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PROSPECTS FOR TRADE BETWEEN NIGERIA AND ITS NEIGHBOURS

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PREFACE

How to build a common market has been a matter of concern in West Africa for some years now. The region seeks to take advantage of its historical heritage (the great empires of the Middle Ages, the French West Africa federation), its ecological assets (forest countries and Sahelian countries), and the contrasting nature of its States (viable, intermediate, and non-viable countries).

To meet this need, cross-border trading networks have formed that are highly active in regional trade. This mostly informal trade has provided West Africa with a number of areas whose *de facto* integration ignores official boundaries: market catchments in the West and Centre, the urban belt along the Bight of Benin, and the fringes around Nigeria. Meanwhile, within official circles, the hope is that the region will be structured around two areas of integration: the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (French acronym UEMOA).

"Prospects for trade between Nigeria and its neighbours" throws light on the issues involved in the regional market: its determining factors, operation and geographical scope. It shows how regional integration is primarily a matter of spatial polarisation driven by the actual operation of the economy, based on variations in development resources, contradictions between States' macro-economic policies, and the dynamism of the actors.

Despite the value of this analysis, one may wonder whether the construction of a West African common market is not handicapped by current uncertainties about peace and sustainable economic development.

Crises in Sierra Leone, Guinea, Liberia and Côte d'Ivoire are compromising the conditions for any common market to be driven by the dynamism of actors and trade. Here, the Ivorian crisis is a serious blow for the future of UEMOA, in terms of currency issues and the success of the Common External Tariff (CET) introduced in January 2000.

After years of acute economic crisis and political isolation, Nigeria has returned to democracy, in which peace, however, is threatened by religious fanaticism and ethnic confrontation.

Even those few countries that seem to be havens of peace, such as Ghana, Mali and Benin, are coming to the end of rule by charismatic Heads of State who have worked hard for their countries' current peace and prosperity.

This general uncertainty adds a factor to the analysis that restricts the dynamism of regional trade.

Some Heads of State, as in Nigeria and Ghana, are aware of these uncertainties and are seeking to build a regional market on the basis of geographical closeness, with their project for a free-trade area for Nigeria, Ghana and its neighbours.

In that context, this study provides informed answers that should be exploited.

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Prospects for trade between Nigeria and its neighbours

Regional integration is a recurrent issue in Africa, and particularly in West Africa. But in the last ten years it has taken on a new dimension and content, because of changes occurring in the international environment.

- ***Economic change:*** globalisation, driven by new information and communication technologies and the weightlessness of the economy, has paradoxically revived hopes for regional integration. Public authorities and economic operators (increasingly organised in networks) see regional economic areas as springboards for connecting small countries to the world economy. Economic integration is thus seen as an offensive strategy against the growing power of multinationals.

- ***Political change:*** democratisation has liberated hearts and minds, shifting the idea of regional integration from the political to the economic. The end of preferential trade under the EU-ACP and WTO agreements is forcing actors to focus on new areas of operation.

West Africa is no exception here. With its sixty-odd multilateral co-operation organisations and three groupings (ECOWAS, WAEMU and Mano River Organisation), it has gone furthest in accepting the principle of regional integration. However, practical results are sparse (macro-economic convergence in WAEMU countries, relative freedom of movement), and much remains to be done to complete the process of regional integration. Intra-regional trade is still tiny: less than 8% in WAEMU, and 5% in ECOWAS. This is strange, since the region contains Nigeria, the most populous and third most economically dynamic country in the whole of Africa.

Although Nigeria's vast size is not in doubt, its ability to operate as a driving force for development in West Africa is not clearly perceived, except for its crucial contribution to settling conflicts in Liberia and Sierra Leone. Nigeria has the essential assets to become the locomotive for the sub-region: roughly 60% of its consumers, 47% of regional GDP, 50% of its industrial potential, over 60% of its graduates. For years, economic crisis, its attendant political instability and successive military dictatorships forced Nigeria into excesses castigated by the other States in the sub-region: open or covert warfare with neighbours, lawlessness, drug traffic centre.

The democratisation that began on the death of General Abacha, economic reforms and higher oil prices have greatly improved the country's position. In foreign trade, Nigeria is seeking to diversify its exports and liberalise its imports. Customs duties are being simplified and reduced. The tariff range for 1995-2000 has been brought down from 0-300% to 0-150%, with the vast majority of tariffs between 10% and 50%. This improvement in the domestic institutional environment is accompanied by a regional initiative to reactivate ECOWAS: projects to create a free-trade area and a second currency zone, and to build a gas pipeline linking all the countries on the Bight of Benin, for whom Nigeria clearly wishes to be the standard-bearer.

Evidently Nigeria is ready to play its part as a real development pole in West Africa, although a number of economic operators -- many of them poorly informed -- only see it as a hard market to crack: political and monetary instability, poor working of institutions, corruption, volatility of trade and exchange policy, lawlessness.

This report analyses prospects for trade between Nigeria and its neighbours in the light of most recent developments in national and regional policies.

❑ Structure of the report

The report comprises **seven thematic fact files** giving topical information about current trade between Nigeria and its neighbours. These fact files focus on likely future developments in the light of the structural changes impending for national economic policies and regional co-operation institutions (particularly the introduction of the WAEMU Common External Tariff).

Fact file 1 is a retrospective account of past trade between Nigeria and its neighbours. While noting the low volume and asymmetry of official trade, it shows that informal trade is no lower in volume.

Fact file 2 focuses on the product that lies at the heart of Nigeria's misfortunes and wealth, enabling the country to polarise the sub-region: oil. Trade in petroleum products is by far the largest part of trade between these countries and reveals how far distortions in economic policy can be exploited by ordinary people.

Fact file 3 analyses changes in Nigeria's trade policy since the implementation of the structural adjustment programme in 1986. As a cocktail of free-market economics and protectionism, Nigeria's trade policy has the major objective of diversifying exports and liberalising imports. Consequently, it is characterised by a strategy of tariff-cutting that is shifting policy towards both regional integration and greater compliance with WTO rules.

Fact file 4 deals with Nigeria's monetary policy. Being the very core of economic reform, especially the structural adjustment programme, monetary policy has long been short-termist, disrupting the economy and paralysing exports other than crude oil.

Fact file 5 analyses the role of trading networks in regional trade. The actors in this trade are highly dynamic and institutionally organised for co-ordination, displaying a strategy of adaptation whereby the volume of trade is inversely proportional to the degree of harmonisation between States' economic policies.

Fact file 6 studies the constraints on trade between Nigeria and its neighbours. Although this trade is large, it is well below the level one might reasonably expect. This gap between expectation and reality is due to the many difficulties that cause the Nigerian market to be neglected by business people elsewhere in the sub-region: lawlessness, payment problems, excessive overheads.

Fact file 7 provides a prospective analysis of trade between Nigeria and its neighbours, focusing on two essential features. One relates to the re-export trade from Benin and food security in Niger in the light of the impact of the WAEMU Common External Tariff on its trade with Nigeria. The other is the likely impact of economic reforms on the competitiveness of products from the sub-region's main industrialised countries: Nigeria, Côte d'Ivoire, Ghana and Cameroon.

❑ Fact file 1 - Nigeria: major centre of regional trade in West Africa

The massive size of Nigeria (60% of West Africa's consumers, 47% of GDP, over 50% of industrial and manufacturing potential) is well known, but the actual volume of its trade with its neighbours is often inaccurately perceived. Language differences, disparities in economic and monetary policy, and socio-cultural bias have made some less informed analysts think that trade between Nigeria and the other countries in the sub-region is impossible. But in fact, in both official and informal trade, Nigeria is a major regional partner for other West African countries. Even Côte d'Ivoire, sometimes seen as a potential competitor for Nigeria, does most of its regional trade with that country.

A. Marked growth in official trade

It is certainly difficult to assess the exact volume and value of trade between Nigeria and other West African countries. The persistent "informalisation" of this trade prevents any exhaustive estimate. However, close monitoring over the last ten years reveals two major trends for a phenomenon of much earlier origin.

- Trade has increased regularly in volume and value since 1994. This is partly due to the extreme variety of traded goods, some of which are not produced in the region. West Africa in general, and countries like Nigeria and Benin in particular, have become staging-posts for world trade. However, trade with sub-Saharan Africa is only a tiny proportion of Nigerian foreign trade (between 2.6% and 5.4%), compared with 8% for intra-regional trade within WAEMU. In fact Nigeria's trade with West Africa accounts for most of its trade with Africa as a whole. Since 1994, ECOWAS's share in Nigeria's trade with Africa has varied between 70% and 78%, showing the importance of Nigeria for the sub-region, despite the spectacular arrival on the scene of South Africa.

Table 1.1. **Share of West African market in Nigeria's exports**[1]

In US$ millions

	1994	1995	1996	1997	1998
Total exports (1)	2 495.3	10 115.8	14 423.3	14 716.0	10 061.0
Exports to Africa	87.9	619.2	1 018.6	1 057.6	768.1
Exports to ECOWAS	65.4	487.3	719.0	804.4	508.9
ECOWAS' share in total exports	2.6%	4%	4.9%	5.4%	5%
ECOWAS' share relative to Africa	74.4%	78.6%	70.5%	76%	66.2%

1. The dollar value is calculated from the currency allocation rate of AFEM, roughly 81 naira to the dollar in 1994, 1995, 1996, and 83 for 1997 and 1998.

Source: Federal Office of Statistics.

- This trade is increasingly unbalanced, for two reasons: the regular rise in the cost of oil (Nigeria is the only regional supplier of crude) and loss of competitiveness of the sub-region's products on the Nigerian market, "protected" by the continual depreciation of the naira against the CFA franc, import restrictions, and Nigeria's dynamic farm sector. Farm products from neighbouring countries (cowpeas from Niger, tubers and similar from Benin) have found it hard to penetrate the Nigerian market since the early 1990s. The balance of official trade is consequently largely in surplus for Nigeria.

Table 1.2. **Nigeria's trade with West Africa, 1994-99**

In US$ millions

	1994	1995	1996	1997	1998	1999
Exports	38.7	416.0	613.7	676.2	412.6	1.057.8
Imports	26.7	71.4	96.6	118.2	97.6	90.3
Surplus	11.9	344.6	517.1	558.0	315.0	967.6

Source: Federal Office of Statistics.

B. Mainly with Côte d'Ivoire and Ghana

Analysis of official statistics of regional trade in Africa suggests that trade between countries is proportional to their level of development. Nigeria, Côte d'Ivoire, Ghana, and, to a lesser extent, Senegal—the economically most advanced countries in the sub-region—account for most of regional trade. Côte d'Ivoire is Nigeria's leading trade partner in Africa: Nigeria is the biggest "customer" for the Abidjan Port Authority (over 20% of the volume of the goods shipped through Abidjan since 1996 have come from Nigeria). The extent of trade between Côte d'Ivoire (leading country in WAEMU) and Nigeria shows how unimportant are the rift between English- and French-speaking countries and differences in monetary policy that are used to justify the inertia that hampers the process of economic integration. Côte d'Ivoire is followed by Ghana, with whom Nigeria has signed a trade agreement.

