

Nigeria and World Agricultural Trade: Effects of SAP

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Abstract

In discussing the major strands of policy under Nigeria's Structural Adjustment Programme (SAP), the present paper highlights the various policy measures embarked upon by government to promote agricultural export. On this front, the paper appraises the gains of SAP while drawing attention to associated 'pains'. It is concluded that if the adverse side effects of SAP could be contained, the programme represents a desirable policy option.

Introduction

An important problem of Nigerian agriculture concerns the marketing of its produce. The main issues of concern centre on how to ensure remunerative prices to agricultural producers, to promote internal movement of agricultural surpluses for economic development and to plan and promote programmes for the export of agricultural produce where applicable and desirable.

With the oil boom of the 1970s, which brought massive oil revenue, the country was transformed from one dependent on agricultural export to one dependent on petroleum oil export. However, with the collapse of world oil prices in mid-1981, an economic crisis emerged in Nigeria (Odozi, 1988). Crude oil export prices which rose rapidly from US\$20.94 per barrel in 1979 fell to US\$29 in 1983 and further down to US\$ 14.85 in 1986. Similarly, crude oil exports fell from a daily average peak of 2.2 million barrels per day (mbd) in 1979 to 1.23 and 1.0 (mbd) in 1981 and 1982 respectively. Consequently, foreign exchange receipts which rose from US\$15.7 billion in 1979 to a peak of US\$ 24.9 billion in 1980 fell to US\$ 12.8 billion and \$10.1 billion in 1982 and 1983 respectively and collapsed to only \$5.2 billion in 1986. Among other ill-effects, non-oil exports stagnated and the country witnessed increased reliance on imported items (including food).

The emergent economic crisis led to the imposition of stringent and comprehensive trade and exchange controls under the Economic Stabilisation Measures of 1982 and intensification of those control measures in 1984. The pursuit of such unduly restrictive policies and measures could not however deal with the intractable problems of the economy.

By October, 1985, the government had found it necessary to declare a state of National Economic Emergency (NEE) and in the 1986 budget, economic policies contained in the Structural Adjustment Programme (SAP) were adopted as a programme to induce a recovery for the Nigerian economy over the medium term (Ahmed, 1987).

Under SAP, the major agricultural objectives are the improvement of domestic food production, reduction and elimination of external dependence on food supply, an increasing local sourcing of raw materials and the production of exportable cash crops. The present

paper is concerned with the last of these objectives, namely the production and exportation of cash crops.

The aim of the study is to investigate the relevance of SAP to Nigeria's position in world agricultural trade. To do this, the paper first examines important changes in world output, prices and trade while appraising Nigeria's international trade (imports and exports) position over the 7-year period 1983-89. The paper then discusses relevant policy measures that have been taken, since SAP, to lead the country from an unviable, import-dependent economy into an export-oriented, self-supporting economy. Suggestions for making greater improvements are offered in the concluding parts of the paper.

Changes in World Agricultural Trade

Nigeria's performance in the international market needs to be seen in the light of world economy before and after 1986. In 1985, for example, the world economy was characterised by a slow-down in growth, decline in primary commodity prices, rising level of protectionism in industrial countries, instability in the foreign exchange markets and financing difficulties of indebted countries.

By 1986, the developing countries continued to experience adverse terms of trade, high cost of debt servicing due to rising interest rates and protectionist measures of the developed countries against the exports of the developing countries. Although total trade of the non-oil developing countries increased, that of the oil-exporting countries dropped.

As seen in Table 1, the total trade of the non-oil exporting developing countries has been growing over the years. For the first half of the year (January - June) it grew from US\$ 260.3 billion in 1983 to US\$ 361.0 billion in 1985; the corresponding half-year figures for 1986, 1987 and 1988 were US\$ 396.8 billion, US\$ 520.4 billion and US\$ 578.6 billion respectively. Such increases came as a result of the upward movement in prices and demand for non-oil export products in the world market due largely to the improved export performance of the newly industrialised countries of East Asia and to the economic recovery in developed countries.

In the oil-exporting developing countries on the other hand, the economic situation declined considerably as crude oil prices fell leading to drastic short-fall in petroleum export earnings. Thus, the oil exporting countries as a group sustained the highest rate of loss in trade, with their combined trade declining from US\$ 153.2 billion in the first half of 1983 to US\$113.4 billion in the corresponding period of 1988.

