Impact Of Trade Policy On Nigeria Economy

1.1 Background to the Study

Trade has long been acknowledged as an authentic way through which the quest of nations for enhanced well-being of their citizens could be accomplished (Oluwaleye, 2014). Adam Smith suggested that division of labour and specialization, and the search for foreign trade is the real way to increase the fortune of nations (Ajayi, 2010). He further stated that division of labour was limited by the size of the local market (Bakare, 2011).

Developing countries continue to witness underdevelopment despite the economic growth of the early and late sixties (Mesike, Kayode & George, 2008). This predicament which is evidenced in low productivity, high rates of inflation, high rates of unemployment, deterioration in standard of living, huge external debts, social and political chaos, etc. prompted the countries to promulgate one trade policy or the other (Mesike et al., 2008). Nigeria, with the purpose of liberalization of the economy as well as attainment of greater openness and greater integration with the world economy, has put various policies in place in order to ensure that the Nigerian economy enjoy a higher degree of openness (Oluwaleye, 2014). Policies such as maintenance of stable and consistent macroeconomic policies, elimination, over the medium term, of the commercial function of the public sector through deregulation and privatization, as well as through additional trade exchange liberalization, various export incentives, bilateral, regional and trade preference agreements with other countries and many more (ibid).

There has been a significant shift in trade policy direction towards greater liberalization since 1986 (Oluwaleye, 2014). This shift in trade policy can be directly attributed to the adoption of Structural Adjustment Programme. It provided for a seven-year (1988 – 1994) tariff regime, aiming at achieving transparency and predictability of tariff rates objective. The regime of Gen. Sanni Abacha (1993 – 1998) abandoned some aspects of the economic reform and pursued what it called “guided deregulation” (Adeyemi, 2006). Gen. Abdusalam Abubakar laid legal framework for the second phase of the privatization exercised and continued under President Obasanjo (1999 – 2007) regime.

The trade policy regime from 1999 has been geared to enhance competitiveness of domestic industries with a view of encouraging local value-added and promoting as well as diversifying exports. The strategy is to encourage private sector-led economic growth. The policy focus, among others includes acceleration privatization, liberalization and private sector development (Spanu, 2003). According to Uri Dadushi, the Director of the International Trade Department of the World Bank, World Bank continues to support its position that trade liberalization encourages economic growth if other conditions such as macroeconomic stability and good governance are met. He believes that openness of market could generate an additional increase of 1 – 1.5 percent of growth per year (Winters, 2004).

An assessment of Nigeria's trade policy from 1960s till date reflects a trend which has been known to characterize uncertain and unpredictable trade regimes all over the world. According to Adenikinju (2005), trade policy has witnessed extreme policy updates from high protectionism in the first few decades after independence to its current more liberal stance. Tariffs have been

used at various times to raise fiscal revenue, limit imports to safeguard foreign exchange or even to protect the domestic industries from competition. In addition, various forms of non-tariff barriers such as quotas, prohibitions and licensing schemes have been extensively used on various occasions to limit imports of certain items. The overall pattern portrays the long-held belief that trade policy can be used to influence the trade regime in directions that can promote economic growth. Attempts have been made to use trade policy to promote manufactured exports and enhance the linkages in the domestic economy towards increasing and stabilizing export revenue, and scale down the country's over-reliance on the oil sector (Olaniyi, 2005). Trade policies were accordingly directed at discouraging dumping; supporting import substitution; stemming adverse movements in the balance of payments; conserving foreign exchange; and generating government revenue (Bankole & Bankole, 2004).

However, during the first decade of independence, Nigeria pursued an import substitution industrialization strategy. Trade policy was used to provide effective protection to local manufacturing industries, through measures such as quantitative restrictions and high import duties. Many items were accordingly placed on import prohibition. All imports from Japan, during the period, were placed under import license. Imports of machinery and spare parts were restricted and exchange controls on the repatriation of dividends and profits were enforced. Similarly, restrictions were also applied on capital goods, spare parts and non-essential imports (Briggs, 2007).

