

Free Trade Policy and the Market Prices of the Nigerian Cash Crops

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ABSTRACT Development in the Nigerian agricultural sub-sector has been constrained by inconsistencies in the trade policies. Tariffs paid on cash crops were raised to between 70% and 100%. Frequent import regime changes and uneven duty collection make importing difficult and expensive. Thus, many businessmen resort to under-invoicing and smuggling to avoid tariffs or bans. This paper therefore investigated the free trade policy of the Federal Government, particularly as it affects the average market prices of the three traditional cash crop exports; cocoa, groundnut and palm kernels. Sectional data were obtained on the average producer prices of the crops, the production and export level of these crops before and during free trade policy era. Trend and regression analytical tools were employed to handle the collected data. Result showed that time variation, was a significant determinant ($P < 0.1$) of the aggregate level of export (tonnes) before and during the implementation of the free trade policy. The quantity of exported cocoa, ($P < 0.1$) and that of palm kernels ($P < 0.5$) were significant during the implementation of the policy. The three cash crops however accounted for 58%-71% of the total quantity of cash crop exports. Value of exported cocoa ($P < 0.1$) was a significant determinant of the total value of exported agricultural cash crops before and during the implementation of the trade policy. With reduced and stable exchange rate and duties or tariffs on exported cash crops the Nigerian agricultural sub-sector will improve. High level of consistency in export trade policy will help ensure a sustainable economy in Nigeria.

INTRODUCTION

Agricultural sub-sector remains the mainstay of the Nigerian non-oil economy particularly in terms of national output and employment generation. The potentials of the sub-sector has, however, not been fully developed. To corroborate this position, FRN (2000) observed that one of the identified areas of constraints to the development of agricultural sector was the inconsistency in trade policies particularly in the international trading of the Nigerian cash crops. International trade is a trade across borders, which takes place between two or more countries (Akande et al. 1991). This trade is brought about as a result of differences in productive capacities of countries. It owes largely to differences in many factors governing production of various commodities in different regions of the world. Again, regional division of labour or specialization requires people in a given geographical area to specialize in doing what they can do best in their own economic circumstances (Akande et al. 1991). Peculiarities of the nations' climate and soil also determine what type of agricultural crop(s) she produces.

Internationally traded cash crops in Nigeria

are cocoa, palm produce, rubber, timber, cotton, groundnuts and beniseed (Olukosi and Isitor 1990). According to the FAO, the production level of Nigeria's cash crops between 1996 and 2002 is given in Table 1.

Table 1: Production of Nigeria's cash crops (1000 metric tonnes)

	'96	'97	'98	2002
Groundnuts	2278	2531	2531	2658
Palm kernels	548	548	548	570
Cocoa	165	145	145	149

Source: FAO, Production Yearbook

Full realization of the benefits of international trade has not been achievable in Nigeria due to lots of inconsistencies in the nation's trade policies (FRN 2000). In fact, lack of continuity in their implementation, particularly the good ones, has caused a lot of havoc to the Nigerian international trade arrangements. Generally, free trade policies aim at maximizing the benefits from globalization, promotion of domestic industries and value-added exports. Some of the trade policies in Nigeria are tariffs, subsidies and export control. Tariffs provide the Nigerian government with its second-largest source of revenue after

oil exports¹. In its last major tariff revision in 2003, the Nigerian government cut duties on 230 tariff live items (mostly raw materials, base metals and capital equipment) to as low as 2.5 percent. Tariffs on agricultural products including cash crops, were raised to between 70 percent and 100 percent. Frequent import regime changes and uneven duty collection make importing difficult and expensive. This occasionally creates severe commercial bottlenecks. This problem is aggravated by Nigeria's dependence on imported agricultural raw materials (mostly food crops), which affects both foreign and domestic producers. Thus, many businessmen therefore resort to under-invoicing and smuggling to avoid tariffs or bans. The government sometimes gives subsidies to producers of export (cash crops). The aim is to lower the cost of production and to make a country's exports cheaper in the world market. The quantity of exports will also increase and this may lead to an improvement in the balance of trade status. The Nigerian export control policy involves limiting the quantities or placing embargoes on export of certain agricultural (cash) crops. This is done to bring down domestic prices of the commodities and sometimes to increase the level of value addition at the domestic level. In fact, exchange rate policy² is very important in export promotion because its uncertainty can have a depressing effect on export (Caballero and Corbo 1990). In effect, an export promoting country needs to maintain a stable and predictable exchange rate to promote exports. An export promotion strategy is a trade strategy, which encourages production of import substitutes, (Obadan 1994). Since export is one of the main factors determining the amount of foreign exchange inflow, the Federal Government of Nigeria has tried to promote it.

