

Reverse Dutch Disease with Trade Costs: Prospects for Agriculture in Africa's Oil-Rich Economies

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World crude oil prices fell by over 70 percent from June 2014 to January 2016 and have remained relatively low since then. This paper explores the extent to which the agricultural sector of oil-rich African economies — a tradable sector of comparative advantage facing high trade costs — is likely to benefit from the decline in oil revenues through a process of reverse Dutch disease. I show that since becoming major oil exporters, these countries have switched from being net agricultural exporters to net agricultural importers, and their agricultural production has shifted towards nontradable goods. I then build a three-location model with both internal and external trade costs, in which changes in the level of revenues from an enclave resource sector lead to transitions between five distinct trade regimes. Importantly, trade costs create two regimes in which the agricultural good behaves like a nontradable good, insulating farmers from Dutch disease effects. The model's predictions are broadly consistent with Nigerian household survey data from before and after the fall in oil prices. Nigerian households have shifted both land and labor into agriculture since 2014, and the acreage response has been larger in areas more exposed to international markets. Counterfactual policy simulations using my calibrated model show that while increasing external trade costs (as Nigeria has) may benefit isolated farmers in the short run, lowering trade costs and improving productivity can offset resource revenue losses by enabling farmers to transition toward competitive exports to the elastic world market.