World Economic Recession and the Ascendancy of Protectionism: The Case of the Nigerian Agricultural Sector

A.C. Nwosu[1]

Abstract: Barriers to agricultural trade during the colonial era and up to 1961 were imposed mainly to raise revenue. Accordingly, the barriers were export taxes rather than import tariffs. With the adoption of import substitution as a development philosophy, a more aggressive tariff policy was pursued. Thus, significant increases in tariff rates occurred between 1967 and 1974. The decline in petroleum export earnings of the late 1970s and early 1980s, however, precipitated a rise in protectionism in which tariffs were reinforced by stringent quantitative controls. The effects have been acute shortages of basic commodities, unprecedented inflation, and growing unemployment.

Introduction

Over the decades, the application of barriers to agricultural trade in Nigeria has been mainly for the purpose of raising revenue. Accordingly, import tariffs on agricultural commodities have been much lower than export taxes.

However, the drastic fall in foreign exchange earnings since the late 1970s has kept Nigeria from sustaining the implementation of the rather grandiose development plans, which depended on very optimistic forecasts of oil revenues, and the rather "artificial" life-style based on tastes and preferences acquired in the wake of the "oil boom." The Nigerian Government response has been to impose tariffs and quantitative controls—reinforced by even more subtle means of trade control—on all sectors of the economy.

The purpose of this paper is to examine the increasing protectionism and its implications for Nigerian agriculture. It discusses the origins of the Nigerian economic crisis to highlight the implications of the increasing dependence on petroleum export earnings; gives a historical perspective on the Nigerian commercial policy and the policy measures and tools adopted; and discusses the implications of the rise of protectionism for the agricultural sector.

Some Issues in the Nigerian Economic Crisis

Some analysts see the Nigerian economic crisis largely as a reflection of the world economic crisis. In their opinion, the Nigerian economic crisis is largely an imported phenomenon. They point to two issues—the dependence of the manufacturing and other sectors on imported raw materials and the dependence of the entire economy on petroleum as the predominant foreign exchange earner—as the tenuous links through which global economic crisis is "imported" into Nigeria. Such critics, therefore, blame the current economic crisis on the oil glut in the world market.

Other analysts, however, attribute the crisis largely to domestic mismanagement of available resources. Such analysts point to the bogus and overambitious development plans and the grandiose life-style that were characteristic of the late 1960s and the early 1970s. In their opinion, these were periods in which increased consumption was not matched by increased productivity and thus could not be sustained for long. They were periods in which development was erroneously perceived in terms of gigantic projects, which made no real contribution to the economy.

No doubt exists that the Nigerian crisis derives from both domestic mismanagement of resources and instability in the world oil market. Investigating the mismanagement of resources has, however, been a major concern of a series of panels and tribunals instituted by the new military regime and thus cannot be a candidate for discussion here. This paper examines only the implications of the overdependence on petroleum exports as the source of foreign exchange for the economy.

Agricultural exports contributed a vast proportion of the total value of exports until 1969. But agricultural exports in 1982 contributed a mere 1 percent as against 99 percent from petroleum exports. For over a decade, the Nigerian economy has thus been heavily dependent on petroleum exports to earn foreign exchange. The implications of the situation for the Nigerian economy should be obvious. Any price instability in the world oil market will be transmitted to the domestic economy through its effect on the amount of foreign exchange earned. The impact of such instability becomes more pronounced if the domestic economy is import oriented, as the Nigerian economy has been.

The recent glut in the world oil market and the repeated cut in the quota allocated to Nigeria have had significant impacts on Nigeria's foreign exchange earnings and consequently on its ability to import. A rapid upsurge in oil export revenues occurred in 1970, 1971, and 1974, when annual increases of 95 percent, 86 percent, and 181 percent, respectively, were recorded. These oil "shocks" fueled the much talked about "oil boom."

The oil boom was, however, punctured in 1978 when revenue dropped by 32 percent. Oil revenue rose rapidly again in 1979 and 1980, only to resume its downward trend in 1981.

Economic development programmes and consumption patterns and tastes have (during the 1970s and early 1980s) been geared to match the rather optimistic scenario painted by the oil export trends of the early 1970s. The implication has been that each major drop in oil revenue sent ripples through the economy. That this should happen seems obvious in view of the strong positive relationship between petroleum export earnings and the expenditure on imports.

Eighty-two percent of the variation in total expenditure on imports and 69 percent of the variation in expenditure on food imports are accounted for by the change in revenue from petroleum exports. An increase of 100 percent in petroleum export earnings would give rise to an increase of over 84 percent in expenditure on all imports and an increase of 9 percent in the expenditure on food imports. These figures not only underline the heavy dependence on petroleum exports but give an indication of the potential for transmitting crises in the international petroleum market to the Nigerian economy.

The Rise of Protectionism in Perspective

The evolution of commercial policy in Nigeria has three broad time frames. Although one can hardly draw a firm line of demarcation between the periods, the delineations are characterized by either completely different commercial policies or significant changes in emphasis in the tools employed to execute commercial policies.

Phase l—Colonial Period to 1957

This period has been described as the "revenue phase" and the "liberal regime" in the evolution of Nigerian commercial policy. Commercial policy was geared towards tapping the surpluses generated in the agricultural sector by taxing the export trade through the pricing policies of the marketing boards (which had monopolies in the trade in export crops). Relatively low import tariffs prevailed.