Furthermore, the government believes that the sustainable path to economic growth lies in export expansion. Export incentives (or disincentives) as well as domestic indirect taxes have also been applied although on a limited scale. These are however relatively less important on the policy matrix. In Nigeria, inter-regional trade barriers characterized trade and distribution. Many layers of distribution raise the cost of goods, bureaucracy in the implementation of trade incentives including delay in business registration and payment of export-rebate incentive, amongst others (Akanni et al. 2004). The non-implementation of the Economic

Community for West African States (ECOWAS) treaty on Free Trade,³ for many years after its ratification has also served a serious disincentive to exploring the potential of West Africa for trade (FRN 2000). The large number of security agents at the ports and nation's borders coupled with long processes for clearing of goods were further impediments to trade. To overcome some of these problems, the present government led by Chief Olusegun Obasanjo champions efforts at implementing the ECOWAS protocol on free movement of goods and people. Efforts were also made at dredging the Calabar port so as to facilitate unimpeded flow of goods within the country and across international borders.⁴

Quite a lot of researches have been conducted on the international marketing of the Nigerian cash crops, particularly in the last two decades (Helleiner 1988; Olukosi and Isitor 1990; Akanni, et al. 2004 and CBN 2005). Efforts have also been made at emphasizing the contributions of agricultural sub-sector to the development of Nigerian economy (Idachaba and Ayoola 1991; Obadan 1994; FAO 1988; Akande et al. 1999; FRN 2000; CBN 2005; Briggs 2007). Even though the various policy reforms in the sub-sector have been quite consequential, particularly in recent times, there are no studies, to the best knowledge of the researchers, on the implications of free trade policy on market prices of major cash crops. Appreciating the importance of these crops as major contributors to the nation's foreign earnings in the non-oil sub sector therefore justifies this study.

In this paper therefore, the researchers investigated the free trade policy of the Federal Government, particularly as it affects the average market prices of the three (3) traditional cash crops: cocoa, groundnut and palm kernels. Emphasis was placed on these cash crops because they constitute between 60-80 percent of the Nigerian agricultural cash crop export (CBN 2003). They are therefore, the source of a chunk of the foreign exchange earners from the nation's agricultural exports.

MATERIALS AND METHOD

Purely secondary data were used for this study. These data were obtained from various publications of the Central Bank of Nigeria (CBN), Federal Office of Statistics (FOS), Gill and Duffus limited and other publications of the Government

of Nigeria. Sectional data were obtained on the average producer prices of the crops. Again, the yearly percentage change in producer prices, the production and export level of these crops before and during the free trade policy era in Nigeria were obtained. The required data were sourced between 1995 and 2004. Data was analyzed using trend and regression analysis.

(a) Trend Analysis

The model used here is as follows:

$$Y_t = b_0 + b_1X_c + b_2X_g + b_3X_k + b_4T + m_t \quad (1)$$

where

Y_t = Aggregate level of export (tonnes)

X_c = Quantity of exported cocoa

X_g = Quantity of exported groundnut

X_k = Quantity of exported palm kernel.

T = Time of variation (i.e. $T = 1, 2, \dots, 5$ years)

$b_0, b_1, \dots, b_4$ = Co-efficients of the parameters.

m_t = Disturbance term.

This regression model was separately ran for the crops for the period before the implementation of free trade policy (1995 – 1999) and the period when the implementation of the policy has taken effect i.e. 2000-2004.

If $b_0, \dots, b_4$ in equation (1) above is statistically different from zero, then the constant term of the equation autonomously increases or decreases, depending on the sign of the regression co-efficient.

(b) The Regression Analysis

The total value of agricultural produce (cash crops) was regressed on the value of the three (3) selected export commodities (cash crops).

The model used was $Y = f(X_i, e_t) \dots \dots \dots (2)$

Where

Y = Total value of agricultural produce (cash crops);

X_i = Value of the selected export commodities

$c_i = 1, 2, 3$, (for cocoa, groundnut and palm kernel respectively).

e_t = error term.

The relationship was fixed into linear and Cobb-Douglas functional forms. Again, the regression models were separately ran for the periods before (1995-1999) and during (2000 – 2004) the implementation of free trade policy.

RESULTS AND DISCUSSION

The result of the trend analysis indicated that time of variation, T , was a significant determinant at 10% level, of the aggregate level of export

(tonnes) before and during the implementation of the free trade policy (Table 2).

Table 2: Result of trend analysis

Variable	Before implemen- tation co-efficient (bi)	During implemen- tation co-efficient (bi)
Constant	68.28	71.14
Quantity of exported cocoa, X_c	1.12(1.86)	6.52(3.11**)
Quantity of exported groundnut X_g	2.34(2.06**)	3.18(1.11)
Quantity of exported palm kernel X_k	0.89(1.28)	1.28(2.05*)
Time of variation, T	3.61(2.48**)	4.11(2.16**)
Adjusted R^2 – values	0.58	0.71

Figures in parentheses are t-values

* Significant > 10% level

** Significant > 5% level

The quantity of exported cocoa, X_c and that of palm kernel X_k were not significant determinants before the implementation of the free trade policy. These two parameters were however significant determinants at 10% and 5% levels during the implementation of the policy. Quantity of exported groundnut, X_g was a significant determinant of the aggregate level of export only before the implementation of the free trade policy of the Nigerian government.

