. This is substantial

⁹ Freund and Pierola identified 92 export surges of manufactures in their sample (they define an export surge satisfies a filter of an export growth of at least 6 per year over 7 years; higher than in the previous 7-year period and is supply rather than demand driven).

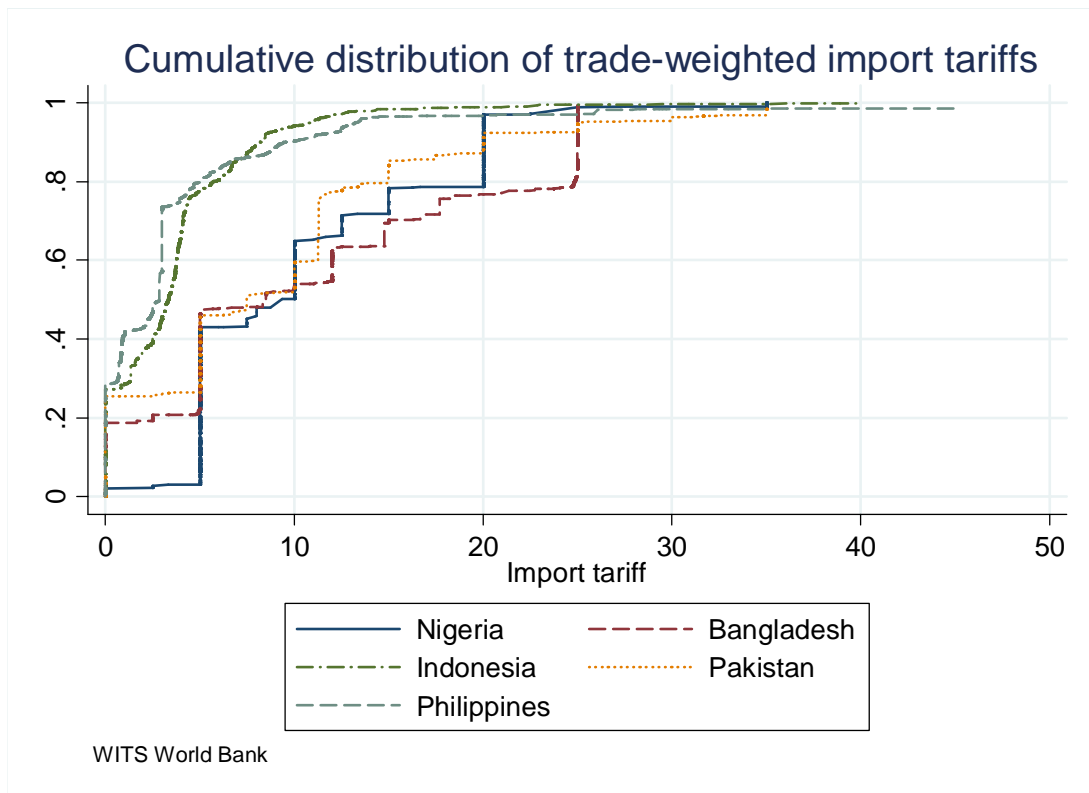
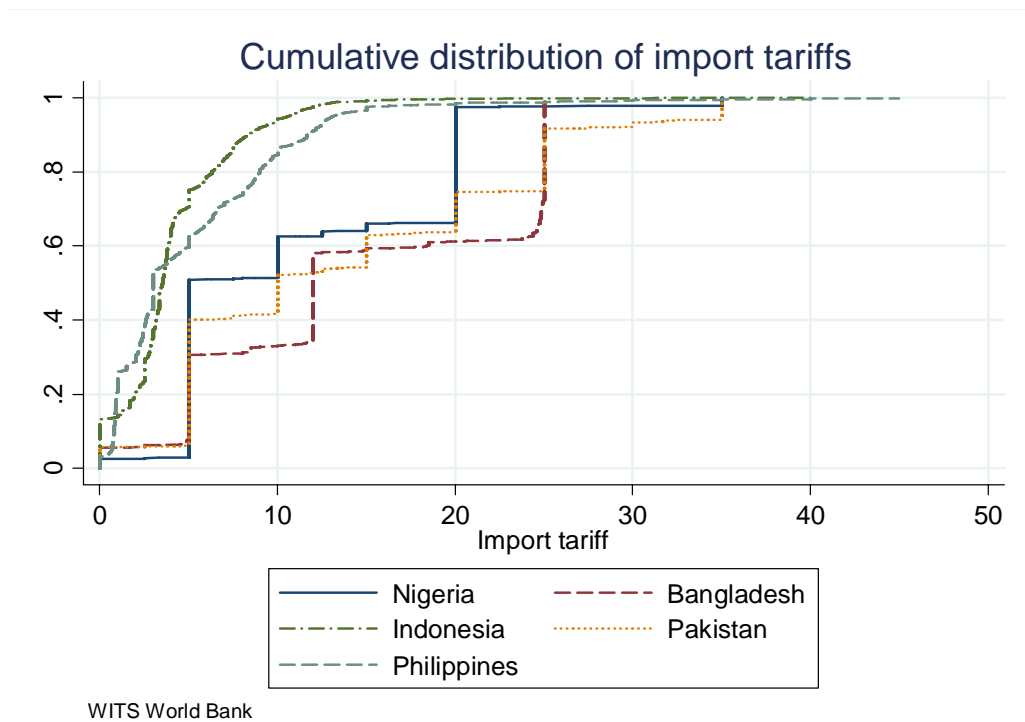
progress from an average rate of tariff protection well over 20% in the late 1990s. In 2008, following food shortages, the import tax on rice was lowered from 100% to 2.7%.

Until 2009, Nigeria applied the 4 band ECOWAS Common External Tariff [0(social goods)], [5 (raw materials and necessities)], [10 (intermediate products)], [20(finished goods)]. However, at Nigeria's request, a 5th band of 35% was added in 2009. This development shows the strength of Nigeria in ECOWAS and of the protectionist industrial lobby in Nigeria.¹⁰ It goes against the growing consensus that 21st Century regionalism is about participating in the 'slicing up of the value chain' i.e. participating in the worldwide growth of outsourcing. This rush to join global value chains explains why the bulk of tariff reductions have taken place unilaterally rather multilaterally, especially in fast-growing Asian economies. Vezina (2010) shows that the last two decades of unilateral tariff-cutting in Asia's emerging economies has been mostly driven by a competition to attract foreign (mostly Japanese) FDI. It is therefore very unlikely that raising the CET in ECOWAS will help the region participate in the trade-investment-service nexus, and much more likely that it will actually prevent the region from effectively participating.

Figure 3 compares the cumulative distribution of the applied tariff schedules of Nigeria for 2009 (and hence ECOWAS) with that of four comparators. Nigeria is in the middle in this group of countries, with Indonesia and the Philippines having lower tariffs in the 0-20% range. The cumulative distribution shows that 30 percent of Nigeria's tariffs are at the 20% level (15 percent when taking the import-weighted cumulative distribution since imports are less for products with higher tariffs). In contrast with the other countries, Nigeria has no zero-tariff lines. In contrast with the other countries, Nigeria's tariff distribution is skewed towards the high-end of the distribution. Nigeria also applies several import levies: A port development levy of 7 percent of duty payable, a comprehensive import supervision scheme of 1 percent of customs value, the ECOWAS levy of 0.5 percent, and miscellaneous product-specific levies (Raballand and Mjekiqi (2010, p. 206).

¹⁰ Close to 50% tariffs are at 5 percent level, another 11% at 10 percent level, 31% at the 20 percent level and 2% at 35 percent level. See Annex 4, table A6. Table A7 lists the products in the 35% tariff band. According to Hoppe and Aidoo (2012), it is likely that 5-band CET will be adopted by UEMOA members so that West African trade will function as a customs union.

Figure 3: Cumulative Distribution of Import Tariffs



Taking a larger sample of countries, figures A1a and A1b report the scatter plot of average tariff protection on per capita income (with a cut-off per capita income of \$15,000 for countries with at least 0.5 million inhabitants). The scatter shows that Nigeria is close to the fitted line and that its tariff protection is close to the protection rates in the COMPARATOR group. Nigeria's index of trade restrictiveness (TTRI) that takes into account tariff dispersion is also remarkably close to the average for other SSA countries (see table A4, col.1 which indicates an average uniform tariff equivalent between 11 and 12 percent for all SSA countries including Nigeria). However, Nigeria's trade restrictiveness is a third higher than the average trade restrictiveness value for the LM countries.

Taking into account the tariff-equivalent of NTBs, Nigeria's overall trade restrictiveness (OTRI) stands at 27%, a value that is close to the average for other SSA regional groupings (EAC, COMESA, UEMOA, and ECOWAS by membership in the CET). However, this value is two-thirds higher than the corresponding average (16.7%) for the LM group.

Table 3 summarizes trade policy indicators values for Nigeria and selected comparator countries. Nigeria's trade restrictiveness index from tariff protection (TTRI) is high but not out of line with most comparators but the difference is striking when compared with Indonesia. The other indicators do not show great differences across countries. Because virtually no goods enter duty-free, tariff escalation is not high and there are relatively few tariff peaks. Also with exports concentrated in oil, Nigeria (like Mexico) does not face trade barriers in export destination markets.

Table 3: Comparative Trade Policy Indicators for Nigeria

	TTRI Value	OTRI Value	MA-TTRI Value	Tariff escalation	Tariff Peaks	Number of FTAs(09)	ITU Comp. index	Complexity ranking
# countries	1(125)	2(102)	3(125)	4(183)	5(145)	6(201)	7(188)	8(124)
Year	2006-09	2008	2008	2006-09	2006-09	2006-09	2006-09	
Nigeria	11.4 (98)	26.8 (94)	0.8 (12)	2.2(119)	2.95 (54)	2 (128)	0.89 (147)	122
Bangladesh	11.3 (97)	20.4 (86)	3.6 (71)	1.7 (110)	-	5 (68)	1.25 (120)	117
Cote d'Ivoire	8.4 (85)	33.2 (97)	3.1 (62)	3.4 (134)	-	3 (109)	1.36 (105)	103
Ethiopia	13.0 (109)	13.9 (66)	1.8 (46)	5.3 (161)	-	1 (165)	0.00 (180)	110
Ghana	9.0 (89)	10.8 (57)	3.1 (65)	-1.1 (28)	--	2 (128)	1.47 (98)	112
Indonesia	4.6 (56)	7.6 (19)	4.2 (80)	3.2 (132)	2.47 (50)	6 (63)	1.79 (80)	76
Mexico	13.1 (111)	27.4 (96)	0.5 (5)	3.6 (144)	1.34 (40)	24 (33)	2.00 (1)	28
Morocco	18.1 (122)	26.7 (93)	1.8 (48)	0.6 (52)	1.63 (46)	7 (57)	2.00 (1)	100
Senegal	10.2 (95)	47.2 (101)	4.2 (76)	3.4 (134)	--	2 (128)	2.00 (1)	66
South Africa	6.56 (73)	7.2 (16)	2.5 (57)	6.2 (165)	8.38 (87)	4 (78)	1.13 (128)	36

Sources: cols: (1-2) WITS: Applied HS tariffs; cols (3-7) World Trade Indicators, Doing Business and World Governance indicators. Ranks in parenthesis (a higher value is a worse ranking).

Col 1 TTRI: The equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import price demand elasticities.

Col. 2: OTRI adds the tariff equivalent of NTMs to the TTRI

Col. 3: MA-TTRI: Calculates the equivalent uniform tariff of trading partners that would keep their level of imports constants. It is weighted by import values and import demand elasticities of trading partners.

Col. 4 MFN Applied tariff escalation is the percentage point difference in applied tariffs from raw materials or primary products to finished or fully processed goods.

Col. 5: Share of Tariff Lines with Domestic Peaks reflects the total share of lines in the country's MFN tariff schedule with a value above 3 times the simple average tariff. Expressed as a percentage of total lines.

Col. 6: Number of FTAs

Col. 7: ITU competition index in telecom sector reflects the level of competition in a country's telecommunications sector for international long distance calls, mobile phones and internet service providers (0-2, most competitive).

Col. 8: A lower ranking represents a less complex export structure. See Abdon et al. (2010)

4.2. Non-tariff Trade Barriers: Pervasive, Protectionist and Costly

It is difficult to get a handle on the effects of NTBs and on their associated welfare effects, so it is useful to use as many approaches as possible. In the case of Nigeria all the evidence points in the direction of pervasive and very costly NTBs. Start with the widely-used estimates of Kee et al. (2009) drawn from a sample of 93 countries around 2001. Nigeria has a large number of NTBs and ranks in the bottom quartile according to the OTRI indicator in table 3.¹¹ Table 4 digs further and reports the distribution of NTBs according to NTB-type along with the ad-valorem tariff equivalent (AVE). In Nigeria, technical regulations followed by import prohibitions were the most frequent form of NTB. Technical regulations appear as a single NTB on 82% of the lines with an estimated ad-valorem tariff equivalent of 50%.¹²

¹¹ In terms of number of NTBs, with 5998 registered NTBs, Nigeria ranked 8th out of 93 countries and 3rd. when one excludes the prohibitions by Arab countries on imports from Israel.

¹² WTO (2005) and Raballand and Mjekiqi (2010, p.207 and table 6.2) report that these import prohibitions have been on the rise. The relaxation of import bans in October 2008 was minimal (maize, wheat flour, a few garment products and reduction of the 2 years to 8 years on the ban of imports of second-hand vehicles). As detailed in tables A5(a) and A5(b), the current list of import bans is largely unchanged.