Table 1.3. **Côte d'Ivoire and Ghana's official trade balance with Nigeria in 1998**

In FCFA billions

	Imports	Exports	Deficit
Côte d'Ivoire	175.0	34.4	- 140.6
Ghana	98.1	5.1	- 93.0

Source: External trade statistics of Côte d'Ivoire and Ghana.

Nigerian petroleum products make up most of the trade between Nigeria and the other two countries. They represent over 99% of official Nigerian sales to Côte d'Ivoire and 80% of those to Ghana. Côte d'Ivoire purchases of non-petroleum products were only FCFA 750 million in 1998. Of its exports to Nigeria that year, 75% (FCFA 29 billions) were refined petroleum products. These were mainly petrol (FCFA 13.1 billions), fuel (FCFA 9.3 billions), bitumen (FCFA 3.4 billions), diesel (FCFA 3.3 billions). Next came cosmetics, roughly FCFA 850 millions; wind pumps (FCFA 203.9 millions); and drilling platforms (FCFA 1389.9 millions).

Nigerian imports from Ghana are cola nuts, aluminium products, salt, textiles, dried fish and refined petroleum products.

Apart from petroleum products, the volume and value of trade are low (less than FCFA 6 billion) between Côte d'Ivoire and Nigeria. This is due to a number of factors, four of which are often cited by operators:

1. The similarity between the three countries' manufactured and industrial goods, especially in Côte d'Ivoire and Nigeria, does not favour complementary trade which could have been developed between them, driven by comparative advantage.

2. Payment procedures are awkward. Letters of credit take too long (need to be certified by the parent banks of subsidiaries in the various countries). Operators are often forced to use the parallel market to buy foreign currency and pay cash for their products. A brief survey in Ghana showed that the demand for CFA francs in bureaux de change is second to that for dollars. These operations, which, as we shall see, are expensive, restrict trade to short distances (transporting money across a number of borders is highly risky).

3. Prejudices of all sorts act as non-tariff barriers. For many French-speaking consumers, especially in Côte d'Ivoire, Nigerian products are low-quality and often sub-standard (particularly pharmaceuticals). The Nigerians, on the other hand, believe that these arguments are put forward by French-speaking countries to cover the "apartheid and ambivalent behaviour" they display in implementing regional integration in West Africa, and the domination of their economies by operators of French and Lebanese origin.

4. Business contracts are hard to conclude with Nigerians, who are perceived as unreliable economic operators who do not respect contracts. In Côte d'Ivoire, a number of trade disputes are cited concerning Nigerians who had broken contracts.

C. On the basis of short-distance informal trade

Behind official trade there is informal trade with neighbouring countries, which is proportional to their distance from Nigeria. The extent of this trade is hard to assess not only because of its nature, but also because of the methods used for recording it. Most customs services use the system known as "receipts" (*acquits*).[1]

Exports to West African countries

These include a wide range of manufactured goods made locally or imported from Asia and Europe: Italy and Turkey (mainly counterfeits). This trade has its own form of organisation, starting from the main Nigerian cities, such as Kano for Niger, Maiduguri for northern Cameroon and Chad, Calabar for southern Cameroon and Equatorial Guinea, and not least Lagos, which is the main centre for assembling goods. Many countries have warehouses close by the main market in the Lagos area (Ebutero).

Table 1.4. **Estimated trade from Lagos**

Destination	Number of warehouses	Number of lorries loaded in 1999	Number of lorries by border crossing	
			Sémè	Igolo
Côte d'Ivoire	1	108	71	37
Mali	3	162	70	92
Burkina-Faso	4	216	106	110
Benin	3	270	270	-
Togo	3	444	58	386
Ghana	1	103	94	9
Total	15	1303	669	634

Source: Field surveys.

1 . Goods are cleared through customs not on the basis of their intrinsic value but according to a general estimate of the value of the lorry load.

If the value of a lorryload is estimated at FCFA 40-60 million,[2] the value of exports to West Africa from Lagos alone in this way is some FCFA 65-78 billion, not including petroleum products and foodstuffs. But these quantities do not reflect the real situation, since this estimate only covers the official trade, recorded wrongly or not at all by customs services. Balami and Asheikh (2000)[3] estimate the volume of manufactured goods traded between northern Nigeria and northern Cameroon at 600 tonnes a day, or 180 000 a year, or 5 142 35-tonne lorries.

This channel would appear to account for some FCFA 308.5 billion's worth of manufactured goods moving from Nigeria to Cameroon, mainly from the major cities in northern Nigeria, such as Maiduguri and Yola. Although some of these goods are intended for Chad, this estimate appears to exaggerate the extent of the trade.

What is the total value of informal exports from Nigeria to neighbouring West African countries?

In 1998, on the assumption that the proportion of Nigerian goods displayed on traders' stalls corresponds to the proportion of households' expenditure on such goods, and following simultaneous surveys in a number of places in Benin, LARES estimated the value of Benin imports from Nigeria to be as follows:

- Low hypothesis: $152 million
- High hypothesis: $198 million

Assuming further that informal imports by Nigeria's neighbours are proportional to their population, one may estimate that Nigeria's immediate neighbours (Benin, Cameroon, Chad and Niger, a total population of 37 million) import goods to a value of

- Low hypothesis: $1 billion
- High hypothesis: $1.2 billion

Adding in long-distance trade to other countries in the sub-region (particularly Burkina Faso, Côte d'Ivoire, Ghana, Mali and Togo), which may be estimated at half of that to the immediate neighbours, we arrive at a total estimate of informal exports to West Africa from Nigeria of between $1.5 and $1.9 billion.

Particular attention should be paid to trade in foodstuffs, which are an element in food security and a substantial source of income for certain population groups. However, this trade has varied sharply over the last ten years. The flow has completely reversed. Nigeria now supplies its neighbours with foodstuffs, especially grains. The largest customers are Niger and Chad. The volume of exports to Niger alone, mainly millet and maize, varies between 100 000 and 200 000 tonnes a year (equal to FCFA 10-20 billion at an average price of FCFA 100 per kilo). Exports to Benin are lower, mainly out-of-season produce: tomatoes, potatoes and citrus fruit.

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2 . Estimate by Benin customs.

3 . Balami H. Dahiru and Maidugu Asheikh, *Trade, industry and public policy: theory and application,* University of Maiduguri, 2000, 196 pages.

D. Nigerian imports

Nigerian imports from ECOWAS countries are very largely local produce, headed by livestock on the hoof. Livestock trading between Niger and Nigeria rose more than 60% from 1997 to 1998 (Solagral, CMAOC, 2000). Then come Ivorian vegetable oils (particularly palm-oil and cola from Ghana via Benin). Fancy textiles from Côte d'Ivoire and Ghana have a small share in the trade. However, the imports are in fact mainly re-exports, as a result of the tariff protection policies of the various countries and the loss of competitiveness of other countries' products in the Nigerian market. Some of Nigeria's neighbours (Benin, Niger, and until recently, Cameroon) operate as "entrepot States" for products that are subject to import bans or highly taxed in Nigeria, such as second-hand and retreaded tyres, second-hand clothes, textiles and garments, second-hand vehicles, rice, cigarettes; these countries are platforms for onward transport to Nigeria. This semi-informal trade (except for Niger, where the transaction regulations include a re-export section) involves considerable sums. In Benin over 75% of the goods landed at Cotonou harbour are estimated to be headed for Nigeria up to a value of over FCFA 80 billion a year.

Altogether, apart from the deficit these countries run with Nigeria, trade between them may be seen as having a destructuring effect on their economies, especially for Cameroon. Their industrial fabric suffers from Nigerian products flooding into their markets. However, trade with Nigeria has had a specific impact on other countries, such as Benin, which operates as a transit country. Not least, Nigerian imports, as we shall see for petroleum products, enable low-income consumers to acquire manufactured products, albeit of low quality.

❑ <u>Fact file 2</u> — Oil from the Federation: a federating force in the sub-region

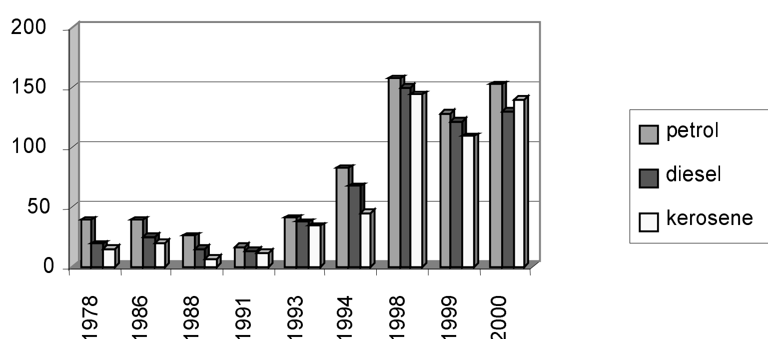
As the engine of the economy (93% of export revenues in 1999), oil has brought joy and tears to Nigeria. Apart from its strategic implications, which explain the vagaries and inconsistencies of national fuel policy, Nigerian oil is the commodity that has most polarised the regional market, both official and informal.

A. Main features of the Nigerian oil sector

While Nigeria's weight in West Africa stems from the size of its population (approx. 120 millions), its power is based on its substantial oil production. With output of around two million barrels a day, Nigeria is the leading producer in Africa, the sixth-largest within the Organisation of the Petroleum Exporting Countries (OPEC) and the tenth-largest in the world.

Since 1971, when Nigeria joined OPEC and embarked on a policy of nationalising petroleum activities, the oil sector became the country's main source of foreign currency. In 1999, oil provided 68% of fiscal revenues. The Nigeria National Petroleum Company (NNPC), founded in 1977, is the cornerstone of the country's oil policy. In addition to purchasing stakes in distribution companies,[4] the NNPC controls the country's four oil refineries: Port Harcourt 1 (the oldest, built in 1963), Warri (1978), Kaduna (1980) and Port Harcourt 2 (1989). However, the management of the Nigerian oil sector has been little short of chaotic. Despite a theoretical refining capacity of 450 000 barrels/day, the country's four refineries have never operated at more than 65% of their capacity. Even worse, since last quarter 1999, only the Warri refinery has been operational; the other refineries have stood idle, due to inadequate maintenance or sabotage. As a result, Nigeria has to import more than two-thirds of its needs (estimated at around 350 000 barrels/day) from the world market. This situation means high distribution prices, which has led the government to subsidise them. Although the government has raised prices nine times since 1978, it has not managed to abolish the subsidy, which some analysts estimate at more than $2 billion per year, despite pressure to do so from the IMF and the World Bank. In spite of the controversial rise in June 2000, Nigerian fuel prices are still the lowest in the sub-region, which encourages a thriving illegal trade between Nigeria and its immediate neighbours.

Figure 2.1. **Price[1] of petroleum products in Nigeria, 1978-2000**



1. Prices in naira have been converted into CFA francs, at the exchange rate on the parallel market for each year.

4 . Eight large companies, called majors, are licensed to distribute oil. These are: Total Nigeria Ltd, National Gas Cylinder Manufacturing Co., National Oil and Chemicals Marketing Company Ltd., Unipetrol Nigeria Ltd, AGIP Nigeria Ltd, African Petroleum Ltd, Texaco Nigeria Ltd, and ELF Marketing Nigeria Ltd.