The implication of this is that trade policy instruments such as the exchange rate, tariffs/duties and export quotas may have affected the quantities of each of the exported cash crops during the implementation of the policy. It is thus deduced that the free trade policy of the government has still not attained its desired objective of ensuring free flow of commodities across international borders without restrictions. This position was corroborated by Briggs (2007) in his study on trade policy and development strategies in Nigeria as reported by the Economic Commission for Africa (ECA).

Again, the three cash crops were found to have accounted for 58% and 71% of the total quantity of cash crop export before and during the implementation of free trade policy respectively. The implication of this is that there was an improvement in the production and export quantities of these cash crops within the last 4-5 years. The CBN (2005) again corroborated this position when it revealed that these three cash crops constituted the major earners of foreign

exchange, particularly in the non-oil export sub sector of the Nigerian economy. The result of the regression analysis (Cobb Douglas), which estimated the relationship between the total value of agricultural cash crops and those of the three exported cash crops, was shown in Table 3.

Table 3: Result of regression analysis - Cobb Douglas Function

Variable	Before implemen- tation co-efficient (bi)	During implemen- tation co-efficient (bi)
Constant	25.10	44.10
Value of exported cocoa, X_1	1.20(2.40*)	0.59(2.84**)
Value of exported groundnut, X_2	1.66(4.61)**	0.92(1.68)
Value of exported palm kernel, X_3	1.00(3.54)**	0.54(1.53)
Adjusted R^2 – values	0.63	0.86

* Significant > 10% level

** Significant > 5% level

Figures in parentheses are t-values.

The value of exported cocoa, X_1 , was a significant determinant of the total value of agricultural cash crops that were exported before and during the implementation of the free trade policy. Value of exported groundnut X_2 , and palm kernel X_3 , were however significant at 5% level only before the implementation of the free trade policy. The implication of this is that there is a noticeable dwindling fortune in the values of the three exported cash crops within the last 4 – 5 years. This thus implies that the free trade policy has not achieved its objective of enhanced market values for all exported agricultural product. This is further corroborating the results obtained from trend analysis earlier stated.

The adjusted R^2 – value again increased from 63% for period before implementation of free trade policy to 86% for the policy implementation era. This implies that even though the quantities of these cash crops being produced has not really improved but there is an increase in their market price per tonne. The CBN (2005) also supported this position when it revealed that the market price per tonnage of the three cash crops has had 15-22 percent increase within the last 15 years.

CONCLUSION

This paper has investigated the free trade

policy of the Nigerian government particularly as it affected cocoa, groundnuts and palm kernels. These three (3) cash crops are responsible for a sizeable proportion of the Nigerian agricultural cash crop exports (CBN 2003). Specifically, trade policy instruments such as exchange rate, tariffs/duties on cash crop exports and export quotas and their implication on the quantities of cash crop produced and exported within the last ten years were examined. To ensure an effective free trade policy therefore the Nigerian government should show genuine commitment to the removal of impediments to unrestricted economic transactions. There should be a reduced and stable exchange rate of naira against other foreign currencies. Duties or tariffs paid on cash crop exports should be marginally reduced while the export quotas should be much more relaxed.

In fact, as an important member of ECOWAS, Nigeria should ensure full implementation of ECOWAS treaty on free trade. With this, it becomes possible to explore and utilize the potentials of West Africa for trade and commerce. With these done, the Nigerian economy will be further opened to international trade transaction. The yearly production levels and the producer prices of the cash crops will increase and the economy will boom once again. There is however, the need to ensure a high level of consistency in whatever achievement is recorded, so that any growth recorded in export trade and distribution of cash crop produce could be sustained over time. The free trade policy is seen not to have achieved its desired objective of ensuring free flow (unrestricted) of agricultural commodities across international borders. There is a decline in the quantity of the three exported cash crops within the last 4-5 years even though their market price per tonne witnessed some increase.

NOTES

- 1 On the average, 3 million barrels of crude oil is exported daily. This translates to about USD195 million as revenue daily on the assumption that a barrel was sold for USD 65 (2004).
- 2 The average rate of exchange of the Naira to other foreign currencies has varied tremendously since 1986 when the Structural Adjustment Programme (SAP) was introduced by the Federal government. The rate however has been fairly stabilized within the last two years.
- 3 In an attempt to ensure free trading activities across the 16 states in West Africa, the ECOWAS ratified the free trade treaty in 1986. Unfortunately, the

member states, including Nigeria, find it difficult to implement the terms of the treaty. Hence, all impediments to free trade in the sub-region continue to limit economic transaction among member states.

- 4 The dredging of the Calabar port facilitated the export of domestic commodities. The establishment of Calabar Export Processing Zone further enhanced value addition of the Nigerian cash crop exports before they are sold abroad

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