

**TECHNICAL REPORT**

**ON**

**CRITICAL ASSESSMENT OF LEGAL IMPLICATIONS AND ECONOMIC IMPACT OF LOCKDOWN OF ACTIVITIES IN NIGERIA.**

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**17/ENG01/018**

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**IN FULFILLMENT OF REQUIREMENTS FOR THE AWARD OF BACHELOR OF ENGINEERING (B.ENG) DEGREE IN CHEMICAL ENGINEERING.**

Two months ago, Nigeria slapped restrictions on cross-border trade with its neighbours, but there are mixed signals as to whether the controversial move is benefitting the country.

On August 19, President Muhammadu Buhari dramatically closed Nigeria’s land frontiers to goods traded with Benin, Cameroon, Chad and Niger, saying its economy needed to be protected from rampant smuggling.

The move has met with howls of pain in Benin especially, and cast a shadow over a newly-minted agreement to scrap restrictions on trade among African economies.

But has it been beneficial for Nigeria, as the government has sought?

Evidence seen by AFP suggests that any benefits are at the macro level — and the country’s many poor are likely to be among the losers.

The two main commodities being smuggled were petrol and rice.

Petrol was being sneaked out from Nigeria, where subsidies make the fuel half as cheap as in its neighbours, and resold.

Rice, on the other hand, was being brought into Nigeria, where consumers favour imported Asian-grown varieties over the locally-grown competitor, from Benin via its port in Cotonou.

The most visible winner from the closure is the Nigerian treasury, which has benefited from the falling cost of petrol subsidies and from a rise in customs receipts.

“Nigeria, to its detriment, may have inadvertently subsidised (fuel) supply to a few West African countries for more than 12 years,” the Nigerian consultancy Cardinal Stone said in a report this month.

Sales of gasoline in Nigeria fell by 12.7% after the border closure, which indicates that millions of subsidised litres are being secretly taken abroad for resale, it said.

The reduction in consumption, if sustained, could lead to subsidy savings of around 13.5 billion naira ($37 million) monthly and 162.1 billion naira annually, it estimated.

In early October, Nigeria’s customs chief, Hameed Ali, said customs receipts had reached a record level, of five billion naira daily, since the closure, with the bustling port of Lagos benefitting most as imports rise through official channels.

Gain and pain

As for rice, the country’s agriculture lobby is loudly supporting the border closure.

Ade Adefeko, a senior executive in charge of corporate relations with the food giant Olam, said investment in Nigerian agriculture was being hamstrung by the rice trafficking, which is estimated to reach two million tonnes a year.

Olam has the biggest rice-growing business in Nigeria, owning 13 000 hectares (30 000 acres) of cultivable land of which only 4 500 hectares are being used because the sector is “not profitable” in the face of competition from Asian rice, he said.

But “since the border closure, locally-milled rice has started selling, and the entire rice value chain has been positively impacted by the closure,” Adefeko said.

He called for the border closure to be maintained “until the end of the year, and see how it goes on a longer term.”

The customs chief Ali on Monday told reporters there was no “time limit… It will continue as long as we can get the desired results.”

But if the border closure is a boost for domestic growers, it has led to price increases for consumers.

The price of a 50-kilo (110-pound) bag has more than doubled to 20 000 naira, roughly the entire monthly income of a Nigerian living in extreme poverty — of whom there are an estimated 87 million in the country.

Traders in Lagos Island, a vast market of Made in China textiles and gadgets, say the closure of the borders had crimped supplies via Benin’s Cotonou.

“Lagos port is too slow and you have to pay too many bribes to get your goods out,” said a swimsuit hawker. “I have to cut down my margin by half.”

The annual inflation rate has edged up to 11.24% in September, while food inflation ran at 13.51%.

