

The Microeconomic Implication of Border Closure in Nigeria: A Review

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ABSTRACT

Purpose: This study aims to present the ongoing implications resulting from border closure in Nigeria.

Approach/Methodology/Design: A systematic review of previous literature is conducted. All sources were collected from well-known databases.

Findings: Nearly half the household budget is spent on food, even at comparable income levels. Land border closure by President Muhammadu Buhari has positively impacted agriculture. Many businesses are facing a loss. Most companies export 100% of their output to West African markets. Several parts of the Nigerian border were closed after the ACFTA was signed in 2019. The closure has angered ACFTA critics. Based on the NBS, food inflation increased from 13.2% in August to 13.51% in September, and from 13.51% to 14.09% in October 2019.

Originality/value: Border closure results in significant losses. The study recommended reducing production costs. Agricultural extension services can help farmers adapt to climate change, improve yields, and provide modern techniques.

INTRODUCTION

Having the largest economy on the African continent, Nigeria became the latest country to close its borders in recent months, following Kenya, Rwanda, and Sudan (Ogunwusi, Nzeako, and Utulu, 2019). No nation can produce everything its people need, so countries engage in international trade. A country conducts international trade and corresponding financial transactions to provide commodities it lacks in exchange for commodities it produces in abundance. This type of transaction, in conjunction with other economic policies, generally contributes to the improvement of a nation's standard of living.

The closure of borders is not a new phenomenon in Africa. Nigeria's actions raise serious concerns about the seriousness and prospects of regional integration in Africa. Since the closure of Nigeria's borders in August 2019, there have been concerns regarding the validity and essence of the Economic of West African States (ECOWAS) Treaty, which permits the

free movement of people and goods across West Africa (Akinkuolie, 2020). With its founding in 1975 by Nigeria and Togo, ECOWAS has grown into a model regional organization whose institutions include the ECOWAS Parliament, ECOWAS Court, ECOWAS Passport, and ECOMOG Regional Force.

There have, however, been many challenges along the long road to regional integration. Infractions of the ECOWAS Treaty on the movement of goods and people, such as the smuggling of firearms and drugs, human trafficking, and trans-border insurgency, among others, have posed grave threats to the peace, stability and economies of member states, with Nigeria receiving the brunt. It has been suggested that the use of a security fence as a means of combating smuggling and crime might be a daunting challenge, especially in Africa, where the long porous borders are inhabited by ethnic communities, which survive on trans-border trade and smuggling (Akinkuolie, 2020).

Trans-border commerce is mutually beneficial between Nigeria and her neighbors. Nigeria imports grains, tubers, vegetables, and livestock from the Niger, Benin, and Chad Republics to supplement its deficits, and manufactured household products and building materials are exported from Nigeria to these countries. An important part of the economy is the global exchange of goods and services. As a result of these commercial exchanges, there is no need to shut down the entire system, as the closure of the border would seem to imply.

REVIEW OF LITERATURE

Border Closure

The President of Nigeria Muhammadu Buhari closed the Nigerian land border to goods traded with Benin, Cameroon, Chad, and Niger on August 19, 2019. Smuggling is a significant threat to the economy of the country, according to him. Petroleum and rice were the two most frequently smuggled commodities into the country. There was a significant amount of petroleum being smuggled out of Nigeria, where subsidies make fuel half as cheap as its neighbors. By contrast, Benin, via its port at Cotonou, was bringing rice from Asain into Nigeria, where consumers prefer imported varieties over locally grown ones. A variety of other commodities are also smuggled into the country, including cooking (vegetable) oil, poultry, tomatoes, flour, and pasta. With further restrictions on the import and export of goods across Nigeria's land borders (Abia, 2020), the country has fully consolidated its land borders.