Table 4: Frequency Distribution of NTBs and AVEs in Nigeria circa 2001

a) Existing NTBs in Nigeria (over the 8 NTB codes at the 2-digit level)			
NTB description	Code	Freq.	Percent
Administrative pricing	33	54	0.90
Non-Automatic licensing	61	649	10.84
Quotas	62	9	0.15
Prohibitions	63	335	5.59
Technical regulations	81	4,941	82.52
	Total	5,998	100

b) Number of NTBs per lines		Freq.	Percent
	1	4,080	68.14
	2	1,368	22.85
	3	504	8.42
	4	36	0.60
	Total	5,988	100

c) Ad-valorem Equivalents of NTBs			Unweighted average	
Combination of NTBs	Freq.	Percent	AVE	Tariff
81	4,080	82.57	49.26%	30.38%
33+81	4	0.08	27.86%	150%
61+81	522	10.56	53.72%	13.40%
63+81	158	3.20	51.78%	86.61%
33+63+81	50	1.01	55.56%	35.74%
61+63+81	118	2.39	47.60%	14.79%
61+62+63+81	9	0.18	35.05%	13.89%

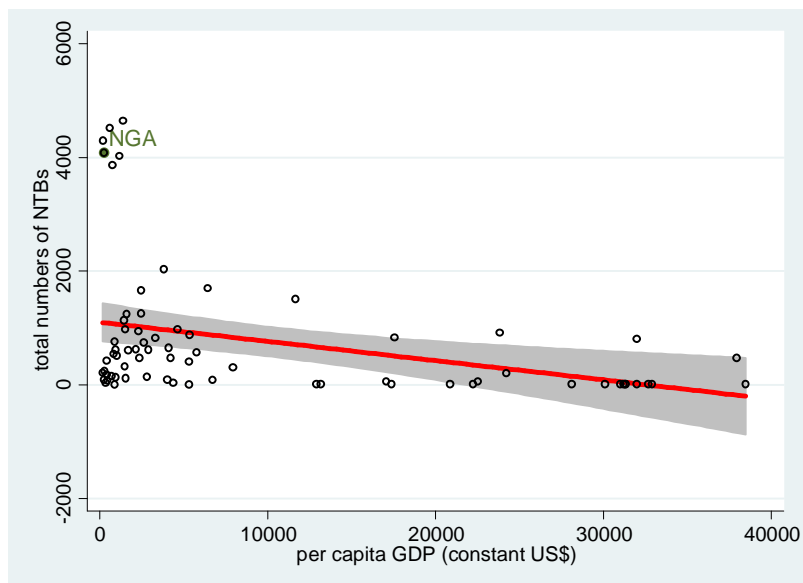
			Import-weighted average	
			AVE	Tariff
81			30.47%	18.60%
33+81			5.19%	150%
61+81			19.76%	17.48%
63+81			166.47%	68.03%
33+63+81			156.49%	73.07%
61+63+81			51.51%	5.33%
61+62+63+81			3.89%	7.07%

Source: Author's estimates from Carrère and de Melo (2011b)

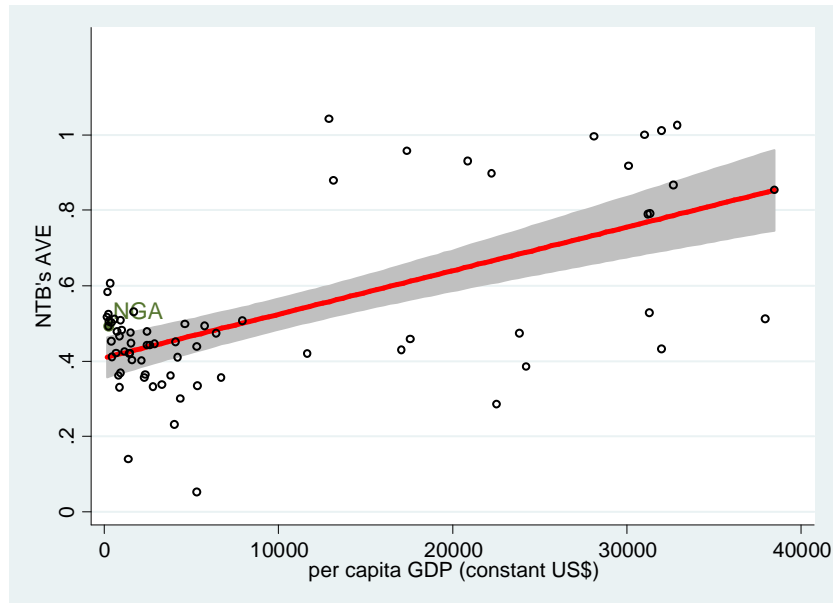
It is difficult to escape the conclusion that the technical regulations in Nigeria have a protectionist objective. Typically, the number of technical regulations increases with per capita income reflecting among others production methods for complex manufacturing products (e.g. electronics) and SPS for agricultural products (see figure 4). Furthermore, Nigeria is among the countries whose export basket is least complex (see below) so, if anything, it should have fewer technical regulations for its per capita income level. Yet, Nigeria is an outlier in figure 4 with far more technical regulations than predicted for its per capita income. This suggests that these technical barriers serve other objectives (e.g protection of domestic production from foreign competition) rather than consumer protection as indicated by the further evidence described below.

Figure 4: Number of Technical Regulations and Ad-valorem Tariff Equivalents (AVEs)

4(a) Number of Technical regulations

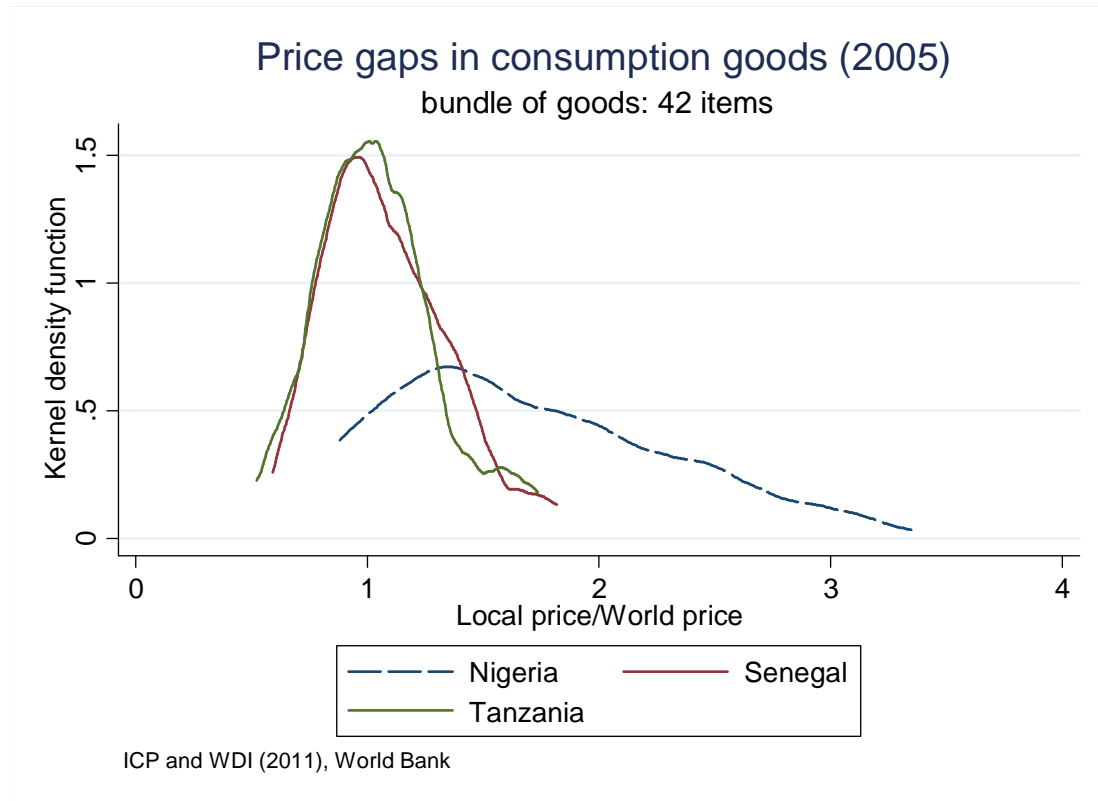


4(b) Ad-valorem tariff Equivalent of Technical Regulations



Next, consider direct price comparisons. This 'price-gap' approach is adopted in annex 4 where AVEs are estimated by comparing directly domestic product prices with the prices for similar products on markets where these products are free of distortions, or at least, are less distorted. Annex 4 applies this method for 42 consumption goods based on the recent (2005) ICP project for 28 developing countries with recent data on NTMs. On average, Nigeria's prices are 70% higher than the average prices for the sample, and this pattern is the same for all goods and for those subject to import prohibitions. Because price gaps computed from a heterogeneous sample of countries could also pick up differences in quality, we also computed price-gaps comparisons with the two closest countries in the sample, Senegal and Tanzania. These are reported in figure 5 which shows that prices in Nigeria are also higher than in these two countries, on average, 7.9% higher than in Senegal and 4.4% higher than in Tanzania.

Figure 5: Price Gaps in Consumption Goods in Nigeria compared with Senegal and Tanzania



Source: Annex 4, table A

Cadot and Gourdon (2011) go further and provide some estimates of the costs of the prohibitions (see the list in table A.5(a)). They estimate that import prohibitions on the commercial importation of a group of 27 consumer products have raised the domestic price by an ad-valorem equivalent (AVE) averaging 77%. They estimate that the elimination of these bans, which affects more than proportionately the poor regions, would allow more than 3 million Nigerians to exit from poverty.

Nigeria's trade policy of import bans is also costly in other dimensions. First, the complexity of Nigeria's trade regime makes Nigerian customs among the least efficient in terms of customs revenues collected per staff, largely due to the physical customs checks and associated opportunities for rent-seeking by customs staff (Nigeria is ranked 30th out of 32 countries in Raballand and Mjekiqi (table 6.7)). Along these lines, perhaps the most celebrated case is the 2006 reform of the Lagos port to a "landlord model" entailing private operation of the container terminals. Initially a success, this privatization soon led to a return to long delays of up to 30 days and a temporary closing of the port in 2009 because of the increase in delays. This increase in delays was largely caused by the trade regime with import bans requiring physical inspection of all containers to prevent smuggling and under-invoicing.¹³ Raballand and Mjekiqi estimate the revenue per staff at a specific border post with Benin at only \$10,000, resulting from the physical inspections to prevent the smuggling of prohibited textiles and used vehicles (less than 8 years of age) from Benin. This per-staff revenue is ten times lower than the already low average per-staff revenue mentioned earlier (Raballand and Mjekiqi, 2010).

Second, the discrepancy between official and mirror imports from Benin show that smuggling from Benin coincided with the re-imposition of import bans around 2005 and was mostly for banned textile and footwear products with no discrepancies between official and mirror imports for products with no bans and low tariffs. Raballand and Mjekiqi estimate that \$5 billion worth of imports are smuggled through Cotonou alone and that 50 per cent of the value of smuggled goods is textile products. They estimate that replacing bans on textiles by a 15 percent tariff would render smuggling unprofitable and result in a yearly gain of \$200 million to the Nigerian Treasury.

Other estimates of tax evasion by Bouët and Roy (2008) support the view that evasion is greatest in countries with poor institutional quality. Their estimates are from a comparison of evasion elasticities for three countries: Nigeria, Kenya and Mauritius. They find that the evasion gap (measured as the discrepancy between exported and imported values reported by partners) is positively correlated with tariff levels. The evasion elasticity is greatest for Nigeria, followed by Kenya and Mauritius. This ranking corresponds to the ranking of the three countries along perceived indices of institutional quality.

¹³ As detailed by Raballand and Mjekiqi, this was due to the requirement of physical inspection for smuggled goods in all cargo combined with the possibility of repurchasing the confiscated goods at a price far below the penalties for a false declaration.

In the end, Nigeria's trade regime of import bans coupled with technical regulations has not achieved its objective of protecting domestic industry to help it grow. Nigeria has yet to move from import bans to tariffs. Between October 2008, when a few products were removed from the list of prohibited imports to currently (March 2012), only two items (toothpicks and cassava) have been removed from the list along with a few minor textile products (see tables A5(a) and A5(b)).

4.3. Adequate Physical connectivity, but weak Regulatory and Governance.

Nigeria is well positioned to integrate into world markets because of its good maritime connections (80% of world trade takes place by maritime transport). Nigeria's good maritime connection is reflected in the value of its Liner Shipping Connectivity Index (LSCI). This objective indicator of 'hard' infrastructure in column 1 of table 5 positions Nigeria in the top half of the distribution in the sample of 158 countries (the LSCI is a proxy of the accessibility to global trade as it is both a measure of a country's connectivity to maritime shipping and as a partial measure of trade facilitation).¹⁴ Furthermore other indicators of 'hard' infrastructure are good, at least for major roads along which West African trade in cereals take place (WATH (2011))

However, the other indicators of 'soft' infrastructure which depend on the regulatory environment are much less favorable, partly a reflection of Nigeria's extreme political instability (col.7). The other indicators are mostly perception-based indicators. Nigeria ranks in the bottom quartile of the distribution on the ease of trade and on the regulatory indicators (cols. 2-6). With the exception of Côte d'Ivoire, comparator countries to which Nigeria is aspiring (e.g. Bangladesh, Ghana and Indonesia) rank higher.

¹⁴ UNCTAD's LSCI is a measure of a country's level of integration into the existing liner shipping network. It is based on an observation-rule based index as opposed to the perception-based Logistics Performance Index (LPI). The LSCI captures liner shipping services to a country's port(s) using five components: (i) the number of ships; (ii) the container carrying capacity (in TEUs) of those ships; (iii) maximum ship size; (iv) number of services; and (v) the number of companies that deploy container ships on services to and from a country's ports.

Table 5: Comparative Regulatory and Governance Indicators for Nigeria

	LSCI	LPI value	Trade across borders	EDB (DB)	Regulatory Quality	Rule of law	Political Stability
Col(# countries)	1 (158)	2(164)	3(183)	4(183)	5(202)	6(204)	7(204)
Year (averages)	2010	(06-09)	(07-09)	(06-09)	(06-09)	(06-09)	(06-09)
Nigeria	18.3 (58)	2.59 (100)	146	125	-0.62 (143)	-1.12 (179)	-2.01 (197)
Bangladesh	7.5 (99)	2.74 (80)	107	119	-0.82 (161)	-0.70 (146)	-1.54 (184)
Cote d'Ivoire	17.5 (60)	2.53 (111)	160	168	-0.93 (166)	-1.52 (196)	-1.91 (193)
Ethiopia	--	2.41 (127)	159	107	-0.86 (162)	-0.60 (134)	-1.79 (191)
Ghana	17.3 (61)	2.47 (120)	83	92	0.08 (90)	-0.10 (95)	0.06 (106)
Indonesia	25.6 (46)	2.76 (76)	45	122	-0.27 (110)	-0.66 (144)	-1.00 (170)
Mexico	36.3 (27)	3.05 (50)	74	51	0.45 (69)	-0.64 (142)	-0.62 (153)
Morocco	49.4 (17)	2.38 (131)	72	128	-0.03 (95)	-0.11 (96)	-0.47 (143)
Senegal	13 (72)	2.86 (58)	57	157	-0.29 (113)	-0.31 (108)	-0.16 (127)
South Africa	32.5 (32)	3.46 (28)	148	34	0.63 (56)	0.12 (85)	-0.04 (116)

Sources: World Trade Indicators, Doing Business and World Governance indicators. Ranks in parenthesis (a higher value is a worse ranking)

Col. 1: LSCI= Liner Shipping Connectivity Index (maximum value in 2004 = 100). Higher value indicates better connectivity;

Col. 2: LPI=Logistics Performance Index. Perception of a country's logistics environment.

Col.3: Trade Across Borders = Trade facilitation capabilities.

Col. 4 Ease of Doing Business (EDB)=; Overall indicator of business climate based on quantitative indicators;

Cols. 5-7. Indicators drawn from a Normal distribution of around 100 indicators with values normalized over the interval (-2.5; 2.5). See Kaufmann, Kraay, and Mastruzzi (2009).