B. Official trade

Two main products constitute the official trade: crude oil (the bulk of transactions) and refined oil. Nigeria exported refined oil to Niger until 1993, when, because of problems at the Kaduna refinery (which supplied Niger), the Nigerian government terminated these exports. Only Chad currently has a contract with Nigeria for the supply of refined oil. In 1996, the Nigerian government planned to grant licences to two private companies to build and operate two refineries for export production—Brass Refineries and the Oliviria Petroleum Refinery, with respective output of 200 000 and 100 000 barrels/day—but these plans fell through. As a result, since 1994, only crude oil has been exported officially. The countries of the sub-region that import Nigerian crude are those with operational refineries: Côte d'Ivoire, Ghana, Senegal (in West Africa) and Cameroon (in Central Africa). Côte d'Ivoire is the biggest customer, with purchases that account for 2.4%-3.4% of Nigerian export sales. The ECOWAS countries altogether purchase only 3.4%-4.5% of Nigeria's oil exports compared with 4.4%-6.7% for the whole of Africa.

Table 2.1. **Official exports of Nigerian crude oil**

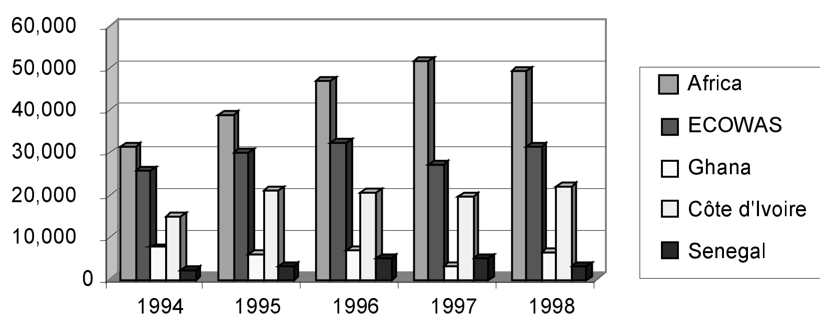
In US $ millions

	1994	1995	1996	1997	1998
Total Africa	132.9	669.7	993.0	973.7	539.6
ECOWAS	108.7	515.7	719.4	514.0	342.6
Côte d'Ivoire	62.3	358.6	437.6	365.1	239.8
Ghana	33.3	101.2	142.2	54.1	68.5
Senegal	9.1	55.8	103.8	93.6	34.3

Source: Annual Reports – Central Bank of Nigeria.

Figure 2.2. Exports of Nigerian crude oil, 1994-1998

In thousands of barrels



Though exports only reached their peak in volume in 1997, they attained their highest nominal value in 1996. The continuous decline in the price per barrel until 1999 has considerably reduced the revenues Nigeria derived from the export of petroleum products.

C. Illegal trade in Nigerian fuel

Known by various names in the sub-region, such as *fédérale* (federal) in Cameroon and *kpayo* (not good) in Benin, Nigerian petrol is traded intensely between Nigeria and the neighbouring countries. The ramifications of this trade even extend to countries that do not have land borders with Nigeria, such as Togo and Burkina Faso. The driving force behind this trade is the difference in price on either side of the border. Taxation and exchange rate differences (depreciation of the naira and stability of the CFA franc) have created a significant gap between prices in Nigeria and prices in the other countries. The most recent price rise in Nigeria did not narrow these gaps by much, which were two-fold in June 2000.

Figure 2.3. **Fuel price differential between Nigeria and selected neighbours**

FCFA /litre in June 2000

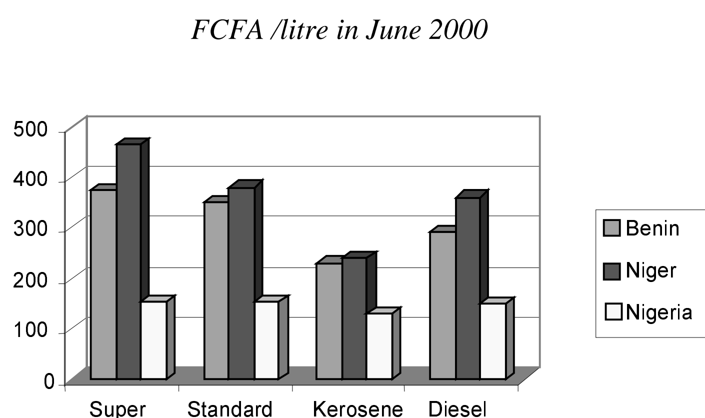


Table 2.2. **Difference in fuel prices**[1]

In CFA francs, June 2000

	Benin-Nigeria	Niger-Nigeria
Super	223	313
Standard	198	228
Kerosene	100	110
Diesel oil	150	220

1. Prices in Nigeria were obtained by multiplying the posted prices by the exchange rate of the naira on the parallel market, i.e. N1 = FCFA 6.89.

Source: Field surveys.

These price differences leave a large margin for traffickers, as transport is usually makeshift and does not require much investment. The gross profit is substantial, even though it decreases with distance from the border.

D. Importance of illicit trade

Since this trade is illegal in all the countries (except in eastern Niger where the government has granted licences to private operators to supply this part of the country with imports from Nigeria), it is difficult to evaluate its overall volume accurately. The fuel is transported by various means: tankers, small sea- and lake-going vessels, vehicle fuel tanks and 4-, 10-, 20- and 50-litre jerrycans.

In 1994, a Nigerian inquiry estimated that 150 000 barrels of oil were being exported illegally from Nigeria every day (i.e. 33% of Nigeria's theoretical daily refining capacity). According to the 24 November 1995 issue of *Marchés Tropicaux,* 300 000 litres of Nigerian petroleum products were being imported every day into Benin alone. Studies conducted by various teams (Vincent Caupin[5] for ORSTOM in Niger, Xavier Herrera[6] for the Observatoire des frontières in Cameroon, LARES in Benin) show that this trade increased between 1983 and 1991, though with highly unstable volumes, and with a downward trend in the 1990s. The rise in prices at the pump in Nigeria and a series of shortages at the distribution stations strongly reduced illegal exports to neighbouring countries.

Caupin's estimates for Niger's illicit trade range from 90 000 m^3 in 1991, i.e. 50% market share, to 60 000 m^3 in 1996, i.e. 35% of that country's needs.

In Cameroon, flows reached their peak in 1991-1992 with 120 000 m^3, i.e. 30% market share before stabilising around 33 000 m^3 in 1995 (Herrera 1997).

Illegal imports of Nigerian petroleum products into Benin have shown a similar pattern. They were at their highest between 1989 and 1992, peaking in 1991 when the Société Nationale de Commercialisation des Produits Pétroliers (SONACOP) sold only 86 600 m^3 nationally, despite demand estimated at around 230 000 m^3, i.e. 37.6% of market share, at that time. Until June 2000, these imports represented over 35% of the fuel oil distributed in Benin, i.e. some 100 500 m^3 a year, consisting mainly of standard petrol,[7] i.e. the equivalent of FCFA 35 billion (at the average pump price). There has been no traffic in kerosene since 1994, because prices in Nigeria no longer offer profit margins to traders. Benin is also used as a transit country on the way to south-eastern Togo and Burkina Faso. Trade has surged again since July, because of the increased difference in prices between the two countries following price rises in Benin. Petrol station managers say they have lost over 60% of their customers to the black market.

It would appear that 30%-40% of the national needs of Benin, Niger and Cameroon are met by illegal imports of Nigerian oil.

E. Illegal trade—impact and prospects

This is one of the most controversial aspects of the illegal trade in petroleum products. While it is clear that traders make large profits and that consumers benefit by increasing or maintaining purchasing power, the situation of the countries is more ambiguous. Studies frequently conclude that governments lose substantial tax and customs revenues. The situation, of course, varies from country to country.

– Traders and consumers

For Benin, the profit margin of traders ranges from 15% to 30% of the cost price of the various products delivered to Cotonou, located 35 km from the nearest Nigerian distribution station. These margins are highly volatile and depend on the prevailing economic situation. Consumers appear to benefit more substantially, with opportunity gains of FCFA 100 - FCFA 125, and even more in locations closer to the border (FCFA 160 in Porto-Novo, 15 km from the border), representing the difference between the official price that they would normally have to pay and the black market price that they actually pay.

5 . *La balance commerciale Niger-Nigeria revisitée*, 1996, 23 p.

6 . *Estimation des flux illégaux d'essence nigériane et leur impact au Cameroun.* GIS DIAL/ORSTOM, pp. 43-90.

7 . LARES: *Estimation des importations en provenance du Nigeria.* Study funded by French Development Co-operation, 1998.

Table 2.3. **Profit margin[1] on petroleum products trade between Kraké (Nigeria) and Cotonou (Benin), July 2000**

In FCFA

Product	Price in Nigeria	Transaction costs	Cost price in Cotonou	Parallel market price	Profit margin for trader	Official price	Gain for consumer
Petrol	137.5	50	187.5	250	62.5	350- 375	100 –125
Diesel	125	50	175	225	50	290	90
Kerosene	125	50	175	225	50	230	-

1. One naira equals FCFA 6.25 in July 2000.

Source: Field surveys.

– **Countries**

The impact on countries varies. Countries that impose high import duties, such as Cameroon, lose indirect tax revenue. Herrera (1997) estimates that Cameroon lost FCFA 4.5 billion in tax revenue for the financial year 1995/96. In contrast, Benin and Niger, for different reasons, appear to make substantial opportunity gains. Caupin (1997) estimated Niger's theoretical gains from illegal imports of Nigerian petroleum products at FCFA 3.75 billion in 1994. He bases this figure on the premise that, if Niger were unable to obtain supplies from Nigeria, it would have to turn to the world market via Benin. The gain achieved by importing from Nigeria is equivalent to the difference between the opportunity cost (via Benin) and the actual cost of supply from Nigeria to the border with Niger. The situation in Benin is quite different. Until the most recent price rise, the government subsidised the official price of petroleum products to the tune of FCFA 2 300 per hectolitre (on average). The unofficial trade enables the government to save the revenue that it would otherwise have had to spend on subsidising the 100 000 m^3 imported from Nigeria, i.e. FCFA 2.3 billion in 1999.

By postponing the abolition of the subsidy on the distribution price, and thus maintaining a significant price difference with its neighbours, the Nigerian government is ensuring bright days ahead for the illegal oil trade.

Fuel pricing policy in Nigeria

Prices in naira and CFA franc equivalent in current prices (1 naira = 100 kobos)

1978 A long period of balance-of-payments deficit begins. The price of petrol increases from 10 k to 20 k, i.e. from FCFA 19.7 to FCFA 39.4.

1986 The structural adjustment programme is implemented. Petrol prices rise from 20 k to 39 k, i.e. from FCFA 20 to FCFA 39.

1988 The naira depreciates rapidly. A policy of differentiated fuel prices is adopted.

Commercial vehicle: 40 k, i.e. FCFA 17.6
Private vehicle: 60 k, i.e. FCFA 26.4

1991 A standard price of 70 k, i.e. FCFA 16.8, for all vehicles is introduced.

1993 Prices are increased from 70 k to N3.25, i.e. FCFA 5.25 to FCFA 24.37.

1994 Revenue losses of around N70 billion, as a result of a strike by oil workers following the annulment of the 1993 presidential elections by the military. Fuel prices are raised initially from N3.25 to N15 (FCFA 112.5), then reduced to N11 (FCFA 82.5). On the parallel market, fuel sells for up to N100 (FCFA 750) per litre.

