The Impacts of ECOWAS Trade Liberalization Scheme on Poverty in Nigeria

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While Nigeria is making concerted efforts to liberalize trade and be more investor friendly, more than half of its population lives on less than 1 dollar per day. Furthermore, the proportion of the population that is poor has doubled over the last 3 decades clearly indicating that poverty is a growing problem. Given the concerns and experiences of some countries regarding the poverty impacts of trade liberalisation, a study was carried out to ascertain whether trade liberalisation will be propoor.

For some years the Government of Nigeria has been going through the process of adopting the Economic Community of West African States (ECOWAS) import tariff rates in line with the ECOWAS trade liberalisation scheme (TLS). The scheme was adopted in late 2005. The TLS, as part of the efforts aimed at promoting economic integration of the West African sub-region, involves removing tariffs on intra-ECOWAS trade and establishing a Common External Tariff (CET) with other ECOWAS countries. Other groups and agreements also call for a reduction of tariffs (as well as non-tariff barriers to trade) by Nigeria and other countries. These include the African Caribbean Pacific-European Union agreement, International Monetary Fund, World Bank, World Trade Organisation etc.

However it was not clear what the effects of trade liberalisation would be as past studies did not explicitly examine the poverty effects nor the ECOWAS trade liberalisation scheme as a policy package. To address these issues we used data from the 2003/4 household survey and a model of the Nigerian economy. Our simulation of the ECOWAS scheme involves the replacement of the initial Nigerian tariff structure by the ECOWAS structure, which involves a reduction in most tariff rates but, importantly, an increase in tariffs on oil and mining imports and, to a lesser degree, manufactured consumer goods. As a result the latter sectors emerge as "winners" and expand in both the short and long terms. As they are relatively capital intensive, returns to capital increase relative to returns to land and wage rates. This has positive implications for urban households and negative implications for rural households due to the dependence of the later on mostly land and labour income. As a result, urban poverty decreases in the short and long run while rural poverty increases in both periods. For trade liberalization to have a pro-poor effect, policies to improve the agricultural sector will have to be implemented before or concurrently with it. In this way the rural areas which obtain most of their income from this sector will respond more positively to trade liberalization.

On completion of the study, a national dissemination seminar was organized in collaboration with the Central Bank of Nigeria. Stakeholders from both the private and public sector including the Ministry of finance and the Chambers of commerce participated in the seminar. Key issues discussed were the need for proper sequencing of trade liberalization in line with other needed reforms, enforcement of rules of origin in trade agreements and addressing ways in which farmers can benefit from trade liberalization.