These indicator values reflect the perception of a business and policy environment where decision-making is governed by discretion rather than by rules. A recent example is the scandal over waivers on import duties. In November 2011, the National Association of Nigerian Traders (NANTS) reported estimates from waivers granted to 10 companies from paying duties on rice and palm oil imports to be worth \$1 billion, waivers that were “conceived and executed by few in secrecy” while the President had indicated in his budget speech that the best way to grow was through food security and the development of agricultural value chains.¹⁵ Such discretionary waivers and Presidential statements also indicate that the Nigerian Government is yet to adopt an outward-looking development strategy.

4.4. Textiles: A missed Opportunity

The textile industry presents an interesting case study of Nigeria’s missed trading opportunities. Contrary to their justification when put in place, high tariffs and import bans (still in existence—see table A5(a)) have not helped production or created employment in that sector. In the 1970s, the textile industry accounted for 72 percent of West Africa’s textile production. At its peak in the mid- 1980s, it had 175 firms. This number fell to 10 by 2004. During the same time span, employment fell from 350,000 to 40,000 employees, a reflection of the emergence of India and China, but also of Nigeria’s import bans.¹⁶

In 2000, the US enacted the Africa Growth Opportunity Act which gave duty—free access for exports from 22 SSA countries, including Nigeria. For textile products, this meant both exemption from the MFN tariff of 11% which applied to GSP beneficiaries and, more importantly exemption from the triple transformation process (cotton→ yarn→textile→apparel) to qualify as originating from the country receiving preferences, a rule that also applied for duty-free access to the EU market. The new “Special Rule” (SR) established since 2001 relaxed the triple transformation rule by conferring duty-free access to apparel regardless of the origin of fabric (cotton, yarn, textiles) used to produce it. In effect, meeting origin requirement under the AGOA-SR implied applying a single-transformation requirement (fabric →apparel).

While Nigeria only qualified for the Special Rule in 2004, its utilization rate of preferences for that year was less than 2% and export growth which averaged 3% prior to the entry in force of the SR was negative. Nigeria’s utilization of preferences in the EU was also less than 2% while the average utilization rates of preferences of the 22 countries in the US and EU markets (both of which granted preferential access of 10%) was over 90%. De Melo and Portugal-Perez (2008) estimate that the

¹⁵ The communiqué quotes the President from his 2012 budget speech that the “...best way we can grow our economy and create jobs for our people is for us to patronize Nigerian-made goods” (para. 13). While objecting to the waiver, the NANTS communiqué lauds the “...President’s speech on the vision of placing a 25% and 40% levy respectively on brown and polished rice and a further hike to 100% percent by Dec. 31. 2012” (para. 14). This recent development is not surprising. Andriamanjara et al. (2009) estimate that in 2006, 8 percent of official imports were in tariff lines with a complete ban.

¹⁶ Raballand and Mjekiqi (2010) give further information on the decline of the Nigerian textile industry.

passage to this SR increased export growth by 42% for the top 7 exporters (Lesotho, Madagascar, Kenya, Swaziland, Namibia, Botswana and Malawi).¹⁷ Using the ranking of countries along the Ease of Doing Business (EDB) indicator, they also showed that, on average, countries best ranked on the EDB experienced higher growth in apparel exports under AGOA.¹⁸ They also found that following the SR, countries increased the number of varieties they exported to the US, but not to the EU that was still keeping the double transformation rule.

In sum, while Nigeria had low wages, the export zones that served as springboard to the US market and at least as good connectivity as the other African countries that took advantage of the AGOA, it failed to do so and the textile industry has continued to decline. This is not surprising. First, at 166%, the AVE estimates of the combination of technical requirements and prohibitions in table 4 are very high. This is not an incentive to improve productivity and quality. Second, bans on most textile imports are still in place (see table A5(a)). Third, the porousness of the import bans is substantial so that, in effect, the textile industry is only partially shielded from foreign competition.¹⁹

The failure of past policies reflected in the continual decline in the textile industry presents a clear lesson from history. First, Nigeria failed to follow on the track of other LM countries have greatly expanded exports in these sectors over the past thirty years (see Eberhardt and Teal figure 3.4). Second, they missed the opportunity presented by AGOA which is still on the shelf. Third, there is a window of opportunity as China and other low-wage Asian countries are losing competitiveness in this sector because of rising wages. It depends on Nigeria to make it happen.

The failure of the textile industry is not isolated. Eberhardt and Teal (2010) document the low-productivity low-paying jobs in small scale manufacturing activities and Nigeria's poor performance in the last forty years. Eberhardt and Teal also show (see figures 3.3 and 3.4) that over the period 1970-2003, compared with fast-growing low-income countries (excluding China), Nigeria and other slow-growing countries have failed to move beyond production of natural-resource-based industries (food and wood products) to low-tech labor-intensive industries (textiles and footwear). This explains the extremely low share of Nigeria's manufacturing exports in table 2.

Eberhardt and Teal argue (p.105) that entering low-skill manufactures is unlikely to be a viable strategy for Nigeria in the short-term because these labor-intensive activities come from larger-scale enterprises (that also pay higher wages boosting purchasing power). But the experience of AGOA suggests that this need not be the case. The countries that took advantage of this opportunity did not

¹⁷ Botswana's average annual export growth jumped from 2.8% to 26% and Kenya's from 13% to 58% after the implementation of the SR

¹⁸ The correlation coefficient between export growth and the rank (high rank implying bad score) on the EDB was ($p=0.55$) and highly significant statistically.

¹⁹ Raballand and Mjekiqi (2010) estimate the underreporting of Benin's imports and estimate that at the 2-digit level textile products accounted for 77 percent of the discrepancy for all imports of manufactures.

rely on large-scale plants: they participated in the growing outsourcing of activities in the value chain. Typically AGOA beneficiaries only produced a small component—knitting—in the value of the final of the product, yet these countries took rapid advantage of AGOA in spite of often faulty logistics.

5. Diversification and export survival

It is recognized that countries get rich by producing the goods that rich countries consume. This implies that economic development is a process of learning how to produce more complex products. Some have pointed out that productivity increases are primarily achieved through inter-industry spillovers and that these are more likely in certain product groups— i.e. in the product-space language, in the ‘denser’ part of the ‘forest’ where there are greater opportunities for cross-product linkages. Along these lines, Hausmann, Hwang and Rodrik (2008) find that, after controlling for intervening factors, notably per capita income, countries with a more sophisticated (i.e. more diversified) export bundle, subsequently grow faster. It could also be that productivity increases come through learning from exporting, or if initially at least, it is the highest-productivity firms that self-select into exporting (increases in productivity that might come from first exporting at the regional level). In addition, the accumulating evidence also shows that countries with high export growth are those with high survival of new export flows.

As shown below, regardless of the countries or group of countries it is compared to, Nigeria’s exports bundle is very concentrated and very unsophisticated. Its export spells are also of very short duration. Since Nigeria stands out in terms of high non-tariff barriers to trade and in terms of a weak regulatory and governance environment, it is hard to escape that these factors are the main driving force behind Nigeria’s poor trade performance.

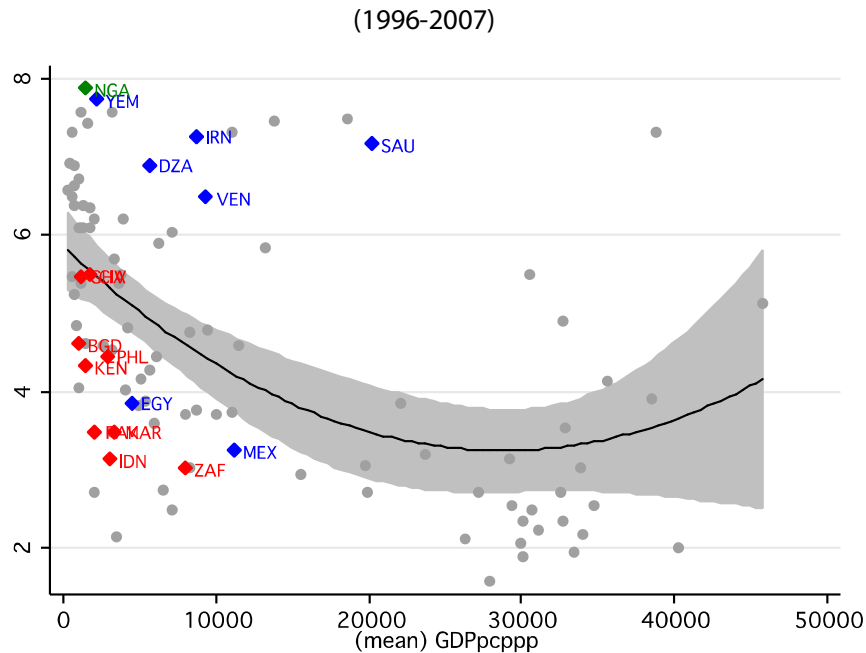
5.1. Nigeria’s Exports: Very Concentrated and Unsophisticated

Figure 6 shows the Theil index of export concentration for Nigeria and for comparators (OIL and COMPARATOR groups) along with fitted curve which shows an inverted u-shape. Nigeria has the most concentrated export basket in this large sample of 156 countries. Most oil exporters are also above the fitted curve, but their exports are less concentrated than Nigeria. This strong export concentration of oil exporters is related to the small size of their industrial sectors. It reveals the specificity for the oil exporters even though the root causes for lack of diversification will vary across countries.

As emphasized by Hausman and Rodrik (2003), moving to new products is not just a matter of passive factor accumulation: it also requires having the capabilities associated with the new products,

capabilities that depend on what you already export. According to measures of capabilities (Hidalgo and others (2007), Abdon et al. (2010)), these are limited for exporters of hydrocarbons.²⁰

Figure 6 : Export Concentration and Per Capita Income



Source: Adapted from Cadot et al. (2011). See annex table A1 for definition of comparison groups. A higher value indicates greater concentration of exports

For example, in the case of Algeria, Hausman et al. (2010) show that its export bundle is very concentrated, even when one excludes oil and minerals. They reject real exchange rate appreciation and volatility as potential explanatory factors. Rather, they find that high protection and rent-seeking might have played a role as well as a business-unfriendly environment. They also argue that taking into account the partial correlation between DB indicators and the product-diversity of the export bundle still shows that Algeria's non-oil export basket is very concentrated. Using a measure of the connection of products which shows that the product space has a core-periphery structure, they find that hydrocarbons are poorly connected to the rest of the product space, suggesting that diversification for oil exporters will be inhibited because new activities are far in the product space.

²⁰ Cadot et al. speculate about the U-shape curve. They find that the search for new products (called "discoveries" by some and "export entrepreneurship" by others) which disappears after the turning point, coincides with a change in the export bundle towards resembling more to the comparative advantage of countries (as measured by the distance from their endowments). This would suggest that oil exporters might be closer to their long-term comparative advantage as high diversification characterizing the middle part of the development process might be an out-of-equilibrium stage between two states characterized by specialization according to comparative advantage.

These observations about the poor connection of hydrocarbons with the rest of the economy show up in Nigeria's export bundle which is the third lowest in the world in terms of complexity (table 3 col. 8).²¹ This is not surprising since export shares of the more (least) complex products are higher (lower) for high-income (low) income countries. However, by its population size, Nigeria has a potentially large market among low-income countries, so one might expect a more export diversification and higher product complexity, at least closer to countries like Indonesia.

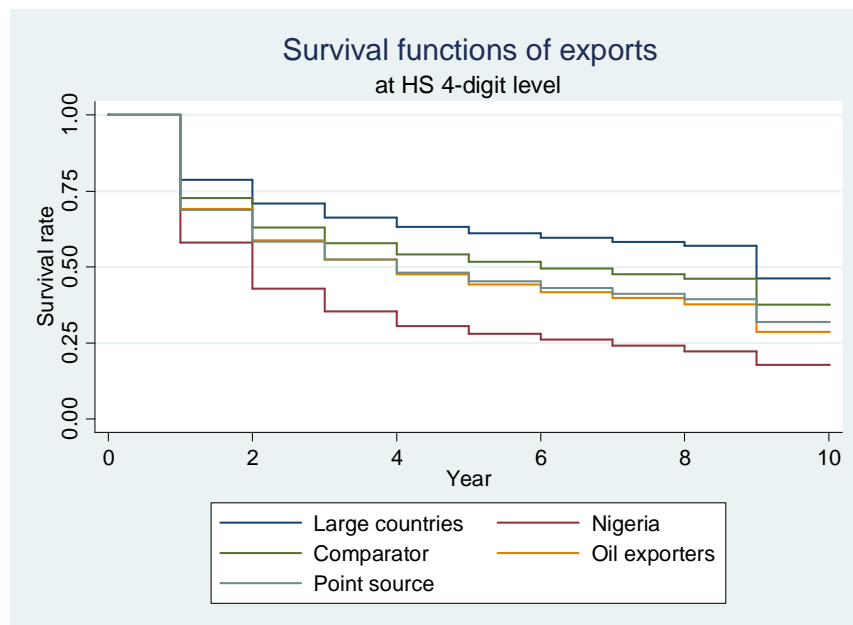
5.2. Nigeria's Exports are short-lived.

Typically, export spells are of very short duration in low-income countries. The issue then is what accounts (is correlated) with this lack of duration of new products. From a policy point of view, having clues about this is as much if not more important than what lies behind the discovery phase. Using HS-6 level data showing that 80% of new exports die within a year, Besedes and Prusa (2006) suggest that higher survival rates are essential for achieving faster export growth, a conjecture that finds support in Brenton, Pierola, and Von Uexküll (2009) who show that poorly performing countries are not inferior to stronger countries in introducing new trade flows, but rather that they experience much lower rates of survival. They find that there is a strong positive association between export survival rates and per capita income and also that the probability of death of an export flow diminishes the longer the export flow survives. Along the same lines, Besedes and Prusa (2010) show that differences in survival rates and the deepening of existing relationships are important drivers in accounting for long-run differences in performance.

Figure 5 shows export survival estimates for Nigeria and the averages for the comparator groups over a 10-year period at the HS-4 digit level to remove the large errors in measurement at the HS-6 level. The estimates show that in Nigeria, 45 percent of new exports die the first year, and that less than half of new exports last more than two years. The steps getting smaller indicates that the rate of decay falls with time, i.e. that the probability of survival increases with duration.

²¹ Complexity is defined in terms of diversification (how many products with an $RCA > 1$) and ubiquity (how many countries export the product with $RCA > 1$). In the Abdon et al. calculations, out of 5,107 HS-6 products, Nigeria has an $RCA > 1$ for only 77 products, the third lowest ranking in the bottom ten after Angola and Congo. Petroleum oils, Nigeria's major export (82.5% of exports) ranks 5,012 out of 5,107 products in terms of complexity and the top 5 most complex exports are insignificant in world's exports (see Abdon et al. appendix E).