1998 Nigerian refineries experience breakdowns. Foreign currency reserves fall as a result of the drop in crude oil prices on world markets. The government raises prices from N11 to N25 (FCFA 77 to FCFA 175). Long queues at service stations as a result of shortages.

1999 Fuel shortages persist because of poorly-functioning refineries, against a background of falling world prices. Fuel prices are lowered from N25 to N20 (FCFA 165 to FCFA 132).

2000 Because of significant price increases on the world market, frequent breakdowns at the refineries, and pressure from donors, the government raises fuel prices from N20 to N30 (FCFA 187). However, under pressure from the unions, the government has to bring the price down again to N22 (FCFA 137.5).

❑ Fact file 3 — Nigerian trade policy: between guided deregulation and liberalisation

Long considered by some as an obstacle to official trade and by others as an opportunity or even a stimulus for informal trade (growth of re-export trade), Nigerian trade policy is a cocktail of free-market and protectionist measures. Despite the noteworthy changes that have occurred in the past six years, the regulation of Nigerian foreign trade still involves a fairly strong dose of protectionism: import bans for some products and high import duties on others.

A. The long road to liberalisation …

The road to the liberalisation of Nigerian foreign trade policy has been far from straight. Public authorities have often alternated between free-market and protectionist measures. The adoption of a structural adjustment programme in 1986 suggested that the market would be fully liberalised. However, only domestic trade and exports were liberalised, with the abolition, in 1986, of the marketing boards for major products (cocoa, palm oil and rubber) and the end of price controls. As an incentive to export, economic operators outside the oil sector were allowed to retain their foreign currency earnings from export sales.

Import controls policy has shown a less positive trend. While the abolition of the licenses system and the shortening of the list of prohibited imports, from 76 to 26, in 1986 reflected genuine progress towards deregulation of the market, some regulatory measures showed a continued attachment to market controls. In 1987, for example, the government tightened restrictions on imports of products that could harm the farm policy’s objective of self-sufficiency in food. Prohibited imports were extended from maize and rice–banned since October 1985—to include wheat, wheat flour, barley, malt and vegetable oils. Some manufactured products were also subjected to import bans or heavily taxed (200%-250% taxes on vehicles and 70% tax on cigarettes, for example, until 1990).

As a result of this semi-free-market policy, re-export trade from the neighbouring countries replaced transit trade. Cameroon, Niger and, even more so, Benin specialised in taking advantage of the opportunities offered by the Nigerian market. Rice—of which Benin re-exported over 325,000 tonnes in 1987—wheat flour, fabrics, second-hand clothes, cigarettes and second-hand tyres made up the bulk of this official contraband. This was the height of "transnational regionalism" (Bach 1993), i.e. when trading networks took maximum advantage of the disparities between economic policies.

B. …that began in 1992

Foreign trade deregulation began in 1992 when the ban on wheat imports was lifted. However, Nigeria only really embarked on a policy of deregulation with the Customs and Excise Decree of 1995, which provided for full liberalisation of the market by 2001. On the whole, this process has been laborious, as shown by the rice market example. Rice was removed from the list of prohibited imports and initially taxed at a rate of 150%, then 100% in mid-June 1995. The tax was lowered again from 65% to 35% at the beginning of 1996, before being stabilised at 50% in 1997. At the same time, the list of prohibited imports was shortened. From 26 in 1986 (excluding products considered as a threat to national security or food security), there are still more than 10 in the draft budget for 2000 (sorghum, millet, kaolin, gypsum, mosquito coils, second-hand tyres and retreads, furniture and furnishings except for a category referred to as "other furniture, code 9406 0000", and casino gaming accessories). A total of 16 products were removed from the prohibited list and are currently taxed at rates of between 20% and 100%. With the exception of sorghum and millet, which are traded between Niger and Nigeria, the other products still on the prohibited list do not jeopardise regional trade (excluding re-export flows from Benin).

C. Consolidation of liberalisation

The past two fiscal years have laid the foundations for genuine consolidation of the policy aimed at liberalising the Nigerian economy in general and the trade sector in particular. Tax and non-tariff measures clearly indicate that Nigeria wants to renew dialogue with major international institutions that promote free-market policy—IMF, World Bank, WTO—and to take into account the concern for regional harmonisation of customs policies within ECOWAS.

– Customs duties to encourage production

Focusing on some 165 products, the consolidation of customs duties (simplification by introducing flat rates for lines of products required by the same industry) is intended to enhance the country's productive sectors (excluding oil): cars, tyres, textiles, pharmaceuticals, agri-food, crops and livestock. Customs duties on raw materials and semi-finished goods required for these sectors' production have been sharply reduced, and import duties have been raised for a large number of competing end-products.

For example, taxes on raw materials required for crop and livestock farming fell from 15% to 5% and import duties rose from 50% to 75% on poultry and from 40% to 60% on temperate-zone fruit.

In the textile industry, customs duties on raw materials and finished goods have been lowered, to the great dismay of local manufacturers. Indeed, while customs duties on equipment have been reduced from 25% to 10% or even 5%, the protection rates on imported fabrics fell from 65% to 40% and even 30%, depending on the quality. For many manufacturers, these measures threaten the fragile recovery in the sector between 1998 and 1999 (the capacity utilisation rate in the textile industry rose from 32.4% to 34% over this period). According to Mr S.N. Venkatesan, chairman and CEO of Kaduna Textile Limited, a six-yard piece of fabric from a factory operating at full capacity costs between N420 and N450, compared with N350 to N380 for a similar piece of fabric from Asia at the port of Lagos.

In the chemicals and pharmaceuticals industry, a flat rate of 5% was applied to 25 products considered to be raw materials.

Added to these import duties are three further categories of tax: a "port development surcharge" that covers a hotchpotch of incidentals, the 0.5% community solidarity tax provided for under the ECOWAS Trade Liberalisation Scheme and a 5% flat rate of Value Added Tax (VAT).

Alongside these measures, export incentives under the Manufacturer in Bond Scheme were confirmed while the 10% tax for the Nigerian Export Promotion Council was abolished.

On the whole, Nigeria's new customs policy shares the same philosophy as that of WAEMU countries: low import duties on raw materials and relatively high import duties on finished goods that might compete with local production.

– Public health concerns

Customs policy is supported by excise duties on local products, which take on a particular colouring in Nigeria where religious pressures on the public authorities are considerable. Abolished in 1998 on all products, excise duties were reintroduced in 1999 on alcohol and cigarettes, which are taxed at a rate of 40% (factory price). In the 2000 budget, this rate was maintained for alcoholic beverages and extended to beer (to the considerable disappointment of brewers and consumers), but lowered to 20% for cosmetics and locally-made cigarettes. Customs duties on imported cigarettes were increased from 40% to 60%.

– **Highly volatile non-tariff measures**

Although non-tariff measures theoretically offer incentives for the development of economic activities, particularly trade, they are even more unstable and vague than customs duties, which, despite ups and downs, have tended to decline.

In the trade sector, the inspection of imported products is conducted by four companies: Bureau Véritas, SGS, Swede Control Intertek and Cotecna Inspection. To counter under-billing, widely practised by importers, in 1999 the government replaced inspection at origin by inspection at destination, as is currently the system in some other countries in the sub-region. However, under pressure from businessmen and customs officers, this decision was reversed on 1 January 2000.

The investment code is favourable to foreign investment. The Investments and Securities Act of 1999, which complements the Monitoring and Miscellaneous Provisions Act of 1995, regulates business activities.

- The acquisition of any type of business (whether listed on the stock exchange or not) is subject to the approval of the Securities and Exchange Commission (SEC), which monitors stock exchange transactions whenever equities are purchased in convertible currency.
- In principle, the registration of a company under Nigerian law takes one month at the most, but in practice, the duration of procedures can be extremely lengthy.
- A Temporary Importation Permit (TIP), valid for twelve months, is required for all importers.
- Payment to foreign companies of dividends or interest has been taxed at a rate of 10% since 1994. A rate of 15% was applied to royalties.
- Foreign investors are guaranteed unconditional transferability of funds, in freely convertible currency, stemming from:
    1. Dividends or profits (net of taxes).
    2. Payments in respect of foreign loan servicing attributable to the investment.
    3. Remittance of proceeds (net of taxes) and other obligations in the event of a sale or liquidation of the enterprise.
- A whole series of guarantees against expropriation is also set out in the investment code.

Table 3.1. **Nigerian customs regulations for selected consumer products, 1995-2000**

From prohibition to the application of customs duties

Product	1995	1996	1997	1998	1999	2000*
- Cooking oil	Prohibited	Prohibited	Prohibited	Prohibited	55%	65%
- Poultry	Prohibited	Prohibited	Prohibited	150%	55%	75%
- Beer	Prohibited	Prohibited	Prohibited	100%	100%	100%
- Wine	100%	100%	100%	100%	100%	100%
- Milk	10%	10%	10%	10%	10%	5%
- Cheese, butter	55%	55%	55%	55%	50%	50%
- Tinned tomatoes	45%	45%	45%	45%	45%	45%
- Second-hand clothes	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited
- Tyres	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited
- Wheat flour	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited	Prohibited
- Second-hand vehicles	Prohibited	Prohibited	Prohibited	Depending on engine size	Depending on engine size	Depending on engine size
- Fabric, garments	Prohibited	Prohibited	50%	65%	65%	30%
- Frozen fish	5%	5%	5%	5%	5%	5%
- Sugar	10%	10%	10%	10%	10%	10%
- Tobacco, cigarettes	90%	90%	90%	90%	40%	60%
- Matches				50%	60%	60%
- Maize	Prohibited	Prohibited	Prohibited	Prohibited	25%	70%
- Fertiliser				10%	5%	5%
- Rice	100%	65%	50%	50%	50%	50%

❑ Fact file 4 — Monetary policy and regional trade

In Nigeria, structural adjustment meant essentially currency adjustment. The country began its atypical structural adjustment programme in 1986, and most of the reforms focused on monetary issues. No other economic policy solution was possible in the situation of that time. The naira had lost over 50% of its value between 1980 and 1985 owing to Nigeria's chronic budget and balance-of-payments deficits, galloping inflation and an external debt that had swelled by more than 300% between 1979 and 1983. As long as reforms failed to halt the downward spiral of the naira, they only created malfunctions; and these malfunctions shaped border trade with neighbouring countries in particular ways.

A. Laborious currency adjustment

Nigeria's monetary policy has changed a number of times over the past twenty years, reflecting the country's general instability. This has weakened not only the naira but the country's entire economy.

– **1986-1993: towards liberalisation**

Monetary reform, regarded as the basis of structural adjustment and the main instrument for macro-economic stability, began in 1986. It has been through three major phases which reflect the search of a strategy that will solve the country's economic problems.

