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## **THE DEVELOPMENT OF EXPORT TRADE IN NIGERIA**

**-Tola Ayanru<sup>1</sup>**

### **1. INTRODUCTION**

Adam Smith,<sup>2</sup> had theorized that the concept of absolute advantage comes into play where one country would have complete economic advantage over another if it can produce the same amount of goods with fewer resources. He further opined that *“it was impossible for nations to become rich simultaneously by following mercantilism because the export of one nation is the import of another nation.”*

His argument was that all nations will obtain benefits concurrently if all embraced free trade whilst mastering their areas of specialty in accordance with their comparative advantage relative to other countries.

International trade is very important in the expansion of the economy of a country because it allows for the development of markets, creates employment, reduces the rate of poverty, and breaks monopolies by discouraging the domination of a market by a few.

Export trade is a sub-division of international trade where goods produced in one country are transported to another country for sale or trade and as a crucial element of a country’s economy, exports stimulate economic growth. Some of the biggest companies in developed countries derive a sizeable portion of their annual revenue from exports. Some of the world’s biggest exporting countries are China (\$2.3 trillion), United States (\$1.6 trillion), Germany (\$1.5 trillion), Japan (\$683 billion),

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<sup>1</sup> **LL.B., (Iagos), B.L., (Nigeria), LL.M. (Manchester): Senior Associate, Real Estate and Succession Department, SPA Ajibade & Co., Lagos Office, Nigeria**

<sup>2</sup> The Wealth of Nations(1776),<sup>7</sup> *An inquiry into the Nature and the Causes of the Wealth of Nations.*<sup>2</sup>

Netherlands (\$672 billion) etc.<sup>3</sup> Export trade facilitates economic expansion, promotes international cooperation, improves the balance of payments and boosts foreign currency earnings.

## 2. ADVANTAGES

According to Hungarian Economist Bela Balassa, “export oriented policies, apart from providing similar incentives to sales in both domestic and foreign markets, lends to resource allocation according to comparative advantage, allows for greater capacity utilization, generates technological improvement in response to competition abroad and in labour-surplus countries, contributes to increased employment.”<sup>4</sup>

Also, the Observatory of Economic Complexity (OEC)<sup>5</sup>, in 2015, ranked Nigeria as the 49<sup>th</sup> largest export economy in the world, having exported goods/products worth well above \$47.8 billion and imported goods worth \$39.5 billion.

The export of commodities such as crude oil is a major factor behind Nigeria’s economic growth, contributing significantly to the growth of export trade in the country. It has also established Nigeria’s comparative advantage under the mineral fuels section. While mineral fuels may be a national treasure resulting in a positive influence on net export, other commodities which are being imported into Nigeria (machinery, plastic, rubber, and motor vehicles) may be disproportionate thus leading to an international trade deficit.

Export trade is a catalyst for sustainable economic development. Through export trade, Nigeria earns vital foreign exchange, increases its revenue base and may avoid trade deficits. It also helps to consolidate economic diversification.

## 3. THE INVOLVEMENT OF THE FEDERAL GOVERNMENT

In a circular issued by the Central Bank of Nigeria in April 2017,<sup>6</sup> the Federal Government approved the reduction of documentation requirements and the timeline for import and export trade transactions in Nigeria. With this reform, the Government hopes to stimulate an enabling environment for embarking on business in the country, and hopefully improve upon the country’s low ranking on the World Bank’s Ease of Doing Business index.<sup>7</sup>

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<sup>3</sup> <http://www.worldatlas.com/articles/exports-by-country-20-largest-exporting-countries.html>.

<sup>4</sup> Bela Balassa (1983), “*Exports, Policy Choices and Economic Growth in Developing Countries after the 1973 Oil Shock*”.

<sup>5</sup> The OEC is a project developed by the Media Lab of Massachusetts Institute of Technology (MIT).

<sup>6</sup> Central Bank of Nigeria Trade and Exchange Department. ‘*Revised Import and Export Documentation and Timeline for Processing Form “NXP”*’, Ref. No- TED/FEM/FPC/GEN/01/004.

<sup>7</sup> Nigeria was 169<sup>th</sup> position in the World Bank’s Ease of Doing Business report ( World Bank Doing Business Report 2017. Available at <http://www.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Report.pdf>

Some of the changes approved by the Federal Government include the following:

### 3.1 **The Reduction of Export Documentation:**

Export documentation have been reduced from ten to seven, making the following the required documentation:

- a. Bill of lading
- b. Certificate of origin
- c. Commercial invoice
- d. Single goods declaration
- e. Nigerian exports proceeds (NXP)
- f. Clean certificate of inspection
- g. Packing list

### 3.2 **Revision of Timeline for Processing Form NXP:<sup>8</sup>**

The timeline for processing the Nigerian exports proceeds (Form NXP) by authorized dealers was modified to a maximum of 48 hours from the receipt of the application.