Figure 7 Survival Rates: Nigeria and Comparators



Source: Authors' computation from BACI dataset for period 1995-2005.

Regardless of the selection of comparator group, Nigeria's exports die faster than for any of the groups. While this could be part of a discovery process, it is likely to be mostly due to the combination of the uncertainties in the trade regime and in the regulatory environments in Nigeria and in the neighboring countries where Nigerian exports are destined.

5.3. The Consequences of Nigeria's Restrictive Trade and Regulatory Policies

Compared with others, Nigeria's trade and regulatory regimes are very distorted and reflect a prolonged denial of the gains of exploiting one's comparative advantage. Nigeria's industrialization strategy relying heavily on Non-tariff barriers has:

- Failed to promote capital intensive industries like steel and arrest the decline of comparative-advantage-based activities like textiles
- Resulted in a very concentrated export structure all in non-sophisticated goods, even when compared to countries with exports concentrated in oil.
- Resulted in a very intensive use of technical regulations for its level of development, regulations that have been geared to protect producers rather than consumers and that have prevented the development of value chains in which Nigeria would have potential (Treichel ed. (2010)).
- New exports of very short duration life

This closed-door development strategy has been costly along multiple dimensions. Particularly costly among these are the non-tariff barriers in the form of import bans and technical regulations:

- Loss of government revenue because of tax evasion and smuggling,
- Costly physical inspection of prohibited imports
- Corruption in the form of deliberate approval of undervalued, misclassified or prohibited imports by customs officials
- Compliant traders are penalized as their cargo is delayed by the lengthy physical inspection process
- Increased poverty as bans have raised most the product prices for the consumption basket of the poor.

This diagnosis presents challenges for Nigeria's foreign trade strategy. Because of these high visible costs, the first step should be to eliminate the import bans and replace them by tariffs. Andriamanjara et al. (2009) estimate that a removal of the bans on a non-discriminatory basis with a replacement by a 35% tariff would more than double the imports from \$1,8 billion to \$4,2 billion and increase government revenue by \$840 million, or about 12% of non-oil revenue. This removal should be on a non-discriminatory basis.

Replacement of import bans with an MFN tariff of 35% (zero for regional trade) would have two added benefits. First, this would help Nigeria in implementing the ETLS which stipulates that the FTA should not only involve duty-free regional trade, but also that traded products should not face any quantitative restrictions. Second, it would help Nigeria establish a leadership role in ECOWAS, leadership that would be difficult for Nigeria to establish without prior implementation of the ETLS. Indeed, because of its poor policy environment (see tables 3 and 4) Nigeria's trading partners are likely to see few advantages to engage in deeper integration. These partners are also likely to hesitate to enter into 'deeper' regional integration because of fear that the reform process is captured by the most powerful protectionist interests that are in Nigeria.

6. Which Regional Integration Strategy for Nigeria?

The traditional bargain driving regionalism was an 'exchange of market access.' This has changed. In the fast growing Asia region and increasingly elsewhere, the bargain has shifted towards "foreign factories for domestic reforms" which explains why so much trade liberalization has taken place unilaterally to attract FDI. If Africa is to be successful at integrating world markets it will have to follow suit and become attractive to investors, domestic, regional, and foreign.

While there is still room for an exchange of market access in ECOWAS, so far the implementation of the ETLS has been slow. It has resulted in underinvestment in the region relative to potential, both domestic and foreign. The high growth of the past decade also presents a window of opportunity for a regional trade strategy. Whereas only 1.5% of Africans families were middle class (\$10,000 at PPP in 2005 prices), by 2010, the percentage had risen to 4.3% (WATH (2012, fig. 2)), i.e. 11.7 million families. So far, this purchasing power has largely been directed towards extra-regional imports rather towards intra-regional trade.

Nigeria's regional integration strategy should aim first at implementing commitments already made under ECOWAS. Since it would be natural for Nigeria to take the lead in 'deepening' regional integration, constructively leading the negotiations on the ECOWAS Common External Tariff, explicitly recognizing the trade policy priorities of smaller countries in the region (which demand low tariffs on basic food stuff to reduce prices for poor consumers) would be important as a signal that Nigeria wants to take leadership in ECOWAS (as Brazil did in MERCOSUR). As argued below, Nigeria would now have to take the lead (rather than be a laggard) in implementing the ETLS which has been agreed upon by all ECOWAS members.

6.1. ECOWAS Intra-Regional Trade is Low

The share of Nigeria's trade with ECOWAS partners is low, both for exports and for imports. Aggregating across all members, on average over the period 2000-2010, the share of exports going to regional partners was in the 10-20 percent range, a non-negligible, but not large number. For most countries, exports to ECOWAS members represent about the same share as exports to other SSA countries, and the combined share of intra-regional and SSA is substantially less than exports to the rest-of-the-world. For Nigeria, however, the share of intra-regional exports was only 4.7 percent (table 6).

Table 6 Export Shares by Exporting Country to ECOWAS members

	BEN	BFA	CIV	CPV	GHA	GIN	GMB	GNB	MLI	NER	NGA	SEN	SLE	TGO	SSA	WLD
BEN		1.45	0.81		1.09	0.01	0.03		0.44	0.70	0.05	0.64		5.93	0.24	0.03
BFA	0.71		2.32		4.33	0.01	0.03		1.78	0.49	0.02	0.73		6.21	0.41	0.01
CIV	0.91	3.31			0.93	0.07	0.02		6.96	1.84	2.04	1.61	0.08	0.86	1.07	0.04
CPV	0.00	0.00	0.08		0.04		0.04	0.03	0.00	0.00	0.00	0.13		0.01	0.01	0.01
GHA	0.62	5.82	2.51			0.02	0.30		0.73	2.28	1.34	0.25	0.00	5.85	1.11	0.06
GIN	0.02	0.04	0.54	0.72	0.09		6.42	0.01	1.14	0.01	0.01	1.93	5.60	0.09	0.16	0.01
GMB	0.01	0.00	0.30	0.18	0.07	0.02		0.02	0.00	0.00	0.00	2.39	0.66	0.02	0.10	0.01
GNB	0.00	0.00	0.04	0.28	0.06	0.08	3.44		0.01	0.02	0.00	1.50	0.14	0.01	0.05	0.00
LBR	0.00	0.04	0.49	0.03	0.09	0.20	0.05		0.02	0.00	0.37	0.28	0.17	0.04	0.17	0.09
MLI	1.01	1.43	1.98		0.64	1.01	0.67			0.10	0.01	10.34		2.23	0.55	0.01
NER	3.18	2.05	0.44		0.18	0.01	0.01		0.53		0.05	0.24		3.22	0.12	0.01
NGA	4.59	0.14	4.30		3.89	0.21	0.08		0.16	12.73		0.27	0.06	2.26	1.11	0.23
SEN	0.49	0.19	1.06	0.20	0.47	0.58	11.23	1.29	8.87	0.05	0.48		0.02	0.61	0.43	0.04
SLE	0.01	0.00	0.35		0.35	0.35	0.27		0.06	0.03	0.01	0.26		0.00	0.07	0.01
TGO	1.88	8.96	0.85		1.25	0.01	0.01		0.49	0.34	0.10	0.62			0.25	0.02
ECOWAS	13.44	23.44	16.07	1.41	13.49	2.56	22.59	1.35	21.19	18.61	4.47	21.17	6.72	27.35	5.84	0.58
SSA	15.42	23.77	18.27	1.26	14.36	3.50	23.00	1.36	22.59	19.06	7.89	25.03	3.40	29.11	19.97	1.04
WLD	71.14	52.79	65.66	97.33	72.15	93.94	54.41	97.30	56.22	62.33	87.65	53.79	89.88	43.54	74.19	98.39

Note :

Shares are calculated using average trade volumes for the period 2000-2010 from UN Comtrade.

Entries down a column are the export shares of the country at the top the column (disaggregated by destination). 0.71% of all Benin exports are destined to Burkina Faso (BFA). Excluding the ECOWAS row, the sum of shares by column equals 100

N.B. Summing along a row does not give the destination import shares of a country along that row. Burkina Faso's export to Benin are 1.45% of all BFA exports.

The export share estimate of Benin to Nigeria (4.59%) is an underestimate because of the combination of smuggling and the re-export of Benin's imports from the rest-of-the-world to Nigeria (See Raballand and Mjekiqi).

A similar picture emerges on the import side. With few exceptions, ECOWAS members source around 70 percent of their imports outside of Africa. Here too, Nigeria only sources 3 percent of its imports from ECOWAS members and another 5 percent from other African partners.

Table 7 Import Shares by Importing Country for ECOWAS members

	BEN	BFA	CIV	CPV	GHA	GIN	GMB	GNB	MLI	NER	NGA	SEN	SLE	TGO	ECOWAS	SSA	WLD
BEN		0.25	2.45		0.79	0.00	0.00		0.08	0.10	0.79	0.46		1.44	6.35	6.89	86.76
BFA	0.13		13.73		6.14	0.00	0.00		0.62	0.14	0.65	1.02		2.94	25.38	22.61	52.02
CIV	0.05	0.33			0.40	0.01	0.00		0.73	0.16	17.94	0.67	0.00	0.12	20.41	17.81	61.78
CPV	0.00	0.00	1.60		0.22		0.00	0.00	0.00	0.00	0.03	0.62		0.01	2.49	2.69	94.82
GHA	0.03	0.46	3.54			0.00	0.00		0.06	0.16	9.36	0.08	0.00	0.66	14.35	14.72	70.93
GIN	0.00	0.02	3.87	0.01	0.15		0.14	0.00	0.48	0.01	0.29	3.24	0.11	0.05	8.37	10.77	80.86
GMB	0.00	0.00	4.36	0.01	0.24	0.02		0.00	0.00	0.00	0.36	8.28	0.03	0.02	13.31	14.51	72.18
GNB	0.00	0.00	1.76	0.02	0.58	0.22	0.46		0.02	0.04	0.05	15.63	0.02	0.02	18.82	18.77	62.41
LBR	0.00	0.00	0.66	0.00	0.03	0.02	0.00		0.00	0.00	2.43	0.09	0.00	0.00	3.23	2.12	94.65
MLI	0.14	0.36	8.89		0.69	0.30	0.01			0.02	0.20	10.93		0.80	22.33	23.23	54.44
NER	1.04	1.24	4.78		0.46	0.00	0.00		0.34		2.48	0.61		2.76	13.73	12.13	74.14
NGA	0.07	0.00	2.12		0.46	0.01	0.00		0.00	0.30		0.03	0.00	0.09	3.09	5.13	91.78
SEN	0.04	0.03	2.73	0.00	0.29	0.10	0.09	0.01	1.35	0.01	6.10		0.00	0.13	10.87	10.30	78.83
SLE	0.01	0.00	5.98		1.43	0.40	0.01		0.06	0.02	0.80	1.04		0.01	9.76	11.47	78.77
TGO	0.24	2.09	3.53		1.25	0.00	0.00		0.12	0.07	1.97	0.61			9.88	9.66	80.47
SSA	0.04	0.12	1.63	0.00	0.31	0.02	0.01	0.00	0.12	0.08	3.50	0.53	0.00	0.21	6.57	16.79	76.64
WLD	0.00	0.00	0.08	0.00	0.02	0.01	0.00	0.00	0.00	0.00	0.53	0.02	0.00	0.00	0.67	0.85	98.48

Note :

Shares are calculated using average trade volumes for the period 2000-2010 from UN Comtrade.

Entries along a row are the import shares of the country at the beginning of the row (disaggregated by source). 0.25% of all Benin imports originate in Burkina Faso (BFA).

Excluding the ECOWAS column, the sum of shares by row equals 100

Summing along a column does not give the source export shares of a country at the top of the column. Burkina Faso's imports from Benin are 0.13% of all BFA imports.

The import share estimate of Nigeria from Benin (0.07%) is an underestimate because of the combination of smuggling and the re-export of Benin's imports from the rest-of-the-world to Nigeria (See Raballand and Mjekiqi).

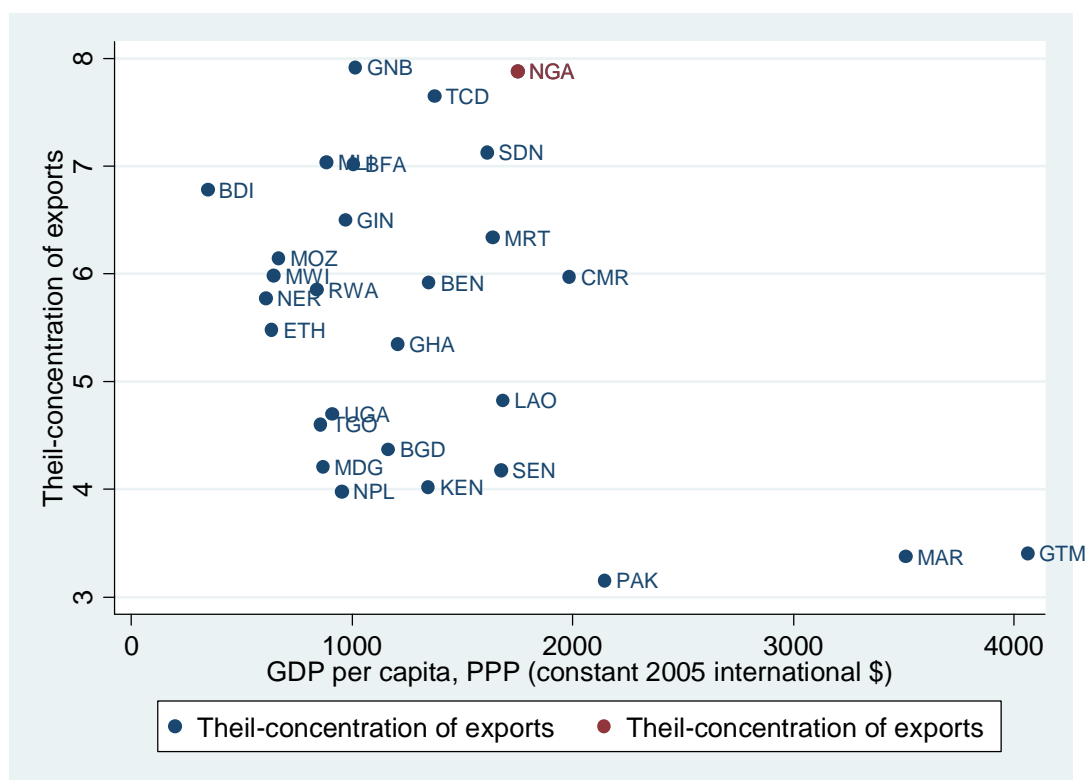
Most intra-ECOWAS trade is by road. According to WATH (2011, 2012), there have been major improvements in the quality of roads which is the main mode of transport for intra-regional trade. Yet, intra-regional trade in agricultural products (livestock and especially cereals) is low in spite of surplus and deficit zones and occasional situations of crisis. The GAP analysis carried out by the WATH shows stubbornly high price gaps relative to world market prices of over 3 for maize and millet across the ECOWAS region.