The border closure issue arose exactly three months after Nigeria signed the African Continental Free Trade Agreement. In total, 55 countries were members of this organization, which had a combined gross domestic product of approximately \$2.4 trillion. There were also 1.2 billion people living in the country. The agreement aimed to create the largest free zone in the world and to promote intra-African trade, which stands at a pitiful 16%

As a result of Nigeria's decision to close its border, neighboring countries, including Benin, which shares a vital land border with Nigeria and where many citizens thrive through exporting to Africa's largest market of 190 million people, have expressed their anger. This border has become a point of entry for tons of rice that Nigeria has banned to boost local production. The rice industry, one of the main national staple foods, has unexpectedly become a constant topic of discussion in the country. Due to its massive demand, insufficient domestic supply, cultural reverence and taste preference, it is unavoidable to refer to land border closure when discussing rice (Abia, 2020).

Following the announcement of the closure of Nigeria's border and its rapid implementation, inflation has increased significantly. National Bureau of Statistics (NBS) released the latest consumer price index (CPI) report in November 2019, which showed that the rate of year-over-year food inflation increased from 13.2% in August 2019 to 13.51% in September 2019 and from 13.51% to 14.09% in October 2019. The estimate indicates that there was a 1.33% month-to-month increase, with rice, frozen fish, poultry products, cooking oil, and cereals registering the highest increase from 11.24% in September to 11.61% in October (Abia, 2020). As a result of the closure, shortages of materials imported from Nigeria have also occurred in neighboring countries, which has led to concerns about the consequences of trade liberalization.

The Economic Recovery and Growth Plan for Nigeria in 2017 aimed to intensify investments in agriculture. Furthermore, it aimed to increase the sector's contribution to economic growth to 8.4% by 2020 from 5% in 2017. The goal is to restore domestic farming and save over \$22 billion per year on food imports. It was the national plan that led to the closure of the border, which protected local farmers from the effects of cheap imported foods. Rice farmers in Nigeria are pleased with the actions taken by their government, but concerns are raised about the capacity of domestic food production to meet domestic demand. As a result of the border closure, the price of a 50-kilogram bag of rice has increased from 9,000 naira (about \$24) to 22,000 naira (about \$61).

Nigeria's border closure temporarily prohibits smuggling. Nigeria's smuggling problem arises from the differences in prices between Nigeria and its neighbors. The reason is also the high demand for rice in Nigerian markets, along with ineffective or overwhelming customer service. When the border is opened again, these factors are likely to return. Collaboration with neighboring countries to enforce unified trade regulations will reduce smuggling. In this regard, ECOWAS and AfCFTA offer better platforms. Land border closures might generate short-term profits for some large companies, but they don't promote widespread productivity growth. Increasing productivity or production does not happen through border closures. To support private development more than protecting domestic producers from imports is needed. Public goods are needed to reduce transaction costs and establish a conducive business climate. Under Article XX or Article XXI, the federal government justifies border closures in Nigeria by curbing smuggling or customs enforcement. As long as it's not 'a disguised restriction on international trade, this is fine. Most people know that border closings are mainly for the protection of local industries, and are therefore disguised trade restrictions.

Nigeria Border Closure, Neighbouring Countries And Its Effects

Part of the blame for Nigeria's apparent unfair trade situation can be attributed to Nigeria's neighboring countries. Due to its importation of goods and then re-exportation into Nigeria, Benin has tactically become an entrepôt state. Thailand is the country that imports the most rice from the country. More than 90 percent of this rice is smuggled into Nigeria despite a ban imposed by the Nigerian government on rice imports through land borders in 2016. Similarly, other goods such as tomatoes, frozen chickens, and textiles are smuggled into Nigeria illegally or without following the proper customs procedures. In the same report, it is estimated that Benin's GDP is contributed by imports destined for re-export to Nigeria to the tune of 50 percent.

It has created jobs and generated revenues for Benin to the detriment of Nigerian producers who are barely able to compete. As an example, the re-export of vehicles to Nigeria is estimated to directly employ over fifteen thousand Beninese people, as well as provide even

more indirect employment associated with the importation, storage, and transportation of these vehicles. Furthermore, taxes on car imports accounted for 25 percent of Benin's customs revenue between 2012 and 2015. However, the Nigerian automobile industry has been moribund for many years as a result of high importation costs and high production costs, despite government efforts to revive the sector.