More so, from 1981, there was a policy shift towards exports promotion and a move to intensify the use of local raw materials in industrial production. However, the increase in the value of imports led to a worsening of the balance of payments (in addition to the backdrop of the collapse in world oil prices). This led to the government promulgating the Economic Stabilization (Temporary Provisions) Act in April 1982. Under this Act, tariffs on 49 items were increased, while prohibitions were imposed on gaming machines and frozen poultry. Therefore, 29 commodities were removed from the general import license and positioned under specific license, while the use of pre-shipment inspection became widespread. During 1983 - 1985, 152 commodities were brought under specific import license, and foreign exchange regulations were made more stringent (Briggs, 2007). The central objective of trade policy was to provide adequate protection for domestic industries and reduce the perceived reliance on imports; a corollary to that objective was an aim to reduce unemployment and generate more revenues from the non-oil sector. Accordingly, tariffs on raw materials and intermediate capital goods were reduced (Ogbaji & Ebebe, 2013, Anaba, n.d.).

Presently, Nigeria’s trade policy regime as currently contained in the NEEDS and trade policy documents, has been geared to enhancing competitiveness of domestic industries, with a view to, encouraging local value-added and promoting as well as diversifying exports. The mechanism currently being adopted is the gradual liberalization of the trade regime (Akinyemi, Ebiefie, Adekojo & Ibiyemi, 2014). Thus, the government intends to liberalize the trade regime in a way that will ensure that the resultant domestic costs of adjustment do not outweigh the benefits. This is the fundamental basis on which the government gauges the direction and implementation of policy (Akinyemi et al., 2014).

NEEDS is a medium-term economic strategy that covers the period 2003 – 2007 (Ikeanyibe, 2009). It has been described as Nigeria’s vision for a greater tomorrow, its plan for prosperity (ibid). In that perspective, NEEDS focuses on four key strategies namely, reorienting values, creating wealth, reducing poverty and generating employment (National Planning Commission

(NPC), 2005). These four key visionary goals are further built into three major macroeconomic frameworks, namely, empowering people, promoting private enterprise and appropriately reordering approaches to governance. The overall long-term vision of NEEDS are social and economic transformation of Nigeria on a sustainable and competitive basis (NPC, 2005).

1.2 Statement of the Problem

As part of the efforts by many African countries to regain financial and economic balance, government officials have increasingly turned their attention to improving trade policies. Various trade policies in Nigeria made far reaching attempts at revolutionizing the Nigeria's economy in all facets. Examples of such trade policies are the exchange control measures, during the Pre-SAP policy era, the trade barriers in the form of imports licensing, customs tariff structure which was deliberately discriminatory, biased in favour of capital goods and raw materials, very high import tariffs on luxury goods, foreign exchange budgeting in 1971/72, intensifying of import licensing, ban on of non-essential items, increase in the prices of crude petroleum in 1973, abolishment of import and export licensing during SAP, 100 percent retain of exporters' export earnings in their domiciliary accounts, etc. All the trade policies from 1960 to present, by different regimes were equally aimed at properly structuring the country to be more people centered. The magnitude of the distortions in the economy ushered in by the culture of controls made it imperative for government to take urgent and drastic actions to ameliorate the situation. Thus, in July, 1986, the Structural Adjustment Programme (SAP) was introduced to tackle the problem of imbalances in the economy and thereby pave the way for stable growth and development.

The adoption of the Structural Adjustment Programme (SAP) was aimed at correcting the witnessed distortions in the economy during the concluding years of the Fourth National Development Plan. The effect of these policy initiatives was positive on the overall performance of the economy, especially during the early years of the adoption of the SAP. Other than the decline experienced in 1987, the GDP growth rate was 9.9 percent in 1988 (at 1984 factor cost), and averaged 5.8 percent between 1989 and 1992. Regardless of the favourable overall performance of the economy, the pattern of domestic output did not change from what it was before the introduction of SAP. The share of agriculture in total output, up to 1988, continued to surpass that of the other sectors of the Nigerian economy.