Three examples illustrate these low trade volumes. Taking into account informal trade, less than 10% of maize imports are sourced intra-regionally while corresponding figures are 63% for Western Europe and 20% for MERCOSUR (WATH (2012)). Next, take the average bilateral trade over the last decade between the two largest members, Nigeria and Ghana. On the export side: Nigeria to Ghana (1.3%) and Ghana to Nigeria (3.9%); on the import side, Ghana from Nigeria (9.3%) and Nigeria from Ghana (0.5%). Gravity-based estimates of potential bilateral trade between the two countries over the period 2001-06 suggest that Ghanaian exports to Nigeria should be twice the observed levels (Adam and Tweneboah (2008)). A third comparison is with MERCOSUR, a regional integration scheme of approximately the same population, though 7 times larger in market size. At 20% of total trade, MERCOSUR intra-regional trade is twice the corresponding share in ECOWAS and has been growing at 10 percent a year since inception in 1996.

Notwithstanding the substantial increase in MERCOSUR intra-regional trade, lack of complementarity is often cited as a source of low regional trade volumes in South-South regional trading arrangements. This is because countries with similar physical, human and natural resource endowments will tend to have similar trade patterns and hence trade little with each other. As developed in Annex 2, the 'deep' determinants of a country's export pattern are indeed related to differences in factor endowments but also to intra-industry trade in differentiated products (i.e. manufactures). Intra-industry, or two-way, trade is greater among countries that share similar endowments provided that transport costs are not too important. The prime example of this is the huge rise in intra-industry trade in Western Europe over the last 50 years which is the source for the great diversity in its export structure.

The same holds for all countries even if at different levels of intensity. In the case of ECOWAS (and other African countries), the question is whether these countries have similar endowments. Annex 2 describes a method to form endogenously endowment clusters for physical, human, labor and natural capital for a sample of 88 countries. The algorithm determines four clusters with all the nine ECOWAS countries selected in the same clusters as they have relatively similar endowments. This would suggest limited scope for trade based on differences in factor endowments.

Figure 8 : Concentration Indices in Nigeria's Endowment cluster



Source:

Authors' based on Regolo (2011). Endowment clusters drawn from physical capital, human capital (secondary education) and natural capital. See annex A3.

Figure 8 plots the export concentration indices against per capita income for all the countries selected into Nigeria's cluster. Once more, Nigeria comes up as the country with the most concentrated export structure. Since all ECOWAS countries are selected in the same cluster, endowment similarities have contributed to low levels of intra-regional trade, even though, as explained in the annex, once controlling for similarity in endowments, intra-regional trade should be higher for countries belonging to the same cluster.

In sum, ECOWAS under-trades and Nigeria is missing out on an opportunity to increase intra-regional trade, both for agricultural products and for manufactures. Increased trade in agricultural products would close the price gaps by arbitrage and by removing monopolistic power that arises when markets are segmented. This regional trade would bring gains to producers and consumers, but it would also bring food security. The same applies for manufactures, as producers and consumers would have access to more varieties resulting in lower costs all around. Larger markets would also attract investment from all sources.

6.2. ECOWAS Trade Liberalization Scheme (ETLS) Remains to be implemented

Established in 1983, the ETLS was launched in 1990 (and reaffirmed at the revised ECOWAS Treaty in 1993). In principle it covers all products of community origin and should entail the free movement of goods and persons in ECOWAS. A recent extensive review of progress in 9 member States details the lack of progress in four areas (the so-called GAP analysis carried out by WATH.²² First, ETLS information dissemination has not taken place as the private sector has little knowledge and access to information on official customs procedures which are hard to obtain from national legislation. Second, even though visa-free travel has been accomplished, the free movement of persons is hampered by continued harassment. Third, much remains to be done to realize the free movement of goods. Documentary requirements for intra-ECOWAS trade have not been harmonized leading to delays and higher administrative costs. Above all, non-tariff barriers persist with quotas or seasonal restrictions in addition to checkpoints and road barriers. Fourth, the failure to harmonize transport procedures (e.g. axle weights, vehicle standards, etc...) creates opportunities for corruption. Administrative procedures in conflict with regional rules further drive up transport costs.

Among the 9 countries, ETLS implementation is lowest in Nigeria for transport (40%) and second lowest for the movement of goods (52%). In the context of Ghana-Nigeria trade, Hoppe and Aidoo report that companies do not apply for ETLS because registration requirements by Nigerian regulators are discriminatory against non-Nigeria producers and that, in any case, there is a lack of official means to seek redress.

Most West African trade uses road transport. According to information provided by the WATH, roads are in satisfactory physical state, at least for the major arteries. For example, according to the WATH detailed study of transport costs along the Tema-Ouagadougou corridor, formal and informal fees add up to 29% of the costs of moving goods southbound along the corridor. Shipping time for the 1,057 km. route is about 7.2 days based on an 8 hr. working day of which 2.2 days are accounted for by delays (WATH 2012, p. 8). Similar high costs caused by delays associated with multiple check points have also been estimated for transport of goods along the Lagos-Kano corridor (Hassan et al. 2011). High transport costs are thus largely the result of formal and informal barriers to trade.

The importance of delays in inland transport costs has also been estimated systematically for a large sample of African countries. After controlling for other intervening factors—including maritime travel costs—Freund and Rocha (2012) estimate that a one day reduction in inland travel time translates into a 2 percentage point decrease in all importing-country tariffs. They also find that long transit times are primarily caused by institutional and not by geographic features.

In sum, these high costs are imposed, and the reflection of a weak institutional environment in which discretionary rules and behavior are largely in the hands of narrow interests. It is these high costs that include both the non-implementation of the ETLS and informal barriers to trade, rather

²² GAP analysis studies carried for bilateral trade among members are available on the WATH website. The summary here is from WATH (2011) and Hoppe and Aidoo (2012).

than a poor physical infrastructure which account for the low volumes of intra-regional trade reported in tables 6 and 7.

6.3. Mutual Recognition of Regulations as a first step forward toward deeper Integration

Other regulatory-based costs add to the transport and logistics costs described above. First, one must add challenges in product registration because of a lack of mutual recognition of regulations across the region. Nigeria's standards represent a substantial barrier to trade. Nigeria-specific mandatory standards limit access to the Nigerian market. Thus products subject to the standards issued by the Standards Organization of Nigeria (SON) need to demonstrate compliance by a two-step burdensome process. They have to be certified by an SON office in the exporting country, and once imported, will obtain a product certificate if the exporter produces a valid test report (each subsequent shipment has to be certified as well). Food products and drugs require certification by the National Agency for Food and Drug Administration Control (NAFDAC) which is also complex and burdensome, and for which registration fees are excessive (10 to 15 times higher for imported as compared to locally produced products and which have to be renewed every five years at 60 to 100 percent of the original registration costs, according to Hoppe and Aidoo (2012)).

Second is the lowering of costs in backbone services (energy, insurance, banking, communication). Nigeria has done well in the Information Technology (IT) sector with the success of the Otigba cluster without any help by the government so it is poised for denser in-country, regional and worldwide communications ²³. But two impediments prevent better use of IT. First, is the persistence of power outage which is also a major bottleneck to production both for the domestic and export markets. Second, is the persistence of monopolistic practices in other services sectors.

These barriers to trade act to protect incumbents who can then exert greater market power. Will competition be better fostered by an opening up at the regional level rather than internationally? Opening up to trade in Services under EPA negotiations would lead to efficiency gains beyond ECOWAS members. The best option would be to open the sector on a non-discriminatory basis.

Finally is the role of harmonization of standards and technical regulations. There are obvious gains to harmonization of standards and regulations for intra-regional transport (same standards for trucks, One Stop Border Posts) and these are part of the commitments under the ETLS but care should be exercised so that the regulations are appropriate for the implementation capacity and do not raise costs unduly. While it is tempting to go ahead with deeper harmonization across regulations at the ECOWAS level, there is a strong possibility of capture by protectionist interests,

²³ The Otigba cluster is a success story. In 2005 it employed 3000 with 30 percent of sales going to exports. See Oyelaran-Oyeyinka, B. (2006)). There is room for encouraging such clusters as, for instance, along the lines of the so-called Growth Identification Framework (GIFF), but this is not a substitute for improving incentives across the board. It is interesting that the Otigba cluster developed with no help from the government. Duranton et al. (2010) recount the limited success of French government's policies aimed at developing clusters in spite of a much more favorable policy environment (policies less subject to capture).

probably by those in Nigeria which are most powerful and where technical regulations are probably the most protectionist.²⁴

A reduction in technical barriers to trade, whether they are regional or multilateral always give rise to an efficiency gain. And in the case of intra-regional trade, it makes sense to reduce these costs at the regional level. ECOWAS members, however, should be aware that they could adopt technical regulations in services that are beyond their needs and implementation capabilities (e.g. in accounting or in SPS). For example, SPS standards set at too high a level would prevent gainful regional trade.²⁵

7. Recommendations

Nigeria has improved its performance but the engine of growth needs to expand beyond the domestic market. As this report has documented, the very poor export performance is largely attributable to formal and informal barriers to trade rather than to a deficient physical infrastructure. This diagnosis applies as well to intra-regional trade. Besides the benefits from an overall improvement in governance which is beyond the scope of this study, the report recognizes that there is a room for a regional integration strategy, but that it is not a substitute to an opening to international markets. The report makes two recommendations.

First import bans should be replaced with a uniform MFN tariff (at 35%) on a non-discriminatory basis. This tariffication should be accompanied by zero tariffs for regional trade. While this reform will meet with resistance since some officials and some informal operators extract rents from the bans, because of pervasive smuggling producers should not lose much. Resistance to the replacement of bans by import tariffs should then be less than for other measures. Besides the potential for increased transparency in incentives and in government revenue, this policy would have two added benefits. First, this would help Nigeria in implementing the ECOWAS Trade Liberalization Scheme (ETLS) which stipulates that the FTA should not only involve duty-free regional trade, but also that traded products should not face any quantitative restrictions (currently Nigeria has the lowest implemented record of the ETLS). Second, it would help Nigeria establish a leadership role in ECOWAS, leadership that would be difficult for Nigeria to establish without prior implementation of the ETLS.

Second, the many cost-raising technical barriers to trade, which are greater than for comparator countries, should be progressively removed. The report gives examples of costly Nigeria-specific

²⁴ An example is Rules of Origin, necessary under FTAs to prevent trade deflection. Typically, with the exception of ASEAN where they are simple and transparent, the rules of origin that have been adopted are complex (product specific) and unnecessarily costly for traders resulting in a denial of the intended market access.

²⁵ The standards for trade in milk in the EAC have recently been updated and harmonized with the very restrictive standards of the International Codex Alimentarius standards. Driven by donors and public agencies, this harmonization had limited focus on the private sector or on public health concerns. The microbiological levels set by the standard are the same as OECD levels. They remain unreachable by almost the entire EAC milk industry. This highlights how the adoption of unrealistic standards is a deterrent to regional trade and may provide an opportunity for protectionist interests to restrict trade. See Jensen and Keyser (2010) and the discussion in de Melo and Collinson (2011).

mandatory standards (registration for regular exports and certification for agricultural products). These would be removed first at the regional level. Mutual recognition of regulations would then be the first step towards deeper integration. ECOWAS members, however, should avoid adopting technical regulations in services that are beyond their needs and implementation capabilities (e.g. in accounting or in SPS).

As to deeper integration, ECOWAS would benefit from taking note that the traditional bargain driving regionalism which was an 'exchange of market access' has changed. In the fast growing Asia region and increasingly elsewhere, the bargain has shifted towards 'foreign factories for domestic reforms' which explains why so much trade liberalization has taken place unilaterally in a 'race to the bottom' to attract FDI. If ECOWAS is to be successful at integrating world markets it should follow suit and become attractive to investors, domestic, regional, and foreign. This will require lowering protection and improving the regulatory environment, if only not to lose ground in the world economy.

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ANNEXES

To

Regional Integration: A Complement, but not a Substitute for Nigeria's Opening up to World Markets

Jaime de Melo and Crisitian Ugarte

A1: Comparator Groups and Mobility Analysis

A2: Geography and Cluster Analysis

A3: Ten Observations on Successful Growth

A4: Price-gap estimates

A5: Supplementary tables

Annex 1: Comparator Groups and Mobility Analysis

This annex describes the comparator groups used to evaluate Nigeria's performance and reports the results of the mobility analysis referred to in the text. Table A1 lists the countries in each one of the four comparator groups along with the inclusion criteria.

Table A1: Definition of Comparator Groups

	Countries
COMPARATOR ¹ Selection of countries (11)	Bangladesh, Cote d'Ivoire, Ethiopia, Ghana, Indonesia, Kenya, Morocco, Pakistan, Philippines, South Africa, Tanzania.
LARGE ² Population >25 million in 1982 (19)	Argentina, Bangladesh, Brazil, China, Colombia, Dem. Rep. of Congo (Zaire), Egypt, Ethiopia, India, Indonesia, Iran, Mexico, Pakistan, Philippines, South Korea, South Africa, Thailand, Turkey, Vietnam.
OIL ³ Oil exporters (8)	Angola, Algeria, Egypt, Iran, Iraq**, Kazakhstan, Mexico, Russia, Saudi Arabia, Yemen, Venezuela.
POINT Point- source natural resources (43) ⁴	Algeria, Angola, Burkina Faso, Chile, Ecuador, Egypt, Indonesia, Iran, Iraq**, Malawi, Mexico, Morocco, Niger, Peru, Saudi Arabia, South Africa, Sudan, Syria, Venezuela, Zambia.

Notes:

Exclusion criteria:

** Exclusion due to missing data

All OECD countries are excluded (except Korea, Mexico, and Turkey) from all comparator groups. All comparable CIS countries (e.g. Ukraine, Russia) are excluded for lack of data prior to 1990.

All country groupings (except COMPARATOR) are derived from an "observation rule", i.e. a criterion applied to all countries. Hence the "comparator" group is in a sense a residual group selected from the LM and UM groups with a threshold on population (10 million in 1982), and a minimization of overlap with countries entered in the other three groupings.

1: COMPARATOR: See above

2: LARGE: All countries with a population in 1982 greater than 25 million. This sample includes the four comparator countries (China, India, Indonesia, Vietnam) selected by Lin and Treichel (2011) in their application of their Growth Identification and Facilitation Framework.

3: OIL: Oil exporters (with a population above 10 million in 2000) are among the 15 major oil crude exporters listed by US Energy Information Administration (2005) to which we added Yemen (93%) (share of oil in merchandise exports in parenthesis).