The implication of Covid’19 on the Nigerian Economy

**The Global Health Hazards and Economic Impacts of COVID-19**

In December 2019, a cluster of pneumonia cases from an unknown virus surfaced in Wuhan, China. Based on initial laboratory findings, the disease named Coronavirus disease 2019 (abbreviated as COVID-19), was described as an infectious disease that is caused by severe acute respiratory syndrome coronavirus 2. The COVID-19 outbreak has since spread to about 196 countries and territories in every continent and one international conveyance across the globe. While there are ongoing efforts to curtail the spread of infection which is almost entirely driven by human-to-human transmission, it has accounted for over [400,000 confirmed cases with over 18,000 deaths](https://www.worldometers.info/coronavirus/)[[1]](http://cseaafrica.org/the-implication-of-covid19-on-the-nigerian-economy/#_ftn1).

Beyond the tragic health hazards and human consequences of the COVID-19 pandemic, the economic uncertainties, and disruptions that have resulted come at a significant cost to the global economy. The United Nations Trade and Development Agency (UNCTAD) put the [cost of the outbreak](https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2300) at about US$2 trillion in 2020. Most central banks, finance ministries and independent economic experts around the world have taken solace in the prediction that the impacts might be sharp but short-lived, and economic activities would return to normal thereafter. This line of thought mirrors the thinking of the events that shaped the 2007 global financial crisis. However, it is quite instructive to note that the 2007 crisis which emanated from the United States’ [subprime mortgage crisis](https://www.cnbc.com/id/18718555) was mainly an economic phenomenon, with its fallout spreading across many regions of the world. When compared to COVID-19, the 2007 crisis could be described as minor and manageable. The tumultuous events that COVID-19 had spread across the globe cut across every facet of human existence and the consequences may linger [beyond the second half of 2020](https://www.weforum.org/agenda/2020/03/the-economic-geopolitical-and-health-consequences-of-covid-19/).

The slowdown in the global economy and lockdown in some countries, such as Italy, Spain and most Eurozone economies and beyond, as a result, COVID-19 has also taken its toll on the global demand for oil. The decline in oil demand is estimated to surpass the loss of nearly 1 million barrels per day during the 2007-08 recession. This is also coming at a time when two key players in the global oil industry – Russia and the OPEC cartel – are at loggerheads on the decision to cut output. The unequivocal oil price war started between these two global oil market giants may have more dire consequences on the oil price that has started to dive. .

Sector-specific implications and impacts could vary. For example, the impacts on the global aviation and tourism sectors are a result of the implications of the pandemic on global travel. As discretionary spending by consumers continues to decline, cruise companies, hotels, and hospitality are facing declining demand and patronage. For example, in Hungary alone, about 40 to 50% of hotel reservations have been [canceled](https://hungarytoday.hu/tourism-and-hospitality-industries-hit-hard-due-to-coronavirus/). Also, the pandemic is placing up to [8 million jobs in the leisure and hospitality sector](https://www.usatoday.com/story/money/2020/03/17/covid-19-job-cuts-layoffs-coronavirus-economy/5068695002/) at risk, with travel crashes and cancellations expected to continue. Moody’s Analytics, a rating agency, stated that more than half of the jobs in the United States which is about [80 million](https://www.cnn.com/2020/03/16/economy/job-losses-coronavirus/index.html) may be in jeopardy.

The virus is also taking its toll on health facilities and infrastructures across the globe. Italy is currently the largest affected country with a number of deaths surpassing China, since the outbreak of coronavirus. Across northern Italy, the virus has pushed the country’s National Health Service to a breaking point, emphasizing the test that other countries, especially developing and low-income countries, might face in their approach to contain the virus spread. Most hospitals and health facilities that could not handle the hazards are resulting to operating below their capacity by taking a few regular health-related cases or shutting down. What could be more devastating is the fact that the economic pains that accompanied the virus might not go away soon as envisaged.

The conventional policy measures currently being taken such as reducing interest rates and costs of borrowing, tax cuts and tax holidays are quite remarkable. However, these conventional policy measures are quite potent when there are demand shocks. There are limitations to the successes that can be recorded when demand shocks are combined with supply shocks. It is already apparent from the emergence of the current crisis that there are implications on the economy from both the demand and supply sides. Some of the demand factors include social distancing with consumers staying at home, limitations in spending and declining consumptions. On the supply side, factories are shutting down or cutting down production and output, while in other instances, staff work from home to limit physical contact.