Theories On Free Trade

Adam Smith and Absolute Advantage

It was Adam Smith's view in 1776 that for two nations to trade voluntarily with each other, each nation must gain by doing so. When a nation gains nothing or loses nothing, it would refuse to participate. It is based on the absolute advantage that mutually beneficial trade takes place, in accordance with Adam's theory. In a situation where one nation produces a second commodity more efficiently than (or has an absolute advantage over) the other nation, both nations profit by concentrating on the commodity of their absolute advantage and exchanging a portion of their output for the commodity of their absolute disadvantage. According to Smith, free trade would benefit all nations, and he strongly recommended the adoption of a laissez-faire policy. During a period of free trade, resources would be utilized most efficiently and world welfare would be maximized. According to Ricardo, absolute advantage is not essential. In his view, a country will produce where it has a comparative advantage. In order to maximize their competitive advantage, countries should concentrate their production on products in which they have the greatest advantage and the least disadvantage. The result is that a state will export those supplies that have the greatest benefit to it while importing those supplies that have the least drawback to it. In an analysis by Heckscher-Ohlin, it is confirmed that the specific natural resources that a country possesses would enable it to produce related goods more efficiently, along with land, capital, and human resources. It is shown by this model that a country will export goods and resources in abundance.

The Microeconomic Implications On The Demand Side

In a bid to tackle smuggling, Nigeria closed all its land borders to the movement of goods unexpectedly, giving traders and communities little time to prepare. At the moment, Nigerian land borders are closed to exports and imports to ensure that all goods coming in are under control. Nigeria's border closure has led to dramatic increases in food commodity prices and a shutdown of Nigerian businesses in neighboring countries. First Security Discount House (FSDH) reported that some textile companies in Kano have closed. Also, the closure of the land borders has resulted in higher production costs for firms that are dependent on imports through the land borders, which will impact Nigeria's future outputs. Although 99% of Nigeria's formal trade is conducted by air, and land borders mainly involve informal trade, the closure of the border is expected to impact food prices and core inflation (Nzekwe, 2019).

Following the closure of the border, Nigerians need to emphasize the consumption of locally made goods, especially food, as evidenced by the widespread consumption of rice throughout the country. Increasing the quality of rice produced by local farmers, ensuring the quantity of their product to meet the demand, and ensuring a competitive price for consumers are major challenges for them (Osunbiyi, 2020). There has been a negative impact on livelihoods in local border economies as a result of the closure. There are also many Nigerians who are affected by the closure. As an example, local rice prices in most of the cities in Nigeria increased by nearly 9% in the month following the closure, which was the largest increase from month to month since 2012. Food prices, such as bread, meat, fish, and palm oil, are also rising rapidly, contributing to rapid inflation. Considering that food prices are higher in

this country than elsewhere in the world at comparable levels of per capita income and that approximately half of the household budgets are spent on food, this has a substantial impact on consumers. A possible consequence of this border closure is whether local producers of local products will be able to produce enough goods to meet the demands of over 190 million Nigerians, but it also gives Nigerians the opportunity to further diversify their economies.

The Microeconomic Implications On The Supply Side

The supply side (local producers) is in favor of the border closure. In light of the rising consumer prices, suppliers of locally produced goods with substantial processing and storage capacity, such as Onyx Rice Mill or Quarran rice, benefit from higher profits. According to the All Farmers Association of Nigeria (AFAN), the closure of the country's land border by President Muhammadu Buhari has resulted in a significant boost in the agricultural sector in the country. A study conducted by the association has indicated that the closure of the border has affected up to 80% of Nigeria's food supply (ThisDay, 2022). During his statement, Mudi (2022) stated that the level of food production in Nigeria was only 25% before the closure of the land borders, adding that wheat production, which had been just 2% back then, has now reached 10%. Furthermore, he stated that the closing of the border had resulted in better than harm, as many young people have taken up farming and become self-sufficient.