4 POINT: Classification taken from Pritchett, L. et al. (2005) for countries with population in 2000 of 10 million or more

Table A2 gives the evolution of GNI per capita status using the World Bank's latest grouping breakdown (L, LM, UM, H) according to per capita income for the sample of 15 countries with complete data (CIS countries are excluded). The evolution of each of the countries in Nigeria's comparator group is shown along with Nigeria's for the two sub-periods. In the last column for each row is the number of countries in the corresponding group at the beginning of period (e.g. 46 LM countries in 1982). At the bottom of the corresponding column is the number of countries in the group at the end of period (e.g. 31 LM countries in 1996). Countries above [below] the diagonal are those that have climbed up [down] the "ladder". Nigeria (NGA) was in the LM grouping in 1982, but moved down to the L category (along with 20 other countries) by 1996 before moving back to the LM category (along with 14 countries) by 2010.

Table A2: Per capita Income Mobility for Nigeria and Comparators:

1982-1996 and 1996-2010*

1982↓ 1996→	L	LM	UM	H	Total (1982)
L	17 (BGD, ETH, PAK, TZA)				17
LM	20 (CIV, GHA, KEN, NGA)	23 (IDN, MAR, PHL)	3		46
UM		8	13 (ZAF)	5	26
H			1	27	28
Total (1996)	37	31	17	32	115

1996↓ 2010→	L	LM	UM	H	Total (1996)
L	23 (BGD, ETH, GHA, KEN, PAK, TZA)	14 (CIV, NGA)			37
LM		17 (IDN, MAR, PHL)	14		31
UM			12 (ZAF)	5	17
H				32	32
Total (2010)	23	31	26	37	115

Notes: All data are from the WDI and refer to gross national income (GNI) per capita. Sample of 115 countries with complete GNI data Definition of countries in the comparator group in table A1.

If one accepts the selection of comparators for Nigeria and the arbitrary group breakpoints in the World Bank's classification, with the exception of South Africa, Nigeria's comparators are equally split between the L and LM groups in 1982. Nigeria climbed down the ladder with another 19 countries and climbed back again to LM status with another 13 countries. During this first period, no country climbed up the ladder in the L and only three countries in the LM group managed to climb up to the UM group in the first period. While all changes in classification were upward during the second period, it is noteworthy that those in the UM group avoided a downfall during the first period and climbed up the ladder during both periods.

This evaluation by mobility analysis would suggest that Nigeria's performance was not so different both relative to the narrow comparator group and to other countries in the LM group, though it is inferior to its closest comparator, Indonesia (see figure 1).

Annex 2: Approaches to market potential and trade: Geography and Cluster Analysis

Physical geography, culture, policies, institutions and factor endowments have all been emphasized as important characteristics explaining cross-country variations in development levels and in the structure of production and trade. Both approaches are applied here.

Geography. For Nigeria, which is surrounded by economically smaller countries, a focus on economic geography is a useful framework to discuss its current level of development and its potential. Under that approach, a country's per capita income is closely related to that country's 'foreign market potential' (FMP) which is estimated by a weighted sum (weights are bilateral trade costs) of all expenditures on what it produces in a bilateral gravity equation that includes bilateral trade costs in addition to country-specific characteristics (market size of exporter and importer) captured by dummy variables and other controls (e.g. a measure of human capital). Thus, some small countries like Belgium and the Netherlands (or Hong-Kong and Singapore) have among the highest FMP because of low trade costs (they are centrally located next to their partners so bilateral trade costs are low) that more than compensate for their small domestic markets. Countries located near large or fast growing countries have a high market potential which should translate into a high per capita income.

Mayer (2008) estimates this model over the period 1960-2003 for all countries with bilateral trade data and a high correlation between per capita income and estimated FMP across all countries in the world (after controlling for omitted factors and education levels) showing that the notion of market potential is a tight indicator of a country's per capita income (see Mayer (2008), figure 3). His comparisons for 1970 and 2003 show the presence of 'clubs' or clusters: with at one end the high market potential clusters in North America, Europe and East Asia and, at the other end, the low foreign market potential in SSA where countries are faced with neighbors that are receding in the worldwide hierarchy of market potential which dampens their possibilities for economic expansion. Comparing the situation in 1970 and 2003 for Nigeria in his figures 7 and 8 shows that,

like most other SSA countries, its FMP is falling, the opposite of what was happening for the countries in Northern Africa.

To give an indication of the quantitative importance of foreign market potential, Mayer estimates that if the Congo Democratic Republic, one of the countries with the lowest FMP, raised its FMP to that of Thailand, its GDPpc would be estimated to go up by a factor 24 while currently, the real ratio was around 22. Unfortunately, he does not give data for Nigeria, so one cannot replicate that exercise.

Endowment Clusters. Low-income (LI) countries have a less diversified export basket. Trade theory informs that the 'deep' determinants of a country's export pattern are related to differences in factor endowments but also to intra-industry trade in differentiated products. Romalis (2004) develops a model in which the commodity structure of trade, including the extent of export diversification, is fully determined across regions. In an extension allowing for differences in transport costs within and across regions, Regolo (2011) shows that this theoretical prediction holds provided that transport costs within regions (i.e. countries in the 'South' region are not high relative to transport costs across regions, i.e. transport costs from the 'South' to the North).

Translated into an empirical prediction, the prediction is that export baskets are concentrated across clusters (according to H/O theory) and diversified within clusters (product differentiation). This prediction is expected to hold provided that transport costs within the cluster are not too high (relative to transport costs across clusters). As an example, suppose that all ECOWAS countries belonged to the same endowment cluster. Then, the prediction is that diversification should be greater within the cluster, provided that transport costs are not 'too large'

In a sample of 102 countries over the period of 1995-2007 years, Regolo finds support for the prediction that bilateral exports are more diversified for countries that belong to a same cluster than for those that are classified in different clusters where selection into a cluster is determined endogenously on the basis of similarity in factor endowments (see below) which are largely correlated with per capita income. So, as countries with high (low) endowments in human and physical get selected into the same cluster, one can indeed verify if there is more diversity (i.e. less concentration) for intra-cluster than for between-cluster trade. Regolo finds this to be the case: low-income countries get classified in clusters abundant in unskilled labor and have more concentrated exports with countries outside the cluster than with countries within the cluster.

We use this approach to see first if Nigeria and other ECOWAS countries for which we have data (Benin, Burkina Faso, Ghana, Mali, Niger, Nigeria, Senegal, Togo) get classified in the same cluster. Other things equal, this would suggest that ECOWAS members should have potential for intra-regional diversification (i.e. less concentrated exports than with countries outside their cluster).

For this exercise, we took data for 84 countries in 2005 for the following endowments: physical capital (K), human capital (H i.e. secondary enrollment rate), labor (L), and natural capital (NK from WDI). Endowments per worker or per oil are then standardized around a mean of zero and a cluster

method is used to determine optimally (minimizing the distance within and maximizing the distance between) the number of clusters and number of countries in each cluster. Here we report results from the construction of two sets of clusters, one 'traditional' with physical and human capital per worker (K/L and H/L) (table A3(a)) and a second one with in addition natural capital (NAT) entered in absolute terms (table A3b)). Data in the tables are standardized endowment means for each cluster with the Theil index of export concentration in the last column.

With three endowments (table A3(a)), the sample breaks up into 5 clusters with all ECOWAS countries except Ghana and Togo in the same cluster as Nigeria. That cluster is the one with lowest average K/L and lowest H/L with almost all countries from SSA. As expected, this is also the cluster with, by far, the highest average degree of export concentration. Since the clusters are determined endogenously, there appears to be a SSA specificity when it comes to export concentration.

Adding natural capital reduces the number of clusters to four and this time all the ECOWAS countries are in the same cluster. The results are reported in Table .A3(b). Given the importance of natural capital for Nigeria (and for the other ECOWAS members), we report the export concentration patterns for that cluster in figure 7 in the main text.

Table A3(a)

Clusters with physical capital and human capital per worker

cluster7_5	ListofCountries	K_Lstm	SEC_Lstm	Km	SECm	Lm	Tm	T_NGA
1	ARE,HKG,ISR,KOR,KWT,NZL,PRT,.	0.9741054	0.8021948	7.32E+11	99.13055	5906.685	3.93034	
2	AUS,AUT,CAN,CHE,DEU,DNK,ESP,FIN,FRA,GBR,GRC,IRL,ITA,JPN,NLD,NOR,SWE,USA,.	2.106451	1.129531	4.89E+12	109.2844	23516.46	2.665556	
3	ARG,ARM,AZE,BGR,BLR,BRA,CHL,COL,CRI,CZE,DZA,GEO,HRV,HUN,JAM,JOR,KGZ,LTU,LVA,MDA,MKD,MNG,PER,PHL,POL,ROM,RUS,SAU,SVK,T	-0.3228826	0.4943717	3.10E+11	89.58199	12811.06	4.146697	
4	BGD,DOM,ECU,GHA,GTM,IDN,IND,IRN,KEN,LAO,MAR,MEX,MYS,NIC,NPL,PAN,SLV,SYR,TGO,THA,TUR,V	-0.4698819	-0.4125925	4.21E+11	61.44828	38261.72	4.199467	
5	BDI,BEN,BFA,CMR,ETH,GIN,GNB,MAL,DG,MLI,MOZ,MRT,MWI,NER,NGA,PAK,RWA,SDN,SEN,TCD,UGA,.	-0.651427	-1.632383	3.59E+10	23.61081	11236.41	6.080739	7.882711

Table A3(b)**Clusters with physical capital and human capital per worker and natural capital**

cluster8_4	ListofCountries	K_Lstm	SEC_Lstm	NATCstm	Km	SECm	NATCm	Lm	Tm	T_NGA
1	ARE,ARG,ARM,AZE,BGR,BLR,CHL,COL,CRI,CZE,DOM,DZA,ECU,GEO,HKG,HRV,HUN,IDN,IRN,ISR,JAM,JOR,KGZ,KOR,LTU,LVA,MDA,MEX,MKD,MNG,MYS,NIC,PAN,PER,PHL,POL,PRT,ROM,.	-0.2240348	0.3420714	-0.1748567	3.34E+11	84.85768	2.08E+11	11847.94	4.067195	
2	BDI,BEN,BFA,BGD,CMR,ETH,GHA,GIN,GNB,GTN,KEN,LAO,MAR,MDG,MLI,MOZ,MRT,MWI,NER,NGA,NPL,PAK,RWA,SDN,SEN,TCD,TGO,.	-0.6405456	-1.413458	-0.3013041	4.34E+10	30.40179	1.05E+11	12564.74	5.554551	7.882711
3	AUS,AUT,CAN,CHE,DEU,DNK,ESP,FIN,FRA,GBR,GRC,IRL,ITA,JPN,KWT,NLD,NOR,NZL,SWE,.	2.008975	1.172359	-0.010101	3.10E+12	110.6129	3.43E+11	14550.17	2.961104	
4	BRA,IND,RUS,SAU,USA,.	0.187133	0.3751909	3.616551	7.45E+12	85.88504	3.31E+12	151963.3	3.912234	

Annex 3: Ten Observations on Successful Growth*

General Principles After four years of inquiry, acknowledging that there are “no recipes, just ingredients”, the Commission on Growth and Development (CGD) identified five common characteristics of successful growth—the fundamentals of competitiveness²⁶:

1. Committed, credible, capable government – governments must have the capacity to devise and the institutions to implement a growth strategy. ²⁷
2. Macroeconomic stability – modest inflation and sustainable public finances.
3. High rates of savings and investment - high and sustained investment underpinned to a large extent by domestic savings. Countries that had achieved high and sustained growth had impressive rates of public investment in infrastructure, education and health.
4. Full exploitation of the world economy - knowledge acquired in the global economy and exploitation of global demand is the fundamental basis of economic catch up and sustained growth. Promoting FDI and foreign higher education can support knowledge transfer
5. Letting markets allocate resources - policies need to ensure that product and labor markets are flexible enough to allow structural transformation of the economy from agriculture to manufacturing to take place and there is, at minimum, no bias against exports.

²⁶ Commission on Growth and Development (2008). The report identified 13 successes (i.e. countries with an average growth rate of 7% over a thirty year period). The report notes that pragmatism, skepticism, experimentalism and persistence have high pay-offs.

²⁷ The Commission stressed that policies need to be prioritized, reasonably well implemented and, tolerably administered implying some minimum degrees of probity and absence of the worst excesses of corruption.

Correlates of Success. Economy-wide, sectoral, firm, and product level studies have indicated some of the channels through which increases in productivity take place

6. A substantial reduction in barriers to trade (tariffs, NTBs, BTB measures) is associated with an increase in the growth rate (and in the investment share in GDP). (Wacziarg and Welch (2008))
7. A sustained real exchange rate depreciation, i.e. a competitive currency that is subsequently maintained is a key ingredient to sustained export surges (Rodrik (2008), Freund and Rocha (2011))
8. A positive causal relationship flows from openness to income levels and from trade liberalization to medium-term growth (Frankel and Romer (1999))
9. Export spells are likely to last longer when carried out with physically closer partners and a preferential trading relation is associated with longer export spells. (Besedes and Prusa (2010), Brenton et al. (2010))
10. The linkages between a successful export strategy and the pattern of export expansion are still open to debate. They are likely to be context specific and highly idiosyncratic as shown by recent case studies of firms (Easterly and Reshef (2010)).

*Adapted from de Melo and Ugarte (2011)

Annex 4: Price Gap Estimates of NTMs

There is no easy way to measure the effects of NTMs. *Coverage* and *frequency* ratios at the product line level are often reported but have well-known problems and are only used as descriptive indicators of NTMs. One approach is to recuperate ad-valorem equivalents (AVEs) from estimates of import demand functions. Another approach, is to estimate AVEs by comparing directly domestic product prices with the prices of similar products on markets where those products are free of distortions (this "price gap" method recommended for the tariffication of QRs in Annex V of the WTO's agreement on agriculture). This approach would seem appropriate in the case of Nigeria where 4080 tariff lines have an NTM (mostly technical regulations- of which there are 4491--see table 4) whose severity will certainly be different across tariff lines.

The remaining problem is that it is difficult to find comparator markets, especially for low-income developing countries where the prices on distortion-free markets in developed markets are likely to be of limited comparability. A way out is to compare price gaps for a group of "comparable countries" to Nigeria. Cadot and Gourdon (2011) use NTM data collected in 2009 for NTMs using the new Multi Agency Support Team (MAST) nomenclature. Unfortunately, Nigeria is not in the sample, but it includes 9 African countries with two countries that can serve as relevant proxies for comparable countries with few NTMs (see below).