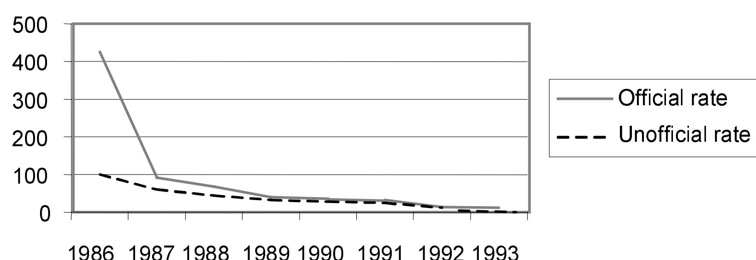
- In September 1986, the government performed a disguised devaluation of the naira by introducing the Second Tier Foreign Exchange Market (SFEM). The authorities thought the market would determine the naira exchange rate and so foster rational currency allocation and help deregulate the economy as a whole. But insufficient currency allocation ($75 million a week, less than a third of demand) led to the development of a parallel exchange market and thus to the depreciation of the naira. By 1987, the naira had lost 82.7% of its 1980 value against the CFA franc on the official market and 70.4% on the parallel market.

- In mid-1987, the Nigerian authorities switched to a system of fortnightly currency auctions, the Foreign Exchange Market (FEM), run by the Central Bank. Under the new system, commercial banks were allowed to buy and sell foreign currency from and to the public at whatever rates suited them (Autonomous Market). This reform was intended to favour an appreciation of the naira, but in fact had the opposite result. The gap between the official and parallel exchange rates widened progressively with the continuous depreciation of the naira.

- On 1 January 1989, after a 30% devaluation of the naira against the US dollar, the authorities merged the FEM and the Autonomous Market to reduce the gap between the two exchange rates. A new institution, the Inter-bank Foreign Exchange Market (IFEM), took over and organised daily auctions. Alongside this system, the government followed Ghana's lead and authorised private bureaux de change to operate; these were meant to combat the black market and operated in the same way.

None of these reforms improved the naira's rating. In late 1993, when the official rate was 22 naira to the dollar, the rate on the black market and in the bureaux de change was 42 naira to the dollar. Economically, these reforms did not help to revive domestic output, neither exports, except for oil. The biggest beneficiaries were banks and financial sector. The number of banks grew from 20 in 1986 to 109 in 1993.[8]

Figure 4.1. **Naira exchange rate, 1986-1993**



– **Tighter State control, 1994-1998**

When Chief Shonekan's government raised oil prices by 500% in mid-1993, it was predictable that the economy would be further deregulated. But on the pretext of counteracting the inflationist effects of this measure, the new government under General Abacha reversed the deregulation policy. It rejected any idea of devaluing the naira and established fixed parity of 22 naira to the dollar for official transactions and 45 naira to the dollar for currency sales on the AFEM. Interest rates, which then stood at 45-60%, were reduced to 21%. The country thus had two exchange rates for one currency. Exchange rate control was tightened by giving the Central Bank greater prerogatives; it became the only institution entitled to allocate foreign currency, under the supervision of a committee in which business and industrial circles were represented, and in accordance with government directives.[9] Private individuals could no longer buy more than $2,500 worth of foreign currency in the bureaux de change, which were now just outposts of the CBN; the CBN allowed them to buy foreign currency only at the rate it set, and for a commission ranging between 2% and 3%.

At the end of 1994, when the official exchange rate was stagnating at 22 naira to the dollar, it took 110 naira to buy one dollar on the black market. In 1995, the government issued treasury bonds through the Open Market Operation (OMO) to finance part of its domestic deficit. This way the Central Bank acquired another instrument besides the AFEM for regulating and managing the country's monetary and financial policy. Alongside this strategy, the CBN implicitly devalued the naira by raising the average currency allocation rate at the AFEM to 80 naira to the dollar—close to the parallel market rate, which was then 90-100 naira to the dollar. This situation, which lasted until the end of 1998, did not improve Nigeria's economic health.

8 . Oluyemi-Kusa Adebayo, 1994: *The structural adjustment program of Nigeria State*; A. Olukoshi *et al.: Structural Adjustment in West Africa* - NIIA, Lagos.

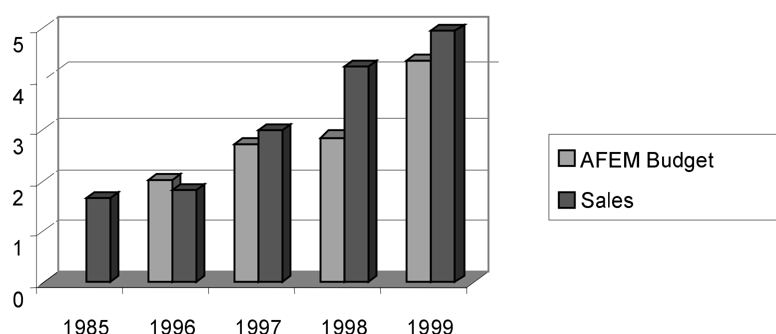
9 . In fact, the currency allocation system shifted from the prorata system previously in force to the "essential products" allocation method.

– **Foreign currency still hard to get**

Allocation of and access to foreign currency is the Achilles' heel of Nigeria's economic policy and economic operators. The dual exchange rate system has made the situation more complicated and encouraged fraud. Years of declining oil prices deprived the country of foreign currency, and it was the rationing of foreign currency that lay behind the monetary policy we have described. Only occasionally has the country been able to meet more than 35% of its economic operators' real need for hard currency (even though CBN sales always overran its budget forecast), so operators have turned to the parallel market to obtain supplies. In 1992 the AFEM allocated $3 billion; in 1993, $2.8 billion; and in 1994, $1.9 billion. This last figure only amounted to 27.1% of the $7 billion demand expressed by the market in 1993. The situation has improved since then, as oil prices have risen and currency allocations have become more frequent (monthly from 1995 to June 1996; weekly from then until 1998, and now daily). But the problem of access to hard currency continues to hamper Nigeria's economic development: until 1998, manufacturing firms were using less than 35% of their plant capacity, not only because they could not renew machinery but also because they could not cope with the ever-rising raw material prices.

Figure 4.2. **Currency allocations**

In US$ billions

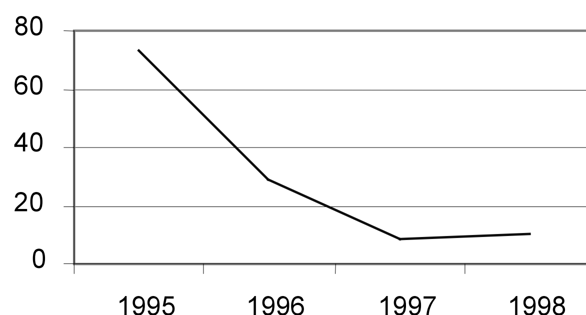


– **Inflation still high but below the 10% mark**

Inflation has jeopardised the relatively competitive position of Nigerian products, due to the naira's continued depreciation, over those from the rest of West Africa. The drop in the naira, which happened in a context of wage freeze until 1998 (the legal minimum monthly wage stood at N3,000 , or FCFA 18,900, compared to FCFA 21,500 in Benin and FCFA 40,000 in Côte d'Ivoire and Cameroon, and an assistant lecturer's salary at N7,000-10,000, or FCFA 44,100-63,000), combined with the effects of economies of scale made possible by the country's size, helped to considerably reduce production costs during that period. But as interest rates and imported raw material prices rose and economic operators adjusted accordingly, inflation reached almost 100% by late 1995. Then inflation slackened considerably until late 1998, when it reached between 8% (FOS) and 10% (World Bank)—rates which are nonetheless almost three times the average for WAEMU countries (2.5%).

Figure 4.3 **Inflation trends, 1995 - 1998**

In percentage



B. Deregulation of the foreign exchange market

Three main reforms made it possible to deregulate the Nigerian financial market by 1999: abolition of the dual exchange rate system, introduction of a daily market in place of the old weekly market, and deregulation of interest rates.

– **Abolition of the official exchange rate**

Nigeria was exceptional in having two exchange rates, the national accounting system using the one that was intended for use in official transactions. As this system was a considerable source of malpractice, the international financial institutions, led by the IMF, demanded its abolition. The short-lived government of General Abdulsalami Abubakar gave in to this demand when the 1999 budget was announced. Since then, public and private sectors alike have been using the weekly AFEM rate as the only legal naira exchange rate.

– **The shift from a weekly to a daily forex market**

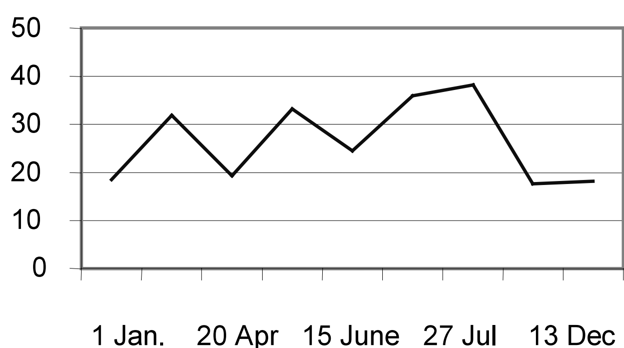
This change was carried out in October 1999. AFEM, the weekly foreign exchange market, imposed requirements that the commercial banks considered unorthodox. The Central Bank of Nigeria (CBN) required that commercial banks having access to AFEM set aside 300% of their dollar purchase in local currency, 100% as a purchase guarantee and 200% invested in treasury bonds. The reform first abolished this collateral and then introduced a daily forex market, the Inter-bank Foreign Exchange Market (IFEM). On this market, the CBN is no longer the country's sole money supplier; it is just one operator alongside 82 commercial banks buying and selling foreign currencies. This measure theoretically completes the deregulation of the financial market; economic operators can set their rates according to demand, though with a margin not exceeding one naira between buying and selling prices. However, the Central Bank is still the main institution allocating foreign currencies, as oil companies' sales of dollars remain marginal; this means that the CBN can keep the naira's movements under control.

– **Unstable interest rates**

Interest rate movements are still highly erratic. The first year of free-market monetary policy and deregulated currency allocation has not changed this. Through 1999, the Nigerian Inter-Bank Offer Rate (NIBOR) fluctuated between 18% and 38.2%. Strong pressure on the forex market was reflected in high demand for the naira; to meet this demand, the market often had only a small amount of liquidities available from the banking system. Unstable interest rates are a major source of worry for economic operators in general and manufacturers in particular. Manufacturers no longer manage to make systematic provision for their production costs. Interest rates are even higher considering that time deposits only earn 4-8%.

Figure 4.4. **Interest rate developments, 1999**

In percentage



❑ Fact file 5 — Trading networks and regional trade

Trading networks play a vital role in regional trade. They have shaped the pattern of cross-border trade, in which business activity is inversely proportional to the degree of harmonisation between countries' economic policies. These networks use their linguistic affinities and the ancient trade routes to devise strategies to bypass the rigidities introduced by economic policies and make the most of what Bach has called trans-State regionalism. The result is a certain number of trading arrangements through which nearly all regional trade passes.

A. Players and trading networks

Fact files 1 and 2 show that trade between Nigeria and its neighbours involves many different players, who can be split into three categories:

- **States**, with the limited role of signing co-operation agreements, which are then hardly implemented. For example, Nigeria has drawn up trade protocols with most countries in the region through joint co-operation commissions. But apart from the agreements with Niger, Chad and Ghana, and protocols for delivery of petroleum products, no other trade agreement has ever begun to be implemented. Nigeria has signed crude oil sales agreements with Ghana, Côte d'Ivoire and Senegal, and a refined oil sales agreement with Chad. Other products such as cement, which was at one time manufactured in a Nigerian-Benin joint venture factory, have disappeared from trade owing to depreciation of the naira.