Table 1: WORLD TRADE STATISTICS, 1983-1988 (US\$ BILLION)

	First Half of 1983	First Half of 1984	First Half of 1985	First Half of 1986	First Half of 1987	First Half of 1988
World	1,672.8	1,810.6	1,782.5	2,031.3	2,395.6	2,611.1
Developing	513.5	507.1	487.6	503.4	635.3	691.9
Non-oil Exporting Developing Countries	260.3	359.2	361.0	396.8	520.4	518.6
Exporting developing countries	153.2	147.9	126.6	113.3	115.0	113.4
Nigeria	5.02	8.5	10.2	5.9	6.0	6.4
Nigeria as % of Oil Exporting Developing Countries	3.28	5.75	8.06	5.2	5.22	5.60
Nigeria as % of Developing Countries	0.98	1.68	2.09	1.17	0.94	0.92
Nigeria as % of world	0.30	0.47	0.57	0.29	0.25	0.24

Source: Derived from IMF/CBN data, various years.

Between 1987 and 1988, oil exporting developing countries suffered absolute trade decline from US\$ 229.9 billion to US\$ 226.7 billion because of low crude oil prices. Nigeria, however managed to increase her own trade marginally from US\$ 12 billion to US\$ 12.7 billion during the same period probably as a result of some of the advances being made in curtailing imports and boosting non-oil exports in the country.

In the next section, some of the measures of the Structural Adjustment Programme aimed at enhancing non-oil export competitiveness, are highlighted.

SAP Agricultural Export policy Measures

In an attempt to bring about the structural transformation of the agricultural sector generally, the country launched a national agricultural policy. The document contained a comprehensive package of policy instruments to be used during the period 1990-2005 A.D. to further develop and improve the performance of the country's agricultural sector.

The document focussed on the role of prices, trade and exchange rate as major instruments for attaining the objectives of self-sufficiency in food production and self-sustained economic growth. Other policy instruments in the document include tariff regulation to help promote exports and discourage non-essential imports, and the provision of favourable fiscal and credit guidelines to increase the competitiveness of agricultural commodities in international markets.

Indeed, an important component of SAP standard policy package relates to exchange/trade policies. As seen in Table 2, such policies include exchange rate reform, trade and payments liberalisation, restructuring of tariff system, import substitution drive and export promotion or liberalisation. With the alteration of relative prices via exchange rate adjustment, the country's non-oil exports were made more competitive, price-wise, in international markets. The naira exchange rate which was officially fixed at N1.5535 = US\$ 1.0 on 25th

September, 1986 fell to N4.6406 = US\$ 1.0 at the first bidding session of the Second-Tier Foreign Exchange Market (SFEM), now FEM; thus at the first bidding the naira value depreciated by 66.5%. The value fluctuated widely in subsequent biddings but at the end of September 1987, N4.2227 exchanged for US\$ 1.0 and at the end of September, 1989, N7.3401 exchanged for US\$ 1.0 representing a depreciation of 634% over a 3-year period. Indeed by September 1990, the value of the naira had gone down by about 700% over its September 1986 value. As at March 1992, the naira exchange rate stood at N18.80 = US \$1.0

**TABLE 2: SAP STANDARD POLICY PACKAGE DEMAND-MANAGEMENT/
SUPPLY-INCENTIVE POLICIES**

A. Monetary Policies

- 1.1 Credit Ceilings*
- 1.2 Liquidity Ratio
- 1.3 Positive Interest Rate

B. Exchange Rate/Trade Policies

- 2.1 Exchange Rate Reform*
- 2.2 Trade and Payments Liberalisation
- 2.3 Restructure of Tariff System
- 2.4 Import Substitution Drive
- 2.5 Export Promotion or Liberalisation

C. Public Sector Policies (Wages/Prices)

- 3.1 Rationalisation of:
Public Expenditure*
Capital Investment
Employment
- 3.2 Reduction in Fiscal Deficit*
- 3.3 Reduction in Subsidies*
- 3.4 Reform of the Tax Structure
- 3.5 Producer Price Adjustment
- 3.6 Wage Restraint.

D. Others

- 4.1 Financial/Administrative Reforms
- 4.2 Cut in External Borrowings.

NOTE: Those astericked are, generally, compulsory measures that must be implemented; others are the ones which are highly recommended though their implementation is not compulsory.

Source: Nnanna, O. J. (1987). "A General Survey of the Experience of some LDCS under SAP". *Econ. and Fin. Rev.* CBN, Lagos, Vol. 25 No. 4 pp. 39-47, December 1987.