## 4. **THE ROLE OF THE MINISTRY OF FINANCE AND THE MINISTRY OF INDUSTRY, TRADE AND INVESTMENT**

The Federal Ministry of Finance amongst several functions is in control of the administration of fiscal incentives in accordance with the provisions of extant statutes and International Agreements or Protocols. One of these incentives include the exemption of export products from the payment of value added tax. The Ministry also publishes export guidelines for non-oil exports which are revised from time to time.<sup>9</sup>

The Nigerian Government, through the Ministry of Industry, Trade and Investment, seeks to ensure the diversification of the resource base of the economy by promoting trade and investment with special emphasis on export of non-oil and gas products that will lead to wealth and employment creation, reduction in the rate of poverty and also ensure enhanced service delivery in a manner that will stimulate the growth of the domestic economy for self-reliance, whilst making it more export oriented and integrated into the global market.<sup>10</sup>

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<sup>8</sup> Where commercial goods are exported to other countries from Nigeria, payments may be routed through the Central Bank of Nigeria into the exporter's account as proceeds of sale. The form used is the NXP form.

<sup>9</sup> <http://www.finance.gov.ng/images/docs/EXPORTGUIDELINESNONOIL.pdf>

<sup>10</sup> <http://www.nigeria.gov.ng/index.php/2016-04-06-08-40-29/executive/151-federal-ministry-of-industry-trade-and-investment>.

With the drop in crude oil prices, it has become pertinent for the economy of the Nation which was solely dependent on oil exports to be fully diversified to include non-oil exports and the Government has renewed its commitment in ensuring this strategy is achievable.

## **5. THE ROLE OF THE CENTRAL BANK OF NIGERIA**

As the official banker of Nigeria, the Central Bank of Nigeria (CBN) is responsible for the overall control and administration of the monetary and fiscal policies of the Federal Government. The bank provides economic and financial services to the government and ensures that the country is on a sound financial footing. CBN, through its Trade and Exchange Department has the following functions:

- 5.1 To articulate trade and exchange rate policies, while working hand in hand with other arms of the government.
- 5.2 To oversee non-oil export statistics accrued from shipments and proceeds that have been repatriated into the accounts of the exporters, which are maintained with the commercial banks.
- 5.3 To ensure the liberalization of proceeds of export trade transactions thereby allowing the exporter unfettered access to the funds.
- 5.4 To provide advice to commercial banks and the government and other financial institutions on export policies as required.
- 5.5 To regulate the inflow and outflow of foreign exchange earnings from export by processing foreign exchange applications and allocating foreign exchange to applicants.

## **6. THE ROLE OF THE NIGERIAN EXPORT-IMPORT BANK (NEXIM)**

The Nigerian Export-Import Bank (NEXIM) which is the Nigerian Export Credit Agency (ECA) was established in 1991 with a share capital of ₦50,000,000,000.00 (Fifty Billion Naira) held equally by the Federal Ministry of Finance and the Central Bank of Nigeria. The ECA, under the auspices of NEXIM has the following functions:

- a. To provide export credit guarantees and export credit insurance facilities to applicants.
- b. To provide credit in local currency to exporters to support exports.
- c. To establish and manage funds connected with exports.
- d. To maintain a foreign exchange revolving fund for lending to exporters who need to import foreign inputs to facilitate export production.

- e. To provide domestic credit insurance where such a facility is likely to assist exports.
- f. To maintain trade information system in support of export business in Nigeria.

In addition, the Bank also provides short and medium term loans to Nigerian exporters as well as short term guarantees for loans granted by Nigerian Commercial Banks to exporters as well as credit insurance against political and commercial risks in the event of non-payment by foreign buyer. Some of these loans are available in the form of export credit facilities which are as follows:

**Rediscounting and Refinancing Facility:** Central Bank of Nigeria (CBN) has expanded the Export Credit Rediscounting and Refinancing Facilities (RRF) by N50 billion to support the Deposit Money Banks (DMBs) in the provision of pre- and post-shipment finance to exporters to undertake export transactions with NEXIM Bank as the managing agent.

**Foreign Input Facility:** This provides manufacturers of export products foreign currency loans to import capital equipment, packaging and raw materials to produce finished products for export.

**Stock Facility:** This facility is available to assist manufacturing exporters to have adequate working capital to stock local raw materials that are mainly seasonal in nature, and achieve optimum levels of production all year round.

**Export Credit Guarantee Facility:** NEXIM's export credit guarantee facility is designed to protect Nigerian Banks against the risks of non-payment for loans or advances granted to exporters to meet short-term export contracts.

**Export Stimulation Facility:** NEXIM is the managing agent for the CBN export Stimulation facility.

**Direct Lending Facility:** This facility is available to assist manufacturing exporters to have adequate working capital to stock local raw materials that are mainly seasonal in nature, and achieve optimum levels of production all year round. <sup>11</sup>

## 7. CONCLUSION

The collaborative effort of the Federal Government of Nigeria through the Ministry of Finance, the Ministry of Industry, trade and Investment, the Central Bank of Nigeria and the Nigerian Export and Import Bank contribute immensely to the development of export trade in the country.

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<sup>11</sup> <http://www.neximbank.com.ng/products/>

By offering better pricing through risk mitigation, export credit services, longer maturity periods, lower transaction costs, and export financing on better terms for exporters, the Government seeks to enable the development of Nigeria's export trade.

It is envisaged that with the commitment of the Government to boost its World Bank (ease of doing business) ratings by providing structured commodity finance in addition to other incentives, Nigerian exporters will not only have access to a range of financing solutions, they will also be able to conduct export trade transactions with greater ease.

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*For further information on this article and area of law please contact Adetola Ayanru at S. P. A. Ajibade & Co., by telephone (+234 1 472 9890), fax (+234 1 4605092), mobile (+234 807 819 1720) or email (aayanru@spaaajibade.com).*

[www.spaaajibade.com](http://www.spaaajibade.com)