With the closure of the land border and the high price of foreign rice, locally-produced rice has become a favorite among a large number of people. As stated by the President of the Rice Farmers Association of Nigeria (RIFAN), Aminu Goronyo, the rice industry has gained more than N52.21 billion since the closure of the border. Despite this, the fall in rice supplies has resulted in food price inflation, which has been a significant burden on consumers. According to the United States Department of Agriculture (USDA), Nigeria alone has a demand for rice of 7.3 million metric tons each year. Presently, local production amounts to 4.8 million metric tons per year. When and if food imports are prohibited, an inability of domestic supply to meet local demand will result in an inflation of food prices (Abia, 2020).

Problems Faced By Boarder Closure In Nigeria

As part of Swift Response, customs, immigration, police, and army officers collaborated on a partial border closure in August 2019. The government blames rice smuggling and illicit exports of cheaper, subsidized petrol from Nigeria to its neighbors, as well as 10-20% of Nigerian fuels being smuggled abroad. Furthermore, the closure of the border has resulted in shortages of Nigerian materials in neighboring countries and concerns about trade liberalization. This border closure violates Nigeria's multilateral commitments, including those under ECOWAS and AfCFTA, and disrupts the entire region. The momentum towards removing trade barriers across Africa and the region will be frustrated. The system agreed to is undermined, and goodwill is destroyed (African Business, 2019). The authorities want to promote local production by closing the land border. Nevertheless, critics argue that demand is often greater than domestic production, requiring vigorous cross-border trade. Rice has not yet reached Nigeria's capacity to meet demand, so reducing imports will encourage smuggling and result in higher prices for local consumers. Furthermore, there has been a rapid decline in the sale of used clothing, used cars, charcoal, frozen poultry products, and grains. Petrol prices have doubled, motorcycle taxi drivers have tripled, and small stores relying on cross-border traders are closing.

National Bureau of Statistics reports that food inflation topped 15% in November 2019. Over 2.6 million Nigerians live in food insecurity in the northeast region, and the poorest spend over 60 per cent of their income on food. Food prices in Nigeria are high, so smugglers buy at

low prices in neighboring countries and sell them at higher prices in Nigeria. Domestic production of staples like rice has increased recently, but it won't keep pace with Nigeria's growing population in the near future. The government does not offer compensation to Nigerian consumers of any kind, especially the poorest, due to the border closure. Ede Dafinone, chairman of the Manufacturers Association of Nigeria (MAN) Export Promotion Group (MANEG), said that many companies are in dire straits as a result of border closures. He added that significant losses have been recorded while many businesses are about to collapse. It is his opinion that many companies rely on the West African market to increase sales for profits, while those who manufacture locally for export have unsold inventory in their warehouses; some companies that manufacture here export 100% of their products. Because of the border closure, they will suffer significant losses and their businesses will collapse.

Different data sets show that Nigeria not only lost money from trade within the region but also faced worsening security. According to the National Bureau of Statistics (NBS), Nigeria's trade with the Economic Community of West African States (ECOWAS) declined from N2.24 trillion in 2019 to N841 billion in 2020 and N1.24 trillion in 2021. By not trading with neighboring countries in 2020, Nigerian exports declined more than they would have without COVID, and livelihoods were lost as a result. In 2016, Nigeria exported N576.59 billion in goods to ECOWAS, followed by N782.65 billion in 2017, and then N1.04 trillion in 2018. Growth accelerated in 2019, reaching N2.24 trillion in 2019. In 2020, following the closure of the border and COVID-19, Nigeria's exports to the subregion dropped to N841.33 billion. Observations of foreign trade data were also peculiar. The first quarter of 2019 exports to ECOWAS were N300 billion and the second quarter was N217 billion. When the border closure was announced in the third quarter, trade was already at a record high (Ojewale, 2022). The Nigerian exports to ECOWAS by the end of that quarter exceeded even the previous year's outcome. As a result of the border closure, a shooting star in Nigeria's trade history ended. As at the third quarter of 2022 (before this article), Nigeria's exports to other ECOWAS countries have not returned to the peaks of 2019. Nigeria's imports from ECOWAS barely reached ten percent of its exports in all these years (Ojewale, 2022).