Given such changes in the exchange value of the dollar to the naira, and the concomitant huge increases in the world (dollar-denominated) agricultural prices, the output of agricultural

export crops, especially cocoa, cotton, rubber, palm produce and coffee was stimulated and actively traded. In table 3, it is shown that the balance of trade became remarkably in favour of Nigeria to the tune of about N13.9 billion (due principally to mineral fuels) in 1987 while in 1988, for the first time, the net food export became positive. The future expectation would be that the country would now start witnessing food exports (and re-exports) greater than food imports in value terms. It is to be expected also that the ban on the importation of certain food products such as maize and rice would gear up further interest in the local production of such crops.

Anchored in the belief that government must still work towards creating a "free" market for goods and services and that "freer" market system is better for growth (see Okigbo, 1988), government took a step further by scrapping commodity boards and allowed 100% retention of agricultural export proceeds wholly by the exporters. As Omoruyi (1987) reported, this step has contributed to the increase in inflow of foreign exchange from 'autonomous' sources; in the first eight months of 1987 alone, inflow of foreign exchange from autonomous sources amounted to \$654.5 million (Omoruyi, 1987).

TABLE 3: NIGERIAN'S FOREIGN TRADE: VALUE OF MAJOR EXPORT/IMPORT GROUPS, 1983-1989 (N MILLION) CURRENT PRICES

Year	Exports & Re-Exports			Import			Balance of Trade Net FoodExport	
	Total	Food	2 as % of (1)	Total	Food	5 as % of (4)	(1)-(4)	(2)-(5)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1982	9,196.4	184.0	2.0	10,100.2	1,642.2	16.3	-903.8	-1,458.2
1983	7,751.8	273.9	3.5	6,555.7	1,296.7	19.8	+1,196.1	-1,022.8
1984	9,138.8	234.7	2.6	4,484.5	843.2	18.8	+4,654.3	-608.5
1985	11,720.8	243.8	2.1	5,536.9	940.6	17.0	+3,072.8	-359.4
1986	9,047.5	442.5	4.9	5,974.7	801.9	13.4	+4,072.8	-459.4
1987	29,575.9	871.0	2.9	15,695.3	1,646.5	10.5	+13,880.6	-775.5
1988	4,661.7	598.4	12.8	3,035.9	237.0	7.8	++1,625.8	+361.4

Source: Derived from Central Bank of Nigeria's Economic and Financial Review, Vol. 26 No. 3, September 1988, pp. 125-127.

The increased inflow of foreign exchange has become pronounced since 1987 when SAP machinery had been put in position. Total export earning increased by 89.6% from N58 billion in 1989 to N109.9 billion in 1990, mainly due to the 106.6% increase in the value of oil exports (CBN Annual Report and Statemnt of Accounts, 1990). The increase in the value of oil exports from N1.6 billion in 1989 to N106.6 billion in 1990 was due to a combination of large oil shipments resulting from the upward revision of Nigeria's OPEC quota following the gulf crisis as well as the significant rise in the average realised price of crude oil.

Similarly, non-oil exports recorded substantial increases as average world prices in naira equivalent shot up for most crops by 300-1,000% over 1983 prices. As shown in table

4, soyabeans, groundnut oil, cotton lint and rubber recorded increases in the magnitude of 1,049%, 985%, 812% and 803% respectively for the period 1983-89. Except for cocoa and ginger for which only modest price increases (336% and 274% respectively) were recorded for the same period, all of Nigeria's major traded agricultural commodities witnessed remarkable increases in world prices.

Given the above gains, the question still remains as to what are the associated 'pains' of SAP. Okigbo (1988) highlights some of such drawbacks by asking the following relevant questions:

- (1) Is the country able to ensure that increased production will be better handled, stored and distributed?
- (2) Will the industrialisation of agriculture reach back to the farmer and induce greater output?
- (3) Are enough efforts being made to reconvert existing capacity in order to use local inputs instead of imported inputs for which industrial equipment were originally designed.
- (4) Is working for a free market conducive to growth with equity?

Indeed if the gains of SAP are to be truly fulfilling and long-lasting, the above points must be taken into consideration in modelling future policies. Particularly, while striving for as much growth as is possible within a freer market system, the country must strive for equity in the distribution of wealth and income that accrue from SAP.

Striving for such equity has to give consideration also to achieving stability in domestic prices, especially of food staples.