Using prices for consumption goods from the International Comparison Program (ICP), we follow Cadot et al. (2001) and estimate the distribution of gaps in prices that exist between internal and international prices. Prices were recorded in local currency for 2005 and we used the official exchange rate in WDI to convert them to USD dollars. Price gaps calculated from the indices in USD dollars for each good are then rescaled by the average price of the good calculated over the sample of countries.

$$\tilde{g}_k^i = \frac{p_k^i}{\bar{p}_k} \quad \bar{p}_k = \frac{1}{n} \sum_i p_k^i \quad k = 1, \dots, m \quad i = 1, \dots, n$$

Values higher than (less than) unity indicate higher (lower) prices in the internal market than on the average in the sample. The sample includes the same $k=42$ consumption goods used by Cadot and Gourdon (2011) and the same sample of countries except that we exclude Namibia, Syria and Lebanon from the sample because of extreme values²⁸ and we include Nigeria. This gives us $n= 28$ countries. This procedure provides us some indirect evidence on the relative degree of distortions caused by trade barriers.

Several kernel densities are displayed below. In each case the kernel densities of the normalized prices for all the comparator countries are in solid lines, and the corresponding ones for Nigeria in dashed lines. Frequency is on the vertical axis and price gaps are on the horizontal axis. Given the price normalization, the mean distribution for the sample is 1. This is indeed the case for the kernel for the whole sample displayed in figure A4.1(a).

²⁸ Significant and very large positive gaps were detected in these countries and their exclusion improves the readability of our graphs without changing the conclusions.

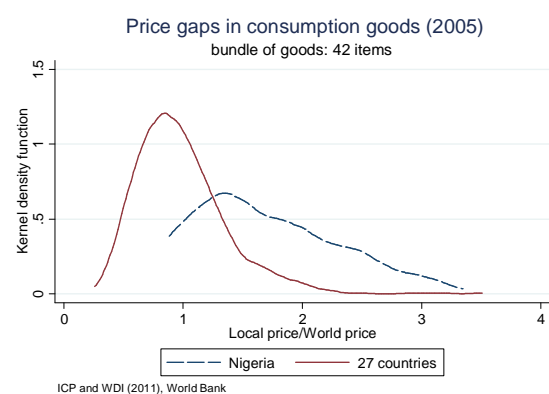
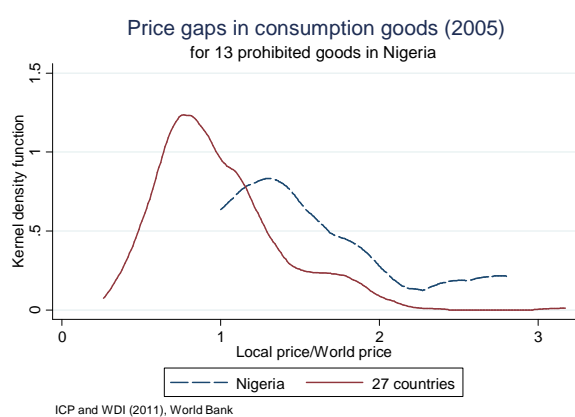
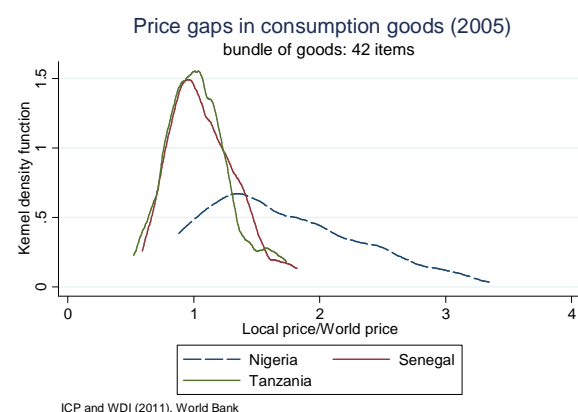
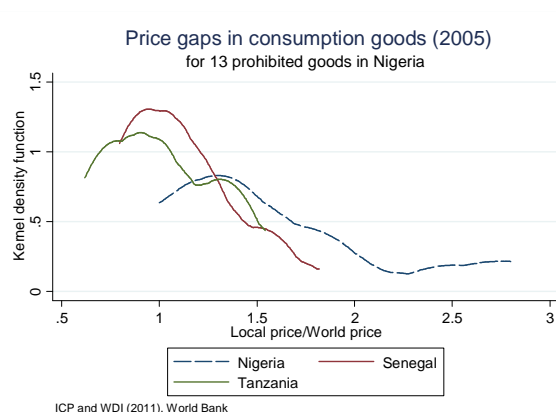
Figure A4.1(a)**Figure A4.1(b)****Figure A4.2(a)****Figure A4.2(b)**

Figure A4.1 compares the distribution of Nigeria's prices to those for the sample of 27 countries. In figure A4.1(a) the comparison is carried out for all goods, and in figure A4.1(b), the comparison is for consumption goods with prohibitions. In each case, the kernel densities for Nigeria are displaced to the right compared with the kernel for the comparator. This means that for almost goods, prices in the Nigerian are higher than the average in the comparator group as the kernel for Nigeria starts at the mean. On average, prices in Nigeria are 70% higher than average prices for the whole sample. There is little difference between the two sets of kernels. One might have expected a greater gap for goods subject to import bans. However, this need not be the case. First, since there is a lot of smuggling, there is some downward pressure on prices. Second, the pervasive NTMs could be spread on all goods in the sample.

Figure A4.2 carries out a comparison with Senegal and Tanzania. These are the two countries with the lowest NTM frequency ratios (in the 5-10% range) and also among the lowest coverage ratios (in the 20-30% range) in the Cadot and Gourdon study. Since their tariff structures and their per-

capita incomes are comparable to Nigeria's, it makes sense to compare the kernel for these two countries with those for Nigeria. The results of this comparison in figure A4.2 leads to the same conclusion: Nigeria's prices are higher than those in the other two countries²⁹, suggesting that NTMs are restrictive, leading to a loss of purchasing power for consumers and to the extent that some of these goods are intermediates, to higher costs for producers.

References

Cadot, O. and J. Gourdon (2011) "Assessing the price-raising effect of non-tariff measures in Africa"

Augier, P., O. Cadot, J. Gourdon and M. Mallouche (2011) " NTMs in the MNA Region: Improving Governance for Competitiveness"

²⁹ The average (price) gaps for Senegal and Tanzania are 7.9% and 4.4% respectively.

Annex 5: Supplementary tables

Figure A1a Predicted Protection

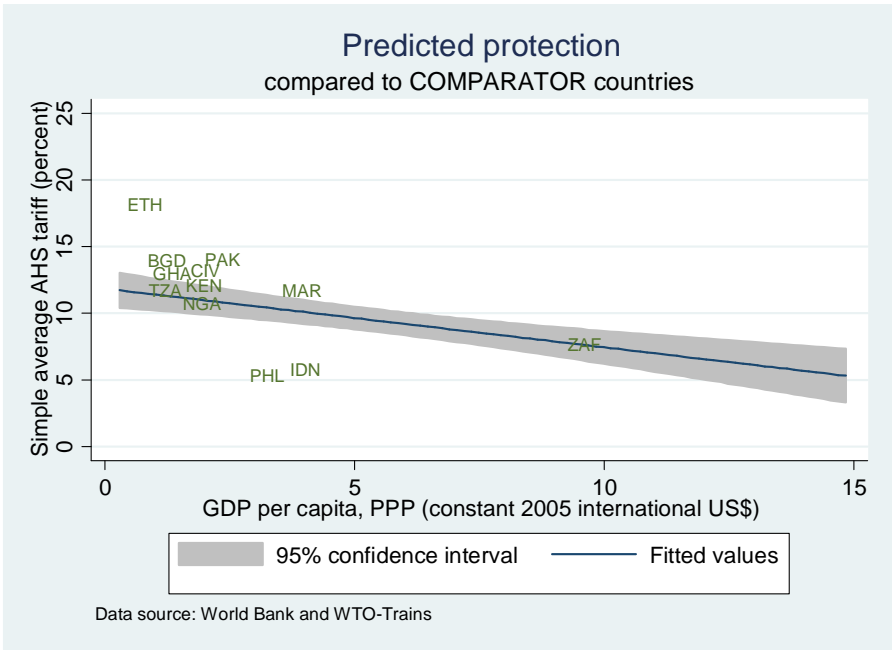
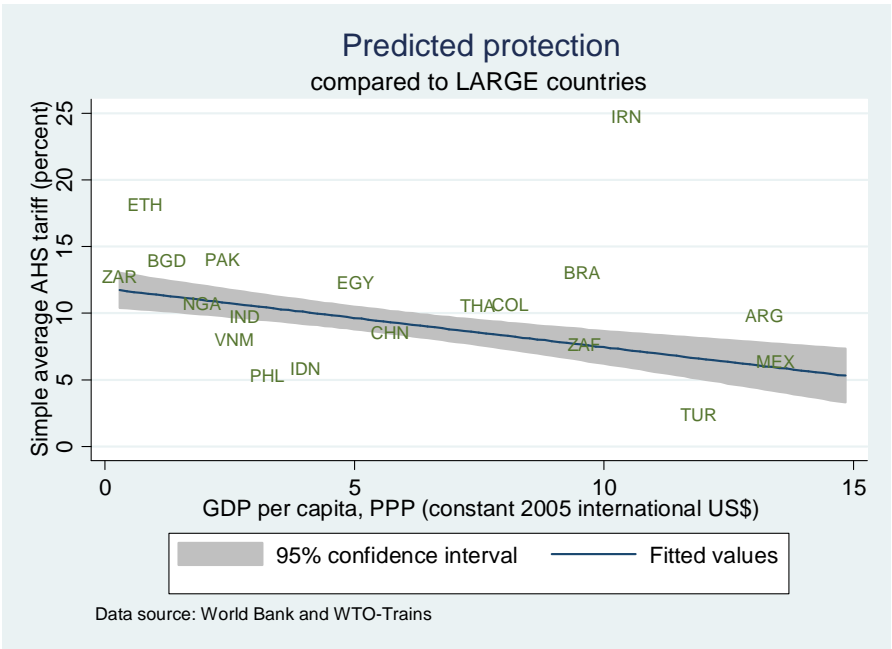


Figure A1b Predicted Protection



Notes:
The estimated equations is for around 2005 based on 116 countries.
Countries included have a population of at least 0.5 million population and per capita GDP in PPP of less than 15,000 US\$.

Table A4: Regional Comparative Policy Indicators for Nigeria

	TTRI Value	OTRI Value	MA-TTRI Value	LPI value	Ease of B. (DB)	Trade. across borders	Rule of law (-2.5; 2.5)
Col (#countries) Year	1 2006-09	3 2006-09	2 2006-09	4 2006-09	5(183) 2006-09	6(183) 2006-09	7(212) 2010
NIGERIA	11.36	26.83	0.80	2.59	125	146	-1.12
COMESA	11.50	18.14	3.62	2.40	125.4	130	-0.68
EAC	11.84	24.53	5.58	2.47	116.2	149	-0.67
ECOWAS	11.18	25.36	6.20	2.46	152.9	119.9	-0.73
UEMOA	11.14	28.63	8.06	2.49	165	131.5	-0.77
LOW	11.54	21.00	5.60	2.43	141	141.2	-0.96
LOW MIDDLE	8.36	16.71	2.35	2.57	112.2	102.8	-0.52
UPPER MIDDLE	6.94	14.40	2.27	2.80	78.45	88.6	-0.05
SSA	11.42	19.05	3.89	2.43	137.9	136.6	-0.74

For all ranks, a higher value means a worse rank. For a definition of the indicators, see .

http://siteresources.worldbank.org/INTRANETTRADE/Resources/239054-1261083100072/WTI2010_User_Guide.pdf

Table A5(a)
Import Prohibition List (March 2012)*

1. Live or Dead Birds including Frozen Poultry – H.S. Codes 0105.1100 – 0105.9900, 0106.3100 – 0106.3900, 0207.1100 – 0207.3600 and 0210.9900
2. Pork, Beef – H.S. Codes 0201.1000 – 0204.5000, 0206.1000 – 0206.9000, 0210.1000 – 0210.2000.
3. Birds Eggs – H.S. Code 0407.0000.
4. Refined Vegetable Oils and Fats – H.S. Code 1507.1000 – 1516.2000.29 [**but excluding Linseed, Castor and Olive oils. Crude vegetable oil are however NOT banned from importation**].
5. Cocoa Butter, Powder and Cakes – H.S. Codes 1802. – 1803.2000, 1805.0000, 1806.1000 – 1806.2000 and 1804.0000.
6. Spaghetti/Noodles – H.S. Codes 1902.1100 – 1902.3000.
7. Fruit Juice in Retail Packs – H.S. Codes 2009.110012 - 2009.110013 – 2009.9000.99
8. Waters, including Mineral Waters and Aerated Waters containing added Sugar or Sweetening Matter or Flavoured, ice snow – H.S. Codes 2202.1000 – 2202.9000, other non-alcoholic beverages H.S. Code 2202.1000 - 2202.9000.99 [**but excluding energy or Health Drinks {Liquid Dietary Supplements} e.g. Power Horse, Red Ginseng etc**] H.S. Code 2202.9000.91 and Beer and Stout (Bottled, Canned or Otherwise packed) H.S. Code 2203.0010.00 - 2203.0090.00
9. Bagged Cement – H.S. Code 2523.2900.22.
10. Medicaments falling under Headings 3003 and 3004 as indicated below:
 1. Paracetamol Tablets and Syrups
 2. Cotrimoxazole Tablets Syrups
 3. Metronidazole Tablets and Syrups
 4. Chloroquine Tablets and Syrups
 5. Haematinic Formulations; Ferrous Sulphate and Ferrous Gluconate Tablets, Folic Acid Tablets, Vitamine B Complex Tablet [except modified released formulations].
 6. Multivitamin Tablets, capsules and Syrups [except special formulations].
 7. Aspirin Tablets [except modified released formulation and soluble aspirin].
 8. Magnesium trisilicate tablets and suspensions.
 9. Piperazine tablets and Syrups
 10. Levamisole Tablets and Syrups
 11. Clotrimazole Cream
 12. Ointments – Penicilin/Gentamycin
 13. Pyrantel Pamoate tablets and Syrups
 14. Intravenous Fluids [Dextrose, Normal Saline, etc.]
11. Waste Pharmaceuticals - H.S. Code 3006.9200
12. Soaps and Detergents – H.S. Code 3401.1100 – 3402.9000 in retail packs
13. Mosquito Repellant Coils – H.S. Code 3808.9110.91.
14. Sanitary Wares of Plastics – H.S. Code 3922.1000 – 3922.9000 and Domestic Articles and Wares of Plastics H.S. Code 3924.1000 – 3924.9000.00 [**but excluding Baby Feeding bottles 3924.9020.00**] and flushing ceinstern and waterless toos toilets.
15. Rethreaded and used Pneumatic tyres but excluding used trucks tyres for rethreading of sized 11.00 x 20 and above 4012.2010.00.
16. Corrugated Paper and Paper Boards – H.S. Code 4808.1000, and cartons, boxes and cases made from corrugated paper and paper boards H.S. Code 4819.1000, Toilet paper, Cleaning or facial tissue - H.S. Code 4818.1000 - 4818.9000 excluding baby diapers and incotinent pads for adult use 4818.4000.41 and Exercise Books - H.S. Code 4820.2000.
17. Telephone Re-charge Cards and Vouchers – H.S. Code 4911.9900.91
18. Textile Fabrics of all types and articles thereof and Yarn falling under the following H.S. Codes remain under import prohibition;
 1. African print [Printed Fabrics] e.g. Nigeria wax, Hollandaise, English Wax, Ankara and similar Fabrics under the following H.S. Codes – 5208.5110 – 5208.5900, 5209.5100 – 5209.5900, 5212.5100, 5212.5100, 5212.2500, 5407.4400, 5407.5400, 5407.7400, 5407.8400, 5407.9400, 5408.2400, 5408.3400, 5513.4100 – 5513.4900, 5514.4100 – 5514.4900, 5516.1400, 5516.2400, 5516.3400, and 5514.4900.00