Advantages And Disadvantages Of The Land Boarder Closure In Nigeria

Advantages

The closure of the land border is expected to result in an increase in government revenue from customs duties. As a result of the closing of the border, the customs office has been collecting an average of between 4.7 billion and 5.8 billion in daily revenue, which is significantly higher than that which was previously available. Closing the border also increases local production by making local goods comparable in price with imported goods that come into the country through other channels that are still open, as importers will be forced to pay the applicable tariffs on these goods. The decrease in imports also provides ample opportunities for local producers to sell their products to local consumers.

Disadvantages

Among the major disadvantages of the land border closure is that it has increased staple food prices in Nigeria. This is particularly true for rice, which is a popular food in the country. Considering that many Nigerian states have not implemented minimum wages for workers, any increase in staples or other products will negatively impact many Nigerians. In addition, local farmers have not been able to capitalize on the sudden increase in demand due to the land border closure. Moreover, it has a negative impact on informal traders who cross

borders. As there is no available data on the informal trade across the land border, it is almost impossible to estimate its value and volume, but it is likely to amount to several millions of naira daily and provide several thousand with a means of income

CONCLUSION AND SUGGESTION

Despite the claim of the Federal Government that there will be massive gains from the closure of its border, data from the National Bureau of Statistics (NBS) and key members of the organized private sector indicate that the country may be on the losing end of the transaction. Even though the country boasts of its successes, especially in curbing rice and fuel smuggling to neighboring countries, experts maintain that the closure of the border is likely to be a futile exercise unless the Nigeria Customs Service (NCS) addresses underlying issues relating to border protection and the respect for trade protocols. Upon reviewing available data, it can be seen that trade contributed significantly to the third quarter of the Gross Domestic Product (GDP), inflation figures remained unchecked, and local manufacturers, particularly for export-bound goods, have also experienced a slowdown as inventories increased (Adekoya, Jeremiah and Richards, 2019).

According to the NBS, over a trillion naira has not been saved from the land border closure, even as the country's exports are suffering. Some neighboring countries, including Ghana, are looking for alternative suppliers for products hitherto supplied by Nigerian companies. According to some operators, Nigeria is the leading supplier of trade goods along the Abidjan-Lagos corridor. The closure of the Seme-Krake border has affected many semi-processed products and manufactured goods being exported to Benin, Togo, Ghana, and Cote d'Ivoire. From January to September 2019, NCS claimed to have generated about N1.002t in revenue. However, according to the CBN's monthly economic report, Customs and Excise duties generated revenue of N689.7b between January and October (Oladimeji, 2019).

There was no formal communication with government officials of these neighboring countries before the closure of the Nigeria-Benin-Niger and Cameroon borders in August 2019. All goods except oil were to be stopped from being imported and exported. As outlined in the 2017-2020 Economic and Recovery Growth Plan, the closure is part of Nigeria's economic strategy to combat smuggling, increase local production, and protect local producers. Several hundred billion naira (\$303,614,300 US dollars) are lost to smuggling activities across the Nigerian-Benin border every year (Liedong, 2019 in Ani, Baajon, & Samuila, 2020).

Based on these, the study recommended that: The government or policymakers should develop a strategy that will reduce production costs through the provision of the necessary infrastructure such as roads and water supply. Governments should also remove financial constraints, ensure easy access to land, and provide farmers with comprehensive agricultural extension services to help them adopt modern techniques, improve yields, adapt to climate change, and make profits. Policymakers in Nigeria should eliminate dysfunctional economic policies that provide incentives for smuggling in the first place, e.g., lifting indiscriminate embargoes on goods so that prices can stabilize at levels comparable to those of neighboring countries.

The Nigerian government has a responsibility to enhance the efficiency of its institutions to facilitate mutual trade with the rest of the world by combating corruption and the weak enforcement of trade protocols by customs officials. Last but not least, the deployment of

telecommunications technology such as scanners at the border, and the modernization of the port infrastructure will provide greater ease of trading across sea borders.

CONFLICT OF INTEREST

The authors declare no conflict of interest.

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