- **The multinationals**, acting through their local branches. While retaining some degree of independence, they are among the emerging stakeholders seeking to gain control of the regional market. The most active are in the consumer goods business. One example is Nestlé, which is very active in Côte d'Ivoire, Ghana and Nigeria, and firms distributing cigarettes or stock cubes. The network established by the multinationals is the most efficient, given the constraints involved in settling transactions. It is these firms that use the payment mechanism recently set up by Eco-Bank.

- **Individual and small business operators** are by far the most numerous. There are three main categories:

  1. *The Nigerian networks*. Their strength lies in the size of Nigeria's population and its diaspora in West Africa: there are close to 8 million Nigerians living in other countries of the region. There are three main Nigerian networks:

     - *The Yoruba network*, firmly established in Nigeria, Benin, Togo and Ghana and also in Côte d'Ivoire, where there are 2,000,000 Nigerians, 70% of them Yoruba. As well as micro-business in the retail trade, in which they are still the main specialists, they operate in luxury goods such as fabrics and cosmetics. This is one of the best-structured networks; networks of acquaintances from different localities play a co-ordinating role and even regulate transactions. The Côte Ivoire-Nigeria chamber of commerce being set up presently is based on this structure.

     - *The Hausa-Kanuri group*, larger numerically, mainly operates in Nigeria, Niger, Chad and North Cameroon. Their connections with other West African

networks, especially Dioula networks, for cattle and cola trading, have developed enormously; they now involve informal financing methods for regional trade. The Hausa are in fact the linchpin of the parallel forex market which, as we shall see, is not only the primary form of co-ordination among all operators but also the primary source of finance for regional trade.

- *The Ibo network*, which spread out around the region in the late 1960s. Focusing mainly on international import-export, this network operates as a relay for used and counterfeit goods trade: second-hand clothing, vehicles, tyres, and spare parts for machines of all kinds.

2. Subsidiary networks. These are small groups acting as intermediaries between distributors in other countries and the large networks listed above. They include:

   - Traders from minority socio-cultural groups established along the border and specialising in collecting Nigerian goods. In Benin they are called "Fayawo" which means crawlers, or smugglers.

   - Malian and Senegalese Malinke living in Nigeria or the Benin border area and who specialise in collection, packaging and negotiating tolls for Ivorian, Burkinabè or Guinean operators, whom they often discourage from attempting direct access to the Nigerian market by playing on their fears of Nigeria's security problems. They are also a valuable intermediary supplying Nigerian products to the network of Indian and Pakistani shopkeepers.

However, these ethnically-based structures are not the only form of institutional support for trade. Operators also use co-ordination methods that transcend ethnic and religious divisions.

3. *Co-ordinating trade*: how the networks operate. It is the way the different networks are co-ordinated rather than their internal organisation that reveals their strategies for exploiting opportunities in the regional market and, more particularly, the Nigerian market. All these strategies are based on bypassing the restrictions imposed by economic, monetary and trade policies.

B. Second-tier co-ordination

Collecting goods and transferring them from one market to another involves a second level of co-ordination. Several networks run warehousing facilities in both production and distribution countries. The warehouses are located close to central markets and often managed by senior or otherwise influential traders. Each trader or intermediary collects products, packages them, registers them and entrusts them to the warehouse manager. The latter then handles transport, customs arrangements and commission paid to officers of the security forces, through a Nigerian forwarding agent. The package is then delivered to a warehouse in the receiving country. There are warehouses in all main towns along Nigeria's borders. In Ebutero market in Lagos, in June 2000, there were 15 warehouses for goods destined for other West African countries. This form of organisation makes cross-border trade somewhat less informal. Customs clearance being based on lump-sum payment with a customs receipt, the only aspect that makes trade (petroleum products apart) informal (or quite simply illicit), is the practice of declaring only part of the goods crossing the border. This is also a way of minimising transaction costs (transport, customs clearance, and "right of way purchased from the security forces" being negotiated in bulk by the intermediaries). It also allows information to circulate more easily. And it seems to be an efficient instrument for negotiation

with all the region's trade partners. But it remains an informal institution, weakly structured, with no clearly acknowledged leadership, and functioning case by case.

C. The parallel forex market as a *de facto* institution co-ordinating the networks

One form of co-ordination no operator in the informal sector can escape is the parallel foreign exchange market. It operates in every country in West Africa. It acts as a remedy for problems created by economic difficulties and disparities between monetary policies: official financial structures do not allocate enough currency to meet demand, and it is difficult to change money except through the central banks. The parallel forex market is not new to the region. Governments have tried to eradicate it by setting up bureaux de change and changing currency allocation frequency from monthly to weekly and then daily, but the parallel forex market has continued to thrive and has become an unavoidable financial structure. It has two main organisational features:

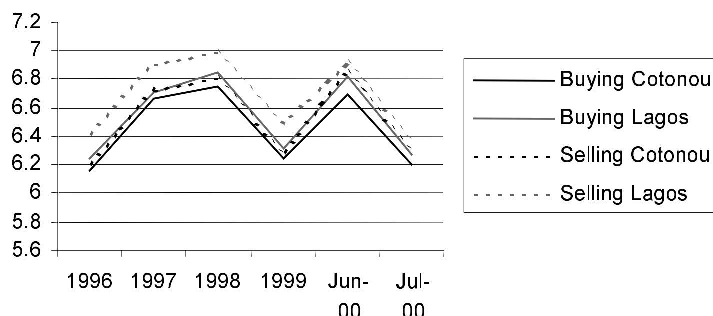
- It functions as a network, with Kano and Lagos as its main centres of gravity; half of the money changers operating in the parallel forex market for trade between Nigeria and its neighbours are based in either Kano or Lagos. Co-ordination is a pyramid culminating in the major markets: a few major operators, and their servants.

- The markets are highly specialised. In Lagos, for example, the centres at the airport, which are bureaux de change and parallel market combined, and those in the city centre (CMS), deal mainly with US dollars and Sterling. The dollar accounts for 60% of transactions and is the benchmark for setting rates for other currencies. At Ebutero, where the regional import-export warehouses lie, the parallel market deals mainly with CFA francs (BCEAO and BEAC) and naira. The same applies to the markets in border areas and some towns in neighbouring countries.

The parallel market is an extremely flexible and effective institution for allocating currencies, despite the speculation that is organised from time to time on strong currencies such as the US dollar and Sterling. Generally speaking, the naira has lost ground against the dollar, but has stayed fairly steady against the CFA franc despite fluctuations. Since 1995 it has gone through four phases:

- Between October 1995 and February 1996, the naira hit its lowest point against the CFA franc, dropping below FCFA 6 to the naira, i.e. between 5.97 and 5.89 (buying price).
- In March 1996 the naira began to climb back to its pre-October 1995 rate and wavered between FCFA 6.17 and 6.7.
- Between December 1997 and April 1998, the exchange rate rose above FCFA 7 to the naira.
- From May 1998 to December 1999, parity fluctuated around FCFA 6.

Figure 5.1 **Naira/BCEAO FCFA parity**



These factors apart, the parallel exchange market facilitates regional trade. Between Benin and Nigeria, an estimated annual N15 billion (equivalent to FCFA 100 bn) circulates, representing the financing's compensation of the re-export trade. Operators use the parallel market not only to overcome financial constraints but also because it guarantees discretion, even though money changers' margins, especially in Lagos and Kano markets, are wider than those laid down by the Central Bank of Nigeria. The parallel exchange market and its use by trading networks as a way of exploiting differences in economic policy between countries are quite certainly one factor that destructures national economies: they make it difficult to monitor the money supply actually in circulation, and hence the local currency's real exchange rate, illicit trade in goods of all kinds, or the bypassing of official policy.

All in all, various interpretations have been made of how the trading networks' activities affect regional trade. But changes now under way at country level (with economic reform and greater institutional democracy), regional level (where macro-economic and foreign trade policies are being harmonised) and among operators (networks being formed operate in a more transparent way), promise a more constructive role for the trading networks.

❑ Fact file 6 — Obstacles to trade between Nigeria and its neighbours

Given Nigeria's industrial and manufacturing potential, the level of trade between Nigeria and its neighbours is far below its potential. Less than 5% of Nigeria's official foreign trade is with other countries of West Africa. Although observers agree that with informal trade the volume is actually much bigger, there are many obstacles facing West African operators seeking access to the Nigerian market. Operators point to a number of them to explain why they have so little business in Nigeria. Some of the most often cited concern law and order. Nigeria's big cities are famous for their high crime rate, and as a result many traders prefer to operate from neighbouring countries like Benin. But there are two even more important issues: lack of transparency in business operations, and the problem of payment for transactions.

A. Poor transparency of operations

Many operators are bewildered by the lack of transparency in transactions, from the formalities involved in setting up an enterprise to the actual running of a business. It is difficult to get a clear idea of the standards laid down by the welter of regulations in force, so great is the discrepancy between statutory provisions and day-to-day practice. In the port of Lagos and at all the border posts, forwarding costs can vary by 100% for the same product depending on how close a relationship the operator has with customs officials, forwarding agents and security forces. The same applies to warehousing in the major towns. Officials apply the rules and regulations as they think fit, including the level of taxation on the various operations. Operators have to deal with structures set up to collect informal taxes; some are completely illicit structures set up by criminals. All government measures to halt such practices have failed. The most spectacular measure was to switch from inspecting imported goods at their point of entry to inspecting at destination, to combat under-billing. This was a good policy for the Nigerian economy, but lobbying by customs officers and traders forced the government to retract it. Often, highway checkpoints have been dismantled only to spring up again when a fresh team of security forces arrives in the area. As a result, the market operates like a mafia, which only initiates can join, and only if they pay commission at each stage of the system. The extent of corruption and the many different forms it takes add considerably to business costs.

B. Transaction costs

Transaction costs include two main components: financial costs involved in the various methods of paying for goods, and goods transfer costs (for collection, packaging and transport, including unofficial commission paid to security forces and for customs clearance).

Payment costs

There are two ways to pay for goods moving between Nigeria and its neighbours: transfer between commercial banks, and cash payment financed through the parallel market.

– ***Payment through commercial banks***

This is the method used for official private and public transactions. It is the more arduous of the two for private operators because of the time it takes. Recently there has been a marked improvement, as Eco-Bank has been increasingly involved in transaction payment. Although its services are available only to its members, Eco-Bank has become a new instrument for facilitating trade. The bank now operates as a network, so that funds can be transferred directly from bank to bank between convertible-currency countries (WAEMU members) and non-convertible currency countries (mainly English-speaking

countries, Nigeria and Ghana especially). Between Ghana and other countries, transfers are already at the operational stage. But between Nigeria and other countries, the operation is still considered as experimental, the Merchant Bank still acting as intermediary. This shows how nervous Nigeria's partners are, even for banks whose parent companies are based there. Nonetheless, this is a clear step forward in the search for a solution to transaction payments between Nigeria and its neighbours. Other methods tried out until now are hampered either by the operators' reluctance or by the laborious processes they involve.