2. Carpets and Rugs of all types falling under H.S. Codes 5701.1000 – 5705.0000.

But excluding the Following:

3. Lace Fabrics, Georges and other embroidered Fabrics falling under H.S. Codes 5801.2100 – 5801.9000, 5802.1100 – 5802.3000 and 5805.0000.00
4. Made-up Garments and other Textile articles falling under H.S. Codes 6101.2000 – 6310.9000.99
19. All types of Foot Wears and Bags including Suitcases of leather and plastics H.S. Codes 6401.1000.11 – 6405.9000.99 and 4202.1100.10 – 4202.9900.99 [**but excluding Safety Shoes used in oil industries, Hospitals, Fire fighting and Factories, Sports Shoes, canvass shoes all Completely Knocked Down (CKD) blanks and parts**]
20. Hollow Glass Bottles of a capacity exceeding 150mls (0.15 litres) **of a kind used for packaging of beverages by breweries and other beverage and drink companies** – H.S. Code 7010.9021.29 and 7010.9031.00.
21. Used Compressors – H.S. Code 8414.3000, Used Air Conditioners – H.S. Codes 8415.1000.11 – 8415.9000.99 and Used Fridges/Freezers – H.S. Codes 8418.1000.11 – 8418.6900.
22. Used Motor Vehicles above **fifteen (15) years from the year of manufacture** – H.S. Codes 8703.1000 – 8703.9000
23. Furniture – H.S. Codes 9401.1000.00 – 9401.9000.99 and 9403.1000 – 9404.9000, **but excluding Baby walkers, laboratory cabinets such as microscope table, fume cupboards, laboratory benches (9403), Stadium Chairs, height adjustments device, base sledge, seat frames and control mechanism, arm guide and headguides. Also excluded are; skeletal parts of furniture such as blanks, unholstered or unfinished part of metal, plastics, veneer, chair shell etc. Also excluded are Motor Vehicle seats (9401.2000.00) and Seats other than garden seats or camping equipment, convertible into beds (9401.4000.00)**
24. Ball Point Pens – H.S. Code 9608.1000

Goods: Shedule 4 The Importation of which is Absolutely Prohibited

Source: Nigeria Customs Service Website

<http://www.customs.gov.ng/ProhibitionList/import.php>

Except for cassava and toothpicks which have been removed (indicated in yellow) and what is indicated in bold, this list is the same as the bans that were in place in October 2008 and reported in Annex G in Treichel (2010) reproduced below.

Table A5(b)
Import Prohibition List (October 2008)*

1. Live or Dead Birds including Frozen Poultry – H.S. Codes 0105.1100 – 0105.9900, 0106.3100 – 0106.3900, 0207.1100 – 0207.3600 and 0210.9900
2. Pork, Beef – H.S. Codes 0201.1000 – 0204.5000, 0206.1000 – 0206.9000, 0210.1000 – 0210.2000.
3. Birds Eggs – H.S. Code 0407.0000.
4. Cassava - H.S. Codes 0714.1000.
5. Refined Vegetable Oils and Fats – H.S. Code 1507.1000 – 1516.2000.29 [but excluding Linseed, Castor and Olive oils. Crude vegetable oil are however NOT banned from importation].
6. Cocoa Butter, Powder and Cakes – H.S. Codes 1802. – 1803.2000, 1805.0000, 1806.1000 – 1806.2000 and 1804.0000.
7. Spaghetti/Noodles – H.S. Codes 1902.1100 – 1902.3000.
8. Fruit Juice in Retail Packs – H.S. Codes 2009.110012 - 2009.110013 – 2009.9000.99
9. Waters , including Mineral Waters and Aerated Waters containing added Sugar or Sweetening Matter or Flavoured, ice snow – H.S. Codes 2202.1000 – 2202.9000, other non-alcoholic beverages H.S. Code 2202.1000 - 2202.9000.99 [but excluding energy or Health Drinks {Liquid Dietary Supplements} e.g. Power Horse, Red Ginseng etc] H.S. Code 2202.9000.91 and Beer and Stout (Bottled, Canned or Otherwise packed) H.S. Code 2203.0010.00 - 2203.0090.00
10. Bagged Cement – H.S. Code 2523.2900.22.
11. Medicaments falling under Headings 3003 and 3004 as indicated below:
1. Paracetamol Tablets and Syrups
2. Cotrimoxazole Tablets Syrups
3. Metronidazole Tablets and Syrups
4. Chloroquine Tablets and Syrups
5. Haematinic Formulations; Ferrous Sulphate and Ferrous Gluconate Tablets, Folic Acid Tablets, Vitamine B Complex Tablet [except modified released formulations].
6. Multivitamin Tablets, capsules and Syrups [except special formulations].
7. Aspirin Tablets [except modified released formulation and soluble aspirin].
8. Magnesium trisilicate tablets and suspensions.
9. Piperazine tablets and Syrups
10. Levamisole Tablets and Syrups
11. Clotrimazole Cream
12. Ointments – Penecilin/Gentamycin
13. Pyrantel Pamoate tablets and Syrups
14. Intravenous Fluids [Dextrose, Normal Saline, etc.]
12. Waste Pharmaceuticals - H.S. Code 3006.9200
13. Soaps and Detergents – H.S. Code 3401.1100 – 3402.9000 in retail packs
14. Mosquito Repellant Coils – H.S. Code 3808.9110.91.
15. Sanitary Wares of Plastics – H.S. Code 3922.1000 – 3922.9000 and Domestic Articles and Wares of Plastics H.S. Code 3924.1000 – 3924.9000.00 [but excluding Baby Feeding bottles 3924.9020.00] and flushing ceinstern and waterless toos toilets.
16. Tooth Picks – H.S. Code 3926.9000 and 4421.9000
17. Rethreaded and used Pneumatic tyres but excluding used trucks tyres for rethreading of sized 11.00 x 20 and above 4012.2010.00.

18. Corrugated Paper and Paper Boards – H.S. Code 4808.1000, and cartons, boxes and cases made from corrugated paper and paper boards H.S. Code 4819.1000, Toilet paper, Cleaning or facial tissue - H.S. Code 4818.1000 - 4818.9000 excluding baby diapers and incontinent pads for adult use 4818.4000.41 and Exercise Books - H.S. Code 4820.2000.
19. Telephone Re-charge Cards and Vouchers – H.S. Code 4911.9900.91
20. Textile Fabrics of all types and articles thereof and Yarn falling under the following H.S. Codes remain under import prohibition;
1. African print [Printed Fabrics] e.g. Nigeria wax, Hollandaise, English Wax, Ankara and similar Fabrics under the following H.S. Codes – 5208.5110 – 5208.5900, 5209.5100 – 5209.5900, 5212.5100, 5212.5100, 5212.2500, 5407.4400, 5407.5400, 5407.7400, 5407.8400, 5407.9400, 5408.2400, 5408.3400, 5513.4100 – 5513.4900, 5514.4100 – 5514.4900, 5516.1400, 5516.2400, 5516.3400, and 5514.4900.00
2. Lace Fabrics, Georges and other embroidered Fabrics falling under H.S. Codes 5801.2100 – 5801.9000, 5802.1100 - 5802.3000 and 5805.0000.00
3. Carpets and Rugs of all types falling under H.S. Codes 5701.1000 – 5705.0000.
4. Made-up Garments and other Textile articles falling under H.S. Codes 6101.2000 – 6310.9000.99 but excluding the following:
1. Made-up lining articles H.S. Code 6117.8000 - 6117.9000 and 6217.1000, 6217.9000
2. Industrial gloves H.S. Code 6116.1000.11 - 6116.9900.99 6116.1000.11; 6116.9200.92; 6116.9900.98
3. Moulding cups Lycra H.S. Code 6212.9000
4. Multilated rags H.S. Code 6310.1000.11, 6310.9000.91
5. Jute bags H.S. Code 6305.1000
6. Brazzers, pants, ties
7. Insecticides treated mosquito nets (ITNs) and (LLITNs) H.S. Code 6304.9100.92, 6304.9200.94, 6304.9300.96, 6304.9900.98
21. All types of Foot Wears and Bags including Suitcases of leather and plastics H.S. Codes 6401.1000.11 – 6405.9000.99 and 4202.1100.10 – 4202.9900.99 [but excluding Safety Shoes used in oil industries, Hospitals, Fire fighting and Factories, Sports Shoes, canvass shoes all Completely Knocked Down (CKD) blanks and parts]
22. Hollow Glass Bottles of a capacity exceeding 150mls (0.15 litres) of a kind used for packaging of beverages by breweries and other beverage and drink companies – H.S. Code 7010.9021.29 and 7010.9031.00.
23. Used Compressors – H.S. Code 8414.3000, Used Air Conditioners – H.S. Codes 8415.1000.11 – 8415.9000.99 and Used Fridges/Freezers – H.S. Codes 8418.1000.11 – 8418.6900.
24. Used Motor Vehicles above ten (10) years from the year of manufacture – H.S. Codes 8703.1000 – 8703.9000
25. Furniture – H.S. Codes 9401.1000.00 – 9401.9000.99 and 9403.1000 – 9404.9000, but excluding Baby walkers, laboratory cabinets such as microscope table, fume cupboards, laboratory benches (9403), Stadium Chairs, height adjustments device, base sledge, seat frames and control mechanism, arm guide and headguides. Also excluded are; skeletal parts of furniture such as blanks, unholstered or unfinished part of metal, plastics, veneer, chair shell etc.
26. Ball Point Pens – H.S. Code 9608.1000

Source : Treichel (2010, annex F.

Table A6
Nigeria's MFN Applied Tariffs (2009)

Simple Average	Freq.	Percent	Cum.
0	93	2.57	2.57
2.5	8	0.22	2.79
3.33	1	0.03	2.82
5	1,743	48.12	50.94
6	1	0.03	50.97
6.25	1	0.03	50.99
7.5	8	0.22	51.21
7.92	1	0.03	51.24
8	4	0.11	51.35
8.75	1	0.03	51.38
9.38	1	0.03	51.41
10	402	11.10	62.51
11	1	0.03	62.53
11.25	1	0.03	62.56
11.67	1	0.03	62.59
12.5	50	1.38	63.97
13.33	1	0.03	64.00
15	75	2.07	66.07
16.25	3	0.08	66.15
16.67	1	0.03	66.18
20	1,135	31.34	97.52
22.5	7	0.19	97.71
25	1	0.03	97.74
27.5	1	0.03	97.76
35	81	2.24	100.00
Total	3,622	100.00	

Note: The list of the 81 products in the 35% category is given in table A7

Table A7:
List of Products with 35% Tariff

Product Name	Freq.	Percent	Cum.
(1996-) Endless bands for machinery, of	1	1.23	1.23
(1996-) Flexible intermediate bulk cont	1	1.23	2.47
(1996-) Of rectangular (other than squa	1	1.23	3.70
(1996-) other	2	2.47	6.17
(1996-) other woven cloth, of stainless	1	1.23	7.41
(1996-) other, not further worked than	1	1.23	8.64
(1996-) other, of polyethylene or polyp	1	1.23	9.88
(2002-) of a kind used on buses or lorr	1	1.23	11.11
(2002-) of a kind used on motor cars (i	1	1.23	12.35
(2002-) other	2	2.47	14.81
(2007-) (- other, welded, of non-circul	2	2.47	17.28
(2007-) (- other:)-- Disinfectants	1	1.23	18.52
(2007-) (- other:)-- Other	1	1.23	19.75
Autres	1	1.23	20.99
Autres barres	1	1.23	22.22
Ball point pens	1	1.23	23.46
Barres creuses pour le forage	1	1.23	24.69
Casing of a kind used in drilling for o	1	1.23	25.93
Chewing gum, whether or not sugarcoated	1	1.23	27.16
Cigarettes containing tobacco	1	1.23	28.40
Cigars, cheroots and cigarillos, contai	1	1.23	29.63
Containing indentations, ribs, grooves	2	2.47	32.10
Crude oil	3	3.70	35.80
Crude oil, whether or not degummed	1	1.23	37.04
Dentifrices	1	1.23	38.27
En aciers silico-manganeux	1	1.23	39.51
Forged	1	1.23	40.74
Incorporating a refrigerating unit and	1	1.23	41.98
Longitudinally submerged arc welded	1	1.23	43.21
Longitudinally welded	1	1.23	44.44
Maize (corn) flour	1	1.23	45.68
Of cast iron, enamelled	1	1.23	46.91
Of cast iron, not enamelled	1	1.23	48.15
Of freecutting steel, not further worke	1	1.23	49.38
Of high speed steel	1	1.23	50.62
Of iron (other than cast iron) or steel	1	1.23	51.85
Of jute or of other textile bast fibres	1	1.23	53.09
Of other plastics	1	1.23	54.32
Of polymers of ethylene	1	1.23	55.56
Of silicomanganese steel	1	1.23	56.79
Of stainless steel	1	1.23	58.02
Other	20	24.69	82.72
Other bars and rods, not further worked	1	1.23	83.95
Other bars and rods, not further worked	1	1.23	85.19
Other games, operated by coins, banknot	1	1.23	86.42
Other, longitudinally welded	1	1.23	87.65
Other, of freecutting steel	1	1.23	88.89
Other, welded, of circular crosssection	1	1.23	90.12
Other, welded, of circular crosssection	1	1.23	91.36
Other, welded, of circular crosssection	1	1.23	92.59
Profilsés	1	1.23	93.83
Sesame oil and its fractions	1	1.23	95.06
Tubes, pipes and hollow profiles, of ca	1	1.23	96.30
Used pneumatic tyres	1	1.23	97.53
wheat or meslin flour.	1	1.23	98.77
with steel core	1	1.23	100.00
Total	81	100.00	

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