The decision to close educational institutions and schools around the globe in an attempt to contain the pandemic has also led to a soaring number of children, youth and adults not attending schools. According to UNESCO Monitoring report on [COVID-19 educational disruption and response](https://en.unesco.org/themes/education-emergencies/coronavirus-school-closures), the impact of school closures in the over 100 countries that have implemented the decisions around the world has impacted over half of the global students’ population. These educational disruptions are being escalated particularly for the most vulnerable members of society.

**Bracing up for COVID-19 consequences on the Nigerian economy**

For most developing economies, the odds of sliding into a downturn are gradually expected as the global coronavirus outbreak puts severe pressure on the economy. For Nigeria, the country is still sluggishly grappling with recovery from the 2016 economic recession which was a fall out of global oil price crash and insufficient foreign exchange earnings to meet imports. In the spirit of economic recovery and growth sustainability, the Nigerian federal budget for the 2020 fiscal year was prepared with significant revenue expectations but with contestable realizations. The approved budget had projected revenue collections at N8.24 Trillion, an increase of about 20% from 2019 figure. The revenue assumptions are premised on increased global oil demand and stable market with oil price benchmark and oil output respectively at $57 per barrel and 2.18 Million Barrels Per Day.

The emergence of COVID-19 and its increasing incidence in Nigeria has called for drastic review and changes in the earlier revenue expectations and fiscal projections. Compared to events that led to recession in 2016, the current state of the global economy poses more difficulties ahead as the oil price is currently below US$30 with projections that it will dip further going by the price war among key players in the industry. Unfortunately, the nation has grossly underachieved in setting aside sufficient buffers for rainy days such as it faces in the coming days. In addressing these daunting economic challenges, the current considerations to revise the budget downward is inevitable. However, certain considerations that are expected in the review must not be left out. The assumptions and benchmarks must be based on realizable thresholds and estimates to ensure optimum budget performance, especially on the non-oil revenue components.

Furthermore, cutting expenditures must be done such that the already excluded group and vulnerable are not left to bear the brunt of the economic contraction. The economic and growth recovery program which has the aim of increasing social inclusion by creating jobs and providing support for the poorest and most vulnerable members of society through investments in social programs and providing social amenities will no doubt suffers some setbacks. Besides, the downward review of the budget and contractions in public spending could be devastating on poverty and unemployment. The last [unemployment report](https://www.premiumtimesng.com/news/headlines/301896-nigerias-unemployment-rate-rises-to-23-1-nbs.html) released by the National Bureau of Statistics (NBS) ranks Nigeria 21st among 181 countries with an unemployment rate of about 23.1%. The country has also been rated as the poverty capital of the world with an estimated 87 million people living on less than $2 a day threshold.

The decision to cut the retail price of gasoline under a price modulation arrangement is a welcome development. The cut is expected to curb rising inflation, especially food price inflation which will mainly benefit the poor. However, rather than the price capping regime introduced, by which it is expected of the Petroleum Products Price Regulation Agency (PPPRA) to constantly issues monthly guide on appropriate pricing regime. It is expected that the government will use this opportunity to completely deregulate the petroleum industry in line with existing suggestions and reports. In the event that the global economy becomes healthier and crude oil prices increases, the government might return to the under-recovery of the oil price shortfall by the Nigerian National Petroleum Corporation (NNPC). A policy that annually costs the government huge revenue and recurring losses to the NNPC.

Basically, the Nigerian government essentially must lead economic diversification drive. It is one practicable way to saddle through the current economic uncertainties and instabilities. What the consequences of COVID-19 pandemic should further offer the Nigerian economic managers and policymakers, is that the one-tracked, monolithic reliance on oil is failing. Diversification priorities to alternative sectors such as agriculture, solid minerals, manufacturing and services sectors, should be further intensified.