Phase 2—1962-74

Two fairly distinct subperiods divided this phase. The first subperiod (1961-67) was characterized by the active use of tariffs to achieve balance of payments equilibrium. The Tariff Act of 1958 (which only became effective some years later) engendered an upward adjustment of tariffs to alleviate balance of payments pressures. Efforts were also made to increase domestic industrial capacity through import substitution. Imports of agricultural commodities were not, however, affected by the general rise in tariffs in this subperiod of phase 2.

The second subperiod (1968-74) was characterized by a greater drive towards import substitution as a development philosophy. An aggressive tariff policy was, therefore, pursued largely to foster increased growth in domestic production. Agricultural imports were not spared in the drive towards import substitution. A general hike in tariffs characterized this subperiod.

Ironically, the drive towards increased domestic production did not seem to influence policy decisions with respect to export crops. The role of these crops as sources of government revenue seemed to take precedence as reflected by the relatively higher tax rates imposed on the crops during phase 2.

Phase 3—1975 to Date

This phase marked the ascendancy of protectionism in Nigeria's foreign trade relations. The precipitating factors were the decline in the revenue accruing from petroleum exports and the depletion of foreign reserves owing to the rapid expansion of imports and growing external indebtedness. The period witnessed a fierce combination of tariff and nontariff measures applied in panic and erratically reshuffled to halt economic decline.

The emphasis, however, was on nontariff measures. The nominal and effective tariff rates during this period were relatively lower than the corresponding rates for the preceding period.

The importation of vegetables, roots, and tubers (including potatoes) was proscribed by the Import Prohibition Order of 1976 and has remained proscribed since. The situation with basic staples such as maize, rice, and cowpeas has been erratic. These commodities have been moved to, from, and between import licensing (open and restricted) and prohibition orders to take account of changing economic circumstances and the influence of pressure groups.

This period has also seen the stagnation or even decline in the per capita production of most food and export crops. Accordingly, domestic demand for these commodities has outstripped supply in the face of stringent control of imports. The Export Prohibition Order of 1976, therefore, banned the exportation of all foodstuffs even in the smallest quantities. The trade in traditional export crops was also placed under licence, since the domestic demand for those crops (except cocoa and palm kernels) could no longer be met.

Another measure adopted to restrict imports and reduce external indebtedness was the imposition of strict controls on foreign remittances, for which authorization now has to be sought. The cumbersome procedure instituted to obtain such authorization only reinforced the effectiveness of the measure.

Some Effects of Rising Protectionism

The general effect of the rise in protectionism has been the increasing scarcity of very basic commodities and a growing problem of unemployment. The restriction on importation of industrial raw materials effected through tight control of import licences has meant that industries that have survived have been operating at less than full capacity. The result has been a massive retrenchment of the work force. Drastically reduced domestic production coupled with the restriction on imports has also resulted in scarcity of essential commodities.

The impact of the rise of protectionism can easily be seen in the rapid increases in the prices of agricultural commodities. Between 1972/73 and 1979 the prices of rice, maize, beans, *garri*, and yams increased by 150 percent, 150 percent, 170 percent, 367 percent, and 620 percent, respectively. And between 1979 and 1983 the prices of rice, maize, beans, and *garri* further increased by 78 percent, 74 percent, 52 percent, and 82 percent, respectively.

The domestic inflationary trend is also apparent when domestic prices are compared to international prices. Domestic prices of major food crops have been at least 50 percent above world market prices. The producer prices paid by the commodity boards for the traditional export crops have not only been on the increase but have been higher than world market prices since 1980. Some of the crops have actually ceased to be export crops as production has been unable to satisfy domestic demand. The reported trade in agricultural commodities now consists only of cocoa, palm kernels, and rubber.

To what extent, then, has the rise of protectionism stimulated domestic agricultural production? The answer is uncertain because the analysis of production data from different sources does not lead to the same conclusions. However, whatever increases did take place were insignificant in relation to the draconian protective measures imposed since 1975. In this connection, some analysts have argued that farmers respond to relative prices and that the huge increases in the prices of factors of production have made crop production less profitable. Others have argued that the huge food imports of the early 1970s and the erratic commercial policies accompanying the foreign exchange crisis militate against increased production, high prices notwithstanding.

One aspect of commercial policy that needs further mention is its erratic nature, a major consequence of which has been the grave uncertainty associated with supplies, which has created a near black market situation for very basic commodities and has fueled an unprecedented inflationary spiral. The price signal has ceased to be an indicator of the market situation, to the peril of both buyers and sellers.

Policy Implications and Suggestions

The policy options open to Nigeria would seem to be obvious. Policies are needed to stimulate the production of other export commodities apart from petroleum, and to check the excessive dependence on imports and the drain on foreign exchange. Those policies have implications for both agricultural and industrial development strategies.

Agriculture, however, seems to be the sector in which Nigeria has the potential to produce other export commodities in the short run. The no-growth situation of agriculture since the 1970s has meant increased dependence on imports for food and agroindustrial raw materials. The situation calls for deliberate bias towards agricultural development, which should be reflected in government budgetary allocations.

Recent experiences have also shown that local substitutes *do* exist for some of the imported agroindustrial raw materials. Government policy should provide the guidelines for the development and use of such local substitutes wherever the possibility exists.

With respect to the manufacturing sector, a need exists to shift emphasis from the production of light consumer goods to the production of capital goods, the importation of which constitutes a major drain on foreign exchange. Efforts to produce refined petroleum products should also be intensified, not only to make the country self-sufficient but to increase foreign exchange earnings.

Note

[1]Institute of Social and Economic Research.