One example is the ECOWAS travellers' cheques. Although they have officially been in circulation for nearly a year, operators have still not taken to them. Travellers' cheques issued by Nigerian banks find no takers in other countries. There are two reasons for this: apart from the operators' nervousness in any dealings involving Nigeria, habits are conservative and fiduciary currency is as yet little used in West Africa, or indeed Africa as a whole.

Settlements by bank transfer have to take long detours. Letters of credit issued by the purchaser's bank have to be certified by the parent bank in Europe or America before they are transmitted to the supplier's bank in Nigeria. According to executives at Nestlé Côte d'Ivoire, this process can take months, even between affiliate banks of the same firm.

All operations going through this circuit are made out in US dollars, whatever the origin or destination of the goods. Many operators, especially small ones, find this circuit too costly, both financially to pay for the formalities, and in terms of the time taken to complete an operation. Worse, the procedure has never matched up to operators' expectations, even in the days when the West African Clearing House was functioning.

– ***Cash payment***

Cash payments go through the parallel market. While commercial banks provide greater security, the parallel market provides flexibility and easy access to hard currencies. This form of financing is illicit in all trade between Nigeria and its neighbours, so it is impossible to assess the scale of its use. Between Côte d'Ivoire and Ghana, on the other hand, there are institutional arrangements for monitoring financial flows generated by this form of payment. Any operator holding a non-resident account and an exporter's permit can purchase goods for cash from enterprises in Côte d'Ivoire. According to executives of the Côte d'Ivoire Finance Ministry's Department of Foreign Finance, this type of payment accounts for over 46% of financial flows generated by trade with Ghana. This partly explains why Ghana's bureaux de change function so well. But many operators use the parallel market to finance their transactions simply because it is cheaper than the official circuit. Operators in the Franc Zone must go through three currencies, the CFA franc, the dollar and the naira; and there is commission to be paid to the bureau de change.

<table>
<tr><td colspan="2">For an initial capital of FCFA 1 million, purchasing power in naira for an operator wishing to buy goods in Nigeria varies as follows, depending on whether they use the official market or parallel channels (taking the exchange rate at end July 2000: N1 = FCFA 6.25 on the parallel market and $1 = FCFA 690 and N102):</td></tr>
<tr><td>Parallel market</td><td>Official channel via banks, not counting banks' commissions</td></tr>
<tr><td>N1 x 1 000 000 / 6.25 = <u>N160 000</u></td><td>$1 x 1 000 000 / 690 = $1449
N102 x 1449 = <u>N148 000</u></td></tr>
<tr><td colspan="2">Difference: N160 000 - N148 000 = <u>N12 000</u>, or FCFA 75,000 — 7.5% of the initial capital.</td></tr>
</table>

The parallel market, by cutting out the dollar, saves the operator about 7.5% of their working capital compared to the official channels. For many traders this saving is one good reason for using the parallel market to mobilise the funds they need for their transactions. The fact that one cannot directly convert CFA francs to naira through official channels penalises operators and is a major financial obstacle to developing official trade between Nigeria and its neighbours.

Costs of transferring goods between Nigeria and its neighbours

Operators' strategies pose methodological problems in breaking down transfer costs for goods moving between Nigeria and its neighbours. The customs receipts (*acquits*) system, which incorporates all services provided by the forwarding agent, makes it hard to separate out the different costs. In addition, taxes are applied in a discriminatory way, depending not only on the operator but also the destination. Among other items are the following:

1. Installation duty levied by Lagos State Government. This is an annual tax of N100,000 paid by the warehouse manager.

2. Road tax levied by the local authorities in the area where the business is based. The amount depends on the operator's negotiating capability, and ranges between N2,000 a year for a warehouse proprietor in Benin to N140 per lorry elsewhere, e.g. Côte d'Ivoire.

3. Levies for warehouse space at Ebutero, paid to the association that manages the facilities. These cost between N2 000 and N4 200 per warehouse manager.

4. Road transport costs on some routes include not only transport costs proper but also customs clearance and commission to the security forces. They differ from expenses on other routes in several respects:

   - Some components, such as tolls, vary according to the operator's nationality. It costs a Beninois or Nigerian with travel documents an average of only N80 to cross the border, whereas operators from other countries in the region pay between N200 and N500 at the border, to officers of the immigration and health authorities and the drugs and finance squads.

   - Other components cost less than the official rate. One example is customs clearance. In Benin, there is a lump sum customs duty of FCFA 2,000,000 per lorry with an estimated value of FCFA 40 millions to 60 millions; but the customs service actually applies only an indirect duty at a rate that fluctuates between 3.3% and 5%, instead of the official 31% for various "goods" coming in from Nigeria.

   - Transit costs, which in some cases include transport from Lagos to the final destination of the goods.

All in all, the cost of transferring goods between Nigeria and its neighbours is still low, far below those practised on other routes. For trade with Benin, they represent only about 4% of the FCFA price of the load; for other countries trading with Nigeria the percentage is about the same. It is fair to say that transfer costs are not a major obstacle to trade between Nigeria and its neighbours. Observers attribute the relatively competitive prices of Nigerian goods on West Africa's markets to low transaction costs in general, and low transfer costs in particular.

Table 6.1. **Breakdown of transaction costs between Lagos and borders of neighbouring countries, for a 15-tonne lorry**

	Duty payable to warehouse managers		Road tax	Transport commissions	Customs duty	Transit costs by country				
	Installation duties (per year)	Warehouse charge/ travel				Nigeria	Benin	Togo	Ghana	Burkina
Benin	N 100 000	N 4 200	N 2000	F 60 000- 80 000	F 2 000 000	N 65 000	-	-	-	-
Togo	N 100 000	N 3 200	N 2000/ trip	-	-	N 125 750	F 500 000	-	-	-
Côte d'Ivoire	N 100 000	N 2 000	N 140/d/ lorry	-	-	F 3 500 000 including vehicle hire				
Burkina	N 100 000	N 2 000	N 140/d/ lorry	-	-	N 125 750	F 700 000	-	-	-
Mali	N 100 000	N 2 000	N 140/d/ lorry	-	-	N 125 750	F 700 000			F 900 000

Source: Field surveys.

❑ <u>Fact file 7</u> — What are the trade prospects between Nigeria and its neighbours?

In pre-colonial days, caravans left Kano (nowaday Nigeria) for Salaga (Ghana) as part of a complementary trade between Sahelian and forest regions of West Africa. However, these trade flows have radically altered to become opportunistic trade, for which there have been three main phases in the last thirty years.

1. In the early 1970s, transit trade developed from the country's neighbours, especially Niger and Benin. The disorganisation of domestic distribution network due to the Nigerian civil war (1967-1970) had caused these neighbours to become highly involved in supplying the country, smuggling Nigerian cocoa out and goods from world markets in.

2. The economic crisis in the late 1980s urged Nigerian authorities to adopt a restrictive trade policy and resulted in the replacement of transit trade by re-exporting one (a type of unacknowledged official smuggling).

3. More recently, the revival of Nigerian farm production (grain and tuber output has doubled in ten years) has limited and then reversed the trade flows. Although the re-export of selected manufactured goods continues, there is an increasing asymmetry in farm trade. In a reversal of the situation in the 1970s and 1980s, Nigeria has become the main supplier of foodstuffs, particularly grains, for its neighbours. Trade with Nigeria is thus heavily dependent not only on the macro-economic environment, but also on the economic cycle within Nigeria. The 1994 devaluation of the CFA franc was expected to make the Franc zone economies more competitive with respect to Nigeria. But Nigeria's currency adjustments and the depreciation of the naira negated these gains. It is against that background that two major reforms are underway in Nigeria and the sub-region generally, especially the Franc Zone.

In Nigeria these reforms involve restructuring economic sectors and privatising major state enterprises. Lowering customs duties begins to produce positive effects on the Nigerian economy (the Lagos Stock Exchange is up 21% in 1999, while the WAEMU bourse is down). Analysts expect that these reforms will improve the competitiveness of Nigerian products. They are supposed to help raise the capacity utilisation rate, enabling Nigerian products to profit from economies of scale and thus improve competitiveness.

In other countries, apart from structural reforms (underway for 20 years in some cases), it is the major developments in regional integration that are likely to cause radical changes in regional trade. The introduction of WAEMU's Common External Tariff will affect trade between Nigeria and Benin, as well as Nigeria and Niger.

A. Structure of the Common External Tariff

Officially applied as from 1 January 2000, the Common External Tariff (CET) of the West African Economic and Monetary Union (eight countries) is one of the major reforms carried out by WAEMU States as part of their convergence strategy in macro-economic policy. The CET comprises permanent and temporary taxes. The permanent taxes are:

- **Customs duties**, split into 4 categories as follows:

Table 7.1. **Categories of WAEMU customs duties**

	Category 0	Category 1	Category 2	Category 3
Rate	0%	5%	10%	20%
Goods concerned	Essential welfare goods: pharmaceuticals, condoms, books, newspapers, physical rehabilitation equipment	Basic goods: basic raw materials, capital goods, specific inputs	Other inputs and intermediate products	Consumer goods and all goods not included in the other categories

- **Statistical levy** (R.S.) of 1% applicable to all goods, including those exempt from duty.
- **Community Solidarity Tax** (PCS) of 0.5%, used to compensate for the loss of customs duties, and to pay into a reserve fund for covering any deficit in compensating for duty losses, and for structural funds and the financing of the operation of the WAEMU.

Temporary taxes are:

- **Tapered Protection Tax** (TDP). This may be charged at between 10% and 20%, and is designed to be an extra mechanism of protection to provide temporary (4 years) compensation for the major tariff reduction involved in the CET. It is applicable to industrial and agri-industrial products in specified branches of activity.
- **Peak Import Tax** (TCI). Applicable at a fixed rate of 10% to agricultural products, it is intended to dampen the effect of variations in world prices on WAEMU production.

Although for most WAEMU States, this reform entails a lowering of tariffs, for Benin harmonisation means raising them. The rise is not directly visible in higher nominal rates, but rather by the recategorisation of certain goods. As Bodin *et al* (1998) note in their report[10], 45% of the goods in CET Category 3, subject to 20% duty, were previously subject to duties of between 0 and 5%. The breakdown of imports in 1998 (mainly consumer goods to be re-exported to Nigeria) illustrates the difficulties facing Benin.

Table 7.2. **Breakdown of imports (1998), before and after introduction of the CET**

Value expressed in FCFA millions

CET	Category 0 (0%)		Category 1 (5%)		Category 2 (10%)		Category 3 (20%)		Total
Current tariff	Value	%	Value	%	Value	%	Value	%	
0%	14 613.28	94%	8 458.63	9%	26 097.91	32%	34 774.39	19%	83 944.21
5%	697.4	4%	76 594.15	77%	29 394.74	36%	33 743.23	19%	140 429.52
10%	102.57	1%	10 193.40	10%	14 235.80	17%	55 181.45	31%	79 713.22
15%	27.27	0%	1322.45	1%	10 628.14	13%	35 939.96	20%	47 917.82
20%	80.02	1%	3044.37	3%	2 064.28	2%	20 051.03	11%	25 239.70
Total	15 520.54	100%	99 613.00	100%	82 420.87	100%	179 690.06	100%	377 244.47
%	4%		26%		22%		48%		

Source: Vincent Joguet. *Incidence de la mise en place du tarif extérieur commun de l'UEMOA sur le commerce bénino-nigérian.* SCAC, Cotonou, 67 p. sans annexes, 1999.; LARES, from DGDDI data.