Apart from 1986, when manufacturing activities declined, the rate of production increased continuously up to 1992, later declined between 1993 - 1996. The share of manufacturing output to GDP averaged 6.3 percent in 1986 - 1992, as against 9.0 percent between 1980 and 1985. The reduction in the contribution to GDP was due to the relatively slow rate of adjustment to the new backward integration strategy designed to make the economy self-sufficient in the manufacturing sub-sector and relieve the balance of payments from demand pressures (Ogbaji & Ebebe, 2013). Industries that were able to find alternative sources locally for their raw materials had a boost in their capacity utilization standing between 56 - 60 percent for most part of the post-SAP period.

The problem now is that Nigeria is yet to have a stable economy despite all the changes in policy thrust and various amendments. This study therefore seeks to answer the problem: has Nigerian trade policies have effect on the economic development of Nigeria, if yes, to what extent and if it has not, why? Looking at the problem of this study in the above context become

necessary in other to identify gaps that can be established in the course of study.

1.3 Research Questions

This research work is guided by the following research questions:

1. Does trade openness have effect on the economic development of Nigeria?
2. How far does the net export affect the economic development of Nigeria?
3. Does balance of payment have effect on the economic development of Nigeria?
4. How far does exchange rate affect the economic development of Nigeria?

1.4 Objectives of the Study

The aim of this study is to examine the effects of trade policy on the economic development of Nigeria. The following are the specific objectives of this research work:

1. To determine the effect of trade openness on economic development of Nigeria?
2. To examine the effect of net export on economic development of Nigeria?
3. To find out the effect of balance of payment on economic development of Nigeria?
4. To evaluate the effect of exchange rate on economic development of Nigeria?

1.5 Significance of the Study

This study is very significant in many respects. It serves as a yardstick for understanding the justification for trade policy and its significance on the Nigeria economy. It also shows the bearing of policy flow that would be favourable to the realization of speedy economic growth that could spur development.

Also, the findings of the study would improve the quality of knowledge in the area of trade policy and its effects on the Nigerian economy. Individuals will understand how policies and programs are formulated by government, in order to know how to react to certain trade policies of the government.

The findings will also help government to be more responsible and responsive to trade policy needs of the people as they would be aware of the level of intervention required to leverage the trade and commercial sector of the economy for speedy development.

Other researchers will benefit from the findings of this study as it poses a challenge for further and adequate researches in area of trade policies regimes as to how it affects the economy.

1.6 Scope of the Study

The research work is delimited to the Nigerian economy. Hence, the data considered for the study are data relating to the effect of trade policies on economic growth of Nigeria. The study is also delimited to the components of trade policy such as trade openness, balance of payment, net export and exchange rate as it relates to the Nigeria economy’s growth and development. Basically, the study covers a period of 6 years (2010-2015).

1.7 Operational Definition of Terms

Trade Policy: This comprises the rules and regulations formulated to change how international trade is carried out, most importantly to monitor imports.

International Trade: This is the exchange of goods or services along international borders. International Trade promotes competition and improved competitive pricing in the market.

Trade Openness: This is the aspect of trade policy that either invite or restrict trade between countries.

Trade Liberalization: This is the control of restrictions or barriers on the free exchange of goods between countries either by removal or reduction.

Net Export: This is the difference between the total value of exports and imports of a country. Depending on whether a country imports more goods or exports more goods, net exports can be a positive or negative value.

Exchange Rate: This is the ratio at which a unit of the currency of one country can be exchanged for that of another country.

GDP: This is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Economic Development: This can be defined as efforts that seek to improve the economic well-being and quality of life for a community by creating and/or retaining jobs and supporting or growing incomes.