Inflation rates in the developing countries of the world continue to be high, averaging 105% (as compared to 4.5% for industrial countries) in 1990. In Nigeria, the average all-items composite price index for combined rural and urban centres and all income groups increased from 328.5 in 1983 to 1,093.9 in 1989. As shown in the table, most of the increases are accountable for post - 1986 era when per annum increases were 194.7 and 215.9 for all-items and food respectively as against the figures of 60.4 and 54.5 in the pre-SAP period.

TABLE 4: AVERAGE WORLD PRICES (C.I.F.) OF NIGERIA'S AGRICULTURAL COMMODITIES

(Naira per tonne)

Year	Cocoa	Coffee	Copra	Lint	Ginger	Groundnut Oil	Palm Kernel	Palm oil	Rubber	Soya beans
1983	1,645.4	1,833.4	391.2	1,231.2	1,537.8	521.5	240.0	390.3	800.3	215.8
1984	2,015.9	2,345.6	531.6	1,339.6	2,058.7	756.3	398.2	531.7	832.5	222.0
1985	2,308.3	2,379.1	349.1	1,169.6	1,251.3	824.5	263.4	440.0	714.3	205.0
1986	3,633.2	5,291.4	301.4	1,837.1	1,426.7	820.1	254.4	522.2	1,920.6	296.2
1987	7,966.0	9,660.2	1,218.8	6,577.1	4,658.4	2,023.3	744.3	1,282.4	3,888.0	946.7
1988	7,168.6	10,687.8	1,737.2	7,587.0	4,163.0	2,707.6	1,121.4	2,110.1	5,391.5	1,478.7
1989	7,167.5	14,972.4	2,465.1	11,233.7	5,747.9	5,655.8	1,857.6	2,621.8	7,223.3	2,478.9

Source: CBN's Economic and Financial Review, Vol. 28 No. 1 March, 1990 p.109

TABLE 5: COMPOSITE CONSUMER PRICE INDICE FOR ALL INCOME GROUPS IN NIGERIA

(Base: Average 1975 = 100)

Year	Combined Rural and Urban Centres			Urban Centres Rural Centers		
	All Items	Food	All Items	Food	All Items	Food
1983	328.5	335.6	339.8	401.0	326.8	324.4
1994	458.4	479.7	479.7	585.3	455.3	464.9
1985	488.7	498.5	493.8	573.1	482.3	487.7
1986	509.7	499.2	543.6	619.2	540.9	482.3
1987	561.6	541.9	581.6	652.5	558.8	520.4
1988	776.5	824.7	739.5	902.5	781.6	808.9
1989	1,093.9	1,146.8	1,089.2	1,205.1	1,014.6	1,130.3
1983-86	181.2	163.6	203.8	218.2	214.1	157.9
1986-89	584.2	647.6	545.6	645.9	553.7	648.0
Per annum 1983-86	60.4	54.5	67.9	72.7	71.4	52.6
Per annum 1986-89	194.7	215.9	181.9	215.3	184.6	216.0

Source: CBN's Economic and Financial Review (1990)
Vol. 28 No. 1 March, 1990 pp. 112 - 114

Summary and Conclusions

This paper has discussed the major strands of policy under the SAP as they affect Nigeria's agricultural trade with the rest of the world. Placed in the context of the world economy and trade patterns in the current decade, the position of Nigeria as an economy largely dependent on petroleum earnings, was highlighted. It was however argued in the paper that changing fortunes compel Nigeria to attempt to enhance her non-oil export competitiveness.

In this respect, attention was drawn in the paper to various policy measures embarked upon by the government to promote agricultural export. Most of the measures centre round a programme of recovery which emphasises structural adjustment of the economy and elements of decontrol.

Arising from all these, a significant development is the appearance for the first time, in 1988, a positive net food export situation. Also, the SAP has induced a boost in cash crop exports as a result of the alteration of relative prices via exchange rate adjustment. Thus, the government seems geared to earning more foreign exchange from a wide base.

For sustainability of the gains of SAP, it is recommended that the equity issue behind the implementation of SAP measures should not be overlooked. To do so, would tantamount to exacerbating the economic maladjustment that SAP was designed to redress.

Furthermore, it is suggested that efforts should be continually made to address the issue of efficiency of resources use in agriculture; it is one thing to promote tradables (for export) it is another thing to ensure that the country's resources are judiciously and optimally utilised.

In conclusion, the effect of SAP on Nigeria's non-oil export performance would be said to be salutary if adverse side issues including rising inflationary trends could be contained.

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