10 . Bodin JP., Benon O., Geougeon AM. *Réhabiliter l'administration fiscale et préparer l'introduction du TEC.* FMI, septembre 98, 65 pages.

B. Impact of the CET on trade between Niger, Benin and Nigeria

Trade between Nigeria and these two Franc zone neighbours is quite specific and involves strategic issues for both of them. Just as re-exporting underpins the organisation and operation of the Benin economy, so the grain trade is seen as an important food security valve for Niger. By altering the taxation applied to the goods traded between the two countries, the CET may destroy the future prospects for these two phenomena.

C. The re-export trade in Benin

The goods Benin re-exports to Nigeria are consumer goods in the highest taxed Category 3 (20% duty). The introduction of the CET raises taxation on these goods. The variation in duty and the theoretical effect are respectively 81% and 40%. The key products—cotton and synthetic textiles, second-hand clothes, rice and second-hand vehicles, over 70% of the re-export trade by value—are more highly taxed overall by 33%, 43%, 67% and 44% respectively.

Table 7.3. **Variations in tax rates on re-exported goods**

	Effective duty	Theoretical duty (1)	CET duty (2)	Increase (2:1)	Effective tax burden	Theoretical tax burden (3)	Tax burden with CET (4)	Increase (4:3)
Alcoholic beverages	11%	11%	21%	91%	33%	34%	49%	44%
Wheat	1%	1%	6%	500%	18%	22%	31%	41%
Cigarettes and cigars	10%	11%	14%	25%	20%	34%	40%	19%
Wheat flour	16%	16%	21%	31%	40%	40%	49%	23%
Second-hand clothes	11%	11%	21%	87%	34%	34%	49%	43%
Cooking oil	9%	14%	20%	45%	30%	38%	48%	28%
Dairy products	6%	6%	10%	54%	8%	10%	16%	65%
Tyres	15%	15%	16%	3%	38%	38%	42%	10%
Rice	1%	1%	11%	1000%	18%	22%	37%	68%
Sugar	2%	1%	21%	1359%	21%	23%	49%	115%
Cotton fabrics	1%	6%	11%	83%	22%	28%	37%	32%
Sheet steel	11%	11%	21%	91%	32%	34%	49%	44%
Tinned tomatoes	6%	6%	21%	227%	28%	28%	49%	71%
Synthetic fabrics	8%	11%	17%	63%	29%	33%	44%	33%
Meat	11%	11%	21%	87%	34%	34%	49%	43%
Vehicles	15%	15%	17%	14%	35%	38%	44%	14%
Fish	1%	1%	11%	1000%	23%	22%	37%	68%
All key products	9%	10%	17%	81%	29%	31%	43%	40%

Source: Customs, authors' calculations.

This increase in customs duty makes many re-exported goods even less competitive on the Nigerian market because Nigeria has in recent years lowered its own tariffs. Only goods subject to import bans (second-hand clothes, second-hand tyres) or severe taxes (wax fabrics, liqueurs) are still worth trading, since their sales price in Lagos is still cheaper than the price of imported directly through the port of Lagos.

Table 7.4. **Simplified breakdown of comparative import costs for selected products**

Product: rice (per tonne)			
Costs	Current	With CET	Lagos
Price c.i.f.	162 400	162 400	162 400
Customs duties, VAT, other taxes	43 420	60 088	124 072
Importer’s margin	48 180	51 172	
Selling price	254 000	273 660	345 600
Transit Cotonou-Lagos	35 460	35 460	-
Cost price Lagos	289 460	306 128	286 472

Product: Dutch wax-dyed tabric, two colours (per bolt)			
Costs	Current	With CET	Lagos
Price c.i.f.	37 184	37 184	37 184
Customs duties, VAT, other taxes	9 453	18 220	28 379
Importer’s margin	2 363	2 826	
Selling price	49 000	58 230	
Transit Cotonou-Lagos	970	970	
Cost price Lagos	49 970	59 200	65 563

Product: sugar (per tonne)			
Costs	Current	With CET	Lagos
Price c.i.f.	165 000	165 000	165 000
Customs duties, VAT, other taxes	43 134	80 850	114 106
Importer’s margin	11 857	14 016	
Selling price	220 000	259 866	
Transit Cotonou-Lagos	35 440	35 440	-
Cost price Lagos	255 440	295 306	279 106

Product: Wine in 1-litre(1kg) cartons (per tonne)			
Costs	Current	With CET	Lagos
Price c.i.f.	903 167	903 167	903 167
Customs duties, VAT, other taxes	409 414	442 552	957 122
Importer’s margin	127 936	228 772	
Selling price	1 538 500	1 574 491	
Transit Cotonou-Lagos	39 167	39 167	
Cost price Lagos	1 577 667	1 613 658	1 860 288

Sources: DGDDI, FOS, surveys, LARES calculations.

1. Because of the enormous and unexplained differences in data on c.i.f. prices from various sources in Nigeria (FOS, Port, Customs, etc.), and because we have not been able to obtain data from BIVAC International Lagos, we adopt the restrictive hypothesis that the c.i.f. price is the same in the ports of Cotonou and Lagos, due to their proximity and to international markets’ competitiveness.

2. Duties and taxes are added, including customs duties, VAT, surtaxes, sums paid to transit officials to remove goods from the port of Lagos and other taxes.

3. Except for c.i.f. prices, data on margins and sales prices for these goods are estimates. Since customs charges are known, we have calculated the average proportion of port and transit charges with respect to them. Similarly, we have determined the value of port, transit and customs charges to arrive at total charges. The sales price has been calculated by assuming that the average ratio of margin to cost price is the same as for other goods.

The port of Cotonou is more competitive than ports in Nigeria for imports of textiles and alcoholic beverages because of the high level of duty on them (65% and 90%), to which must be added an average of FCFA 72,727 expenses paid to transit officials per tonne of alcoholic beverages and FCFA 51,200 per tonne of imported textiles.

King vegetable oil has good prospects for re-exporting, including a price differential up to 19%.

The same is true for Dutch wax-dyed cloth, which is also competitive, with a cost price 19.7% lower. Prospects for re-exporting synthetic textiles are less good.

Some goods, such as second-hand clothes and used tyres, will also stop being re-exported to Nigeria once the import ban is lifted, because import prices via the port of Lagos are very competitive: the differential with Benin is up to 16%.

Table 7.5. **Simplified breakdown of comparative import costs for selected products**

Product: second-hand clothes (per tonne); Prohibited			
Costs	Current	with CET	Lagos
Price c.i.f.	600 018	600 018	600 018
Customs duties, VAT, other taxes	267 986	294 009	328 991
Importer's margin	59 436	62 582	
Selling price	927 440	956 609	
Transit Cotonou-Lagos	105 327	105 327	
Cost price Lagos	1 032 767	1 061 936	917 009

Product: tyres (per tonne); average 154 tyres of 6.5 kg			
Costs	Current	with CET	Lagos
Price c.i.f.	571 429	571 429	571 429
Customs duties, VAT, other taxes	162 659	280 000	401 628
Importer's margin	218 293	255 429	
Selling price	952 381	1 106 858	
Transit Cotonou-Lagos	85 518	85 518	-
Cost price Lagos	1 037 899	1 192 376	973 057

In all, these figures demonstrate that re-export opportunities will continue to shrink as Nigeria's trade policy is liberalised. Benin will therefore have to redefine its whole economic policy and re-examine its room for manoeuvre, since it is torn between its relations with other countries in the Franc zone, as part of the construction of WAEMU, and the actual operation of its economy, which lives off the Nigerian market. A revitalisation of ECOWAS or the effective functioning of the Gulf of Benin free trade area (Nigeria, Benin, Togo and Ghana) might be an honourable way out.

D. Trade with Niger

If the CET is strictly applied, Niger's food security could suffer, given the part played by imports of Nigerian grains. As stated above, Niger imports between 100 000 and 200 000 tonnes of grains a year from Nigeria. These imports are variously estimated to cover the annual food requirements of between 450 000 and 500 000 people, some 5% to 9% of Niger's population. Before the CET was introduced, Niger's total tax levy on grains from Nigeria was only 5% of the c.i.f. price. With the CET, entry taxes rise to 20.5%, which is bound to push food prices up. The only hope for food security in Niger is to continue with traditional smuggling from Nigeria, or increase imports from Franc zone countries.

E. Future trade with other countries

Prospects for trade here are closely linked to differences in competitiveness between the sub-region's economies. We have no recent data on the relative competitiveness of Nigeria and the other countries that may compete with it, such as Côte d'Ivoire, Ghana, Cameroon and Senegal. Although low salary levels in Nigeria (until June 2000)[11] and low prices for intermediate goods such as electricity gave Nigerian goods a degree of price competitiveness in regional markets, in quality terms Nigerian output has some way to go. However, current reforms have already begun to revive the productive machine (industrial capacity utilisation rose from 32% to 34% between 1998 and 1999) and should improve the competitiveness of Nigerian goods. Nevertheless, if Nigeria is to play its true role as economic leader, it will need to improve its image in two areas:

- Security, which means raising the standard of living of 120 million Nigerians.
- Governance, which means reducing corruption, the profit-taking of intermediaries, which may increase transaction costs by 45%.

This brief overview of prospects for trade between Nigeria and its neighbours prompts a number of observations about the viability of the process of regional economic integration in West Africa (here including Cameroon and Chad).

11. The minimum wage has been N3 500 since 1975. As a result of the naira depreciation, its value in CFA francs has fallen from 175 000 to 22 750 between 1975 and 2000.

First, there is a major potential for trade that is underused by the States and citizens of the sub-region. The current level of trade (formal and informal) is well below West Africa’s real potential, despite the determining role increasingly played by the three "engines" that are Nigeria, Côte d'Ivoire and Ghana. It could not be otherwise, given the economic position of each of these States. Nigeria, seen as the main industrial pole (50%-60% of regional industrial potential), is not managing to use more than 30%-35% of its industrial capacity. Similarly, prejudice and payment difficulties are still major barriers to trade, which grassroots actors avoid by informal and opportunistic trade.

This huge development of informal trade and the structure it imposes on the region require a different analysis of the regional integration process. Informal trade highlights the gap between actors' real needs and the needs of public authorities caught up in an international environment that is ever harder to manage. One may question the relevance of the integration processes currently underway (WAEMU, ECOWAS) as frameworks and operating areas for many States in the sub-region. Our close analysis of the Nigerian economy's tight grip on Benin and Niger in West Africa, and Cameroon in Central Africa (for whom Nigeria is the leading trade partner), shows that the actual operating area of these countries is not so much ECOWAS, which is too big, or WAEMU or CEMAC, which are yet to be fully functional, but rather a neighbourhood centred on Nigeria. This reality implies that actors at every level should envisage regional integration in terms of variable geometry, not according to the current approach, which has led to a "Franc zone versus the Rest" division, but rather on the basis of the actual functioning of national economies. The functioning of States involves dynamic regional sub-markets that can be frameworks for experimenting with integration processes. The framework centred on Nigeria, which we have been analysing, is one that could be used as a model for the sub-region.