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The Impact of Multilateralism and Regionalism on Trade Policy Effectiveness in Nigeria

Harrison O. Okafor Ph.D
Research Division, National Institute for Legislative Studies, National Assembly, Abuja - Nigeria.
agiboy2000@yahoo.com

Abstract

This paper examines the impact of multilateralism and regionalism on the effectiveness of trade policy performance in sub-Sahara Africa with particular evidence from Nigeria. The paper critically assesses the implications of the multilateral trading system along the increasing but asymmetric interface between multilateralism and regionalism on SSA. The issues relating to market access and export supply response to incentives derived from the various agreements provided basis for this reasoned analysis. It is revealed that the multilateral trading system has not benefited the SSA relative to other regions like Asia. Perhaps, internal and external constraints associated with poor economic fundamentals, asymmetries between the rules of the game and the development aspirations of the nations and lack of capacity to negotiate undermine the effectiveness of trade policy in the region. To tap fully on the potentials expected from the pro-neoclassical policy however, a new framework that offers African nations including Nigeria stronger voice to renegotiate in line with their fundamentals should be invoked.

Key Words: Multilateralism, Regionalism, Market Assess and Export Supply Response.

1. **Introduction**

Since the end of the second world war in the mid 1940's, a major feature of the global economic landscape is the emergence of diverse multilateral and regional groupings and organizations. The motivations for such multilateral and regional blocks range from wanting to promote regional solidarity and integration to building a strong world trade and financial architecture that could widen domestic markets and access as well as to promote economic growth and development. The scope, magnitude and enabling rules of such organizations tends to either sharpen or restrain economic order for the members particularly for emerging market economies and developing countries of the world. A critical examination of this indicates that the decision to join multilateral and regional organizations bears close nexus with the outward orientation policies of nations. Interestingly, export promotion and organize access to global markets seem to be among the overriding targets of nations particularly countries of the Sub-Sahara African (SSA) nations.

Nigeria belongs to a number of multilateral and regional organizations including the World Trade Organization (WTO), Economic Community of West African States (ECOWAS, African Development Bank (AFDB), the World Bank and the International Monetary Fund (IMF). More also, Nigeria's participation in some of these organizations have sharp implications for her commercial and trade policies. For instance, Nigeria has, since 1986, abandoned the Import-Substitution Industrialization (ISI) strategy and embraced an outward-oriented trade policy strategy (trade liberalization policy) as one of the central plank of its Structural Adjustment Programme (SAP). The participation in the last round of the Uruguay General Agreement on Trade and Tariff (GATT) that metamorphosed into the WTO, the establishment of the Export Free Zones (EFZs), its participation in the Doha round agreement and the various negotiations of the Economic Partnership Agreements (EPAs) as well as the implementation of the ECOWAS Common External Tariff (CET) were some of the major policy initiatives derived from these multilateral and regional negotiations and agreements.

These policies have been primarily targeted at accelerating domestic investments and productive base, as well as improving the competitiveness of exports. Thus, the effectiveness of these policy strategies is contingent on how effective it is able to adequately improve productive base at home and having access to external markets and overall trade performance (Soludo, 1995 and Ogunkola, 2001). Currently, the global economy has been buckled with serious challenges arising from non-synchronization and reciprocation of trade rules and principles, and the increasing obligation of buying into some of the complex rules and difficult demands of these organizations due to the dynamics of the global economic environment. More importantly, other issues ranging from institutional governance, operational and implementation issues have continued to undermine the capacity of African countries to realize the goals of the multilateral trading system. This paper, therefore, seeks to evaluate the impact of multilateral and regional trade negotiations and agreements on the trade policy effectiveness vis-à-vis trade in goods and services of selected Sub-Sahara African countries with particular evidence from Nigeria.

There are two observable implications that can be deduced from this reasoned analysis. First, the Multilateral Trading System (MTS) institutional arrangement hinging on conformity of rules and trade retaliation dynamics have adverse effects on SSA countries effective participation in regional integration. Second, despite the current state of affair, multilateralism could still be beneficial to developing countries of SSA if they have adequate capacity to negotiate and implement rules that recognizes their developmental aspirations and needs. Following this introduction, section two considers the trade policy strategies of Nigeria while the concept of multilateralism and regionalism form the nucleus of section three. The literature review is contained in section four with the implications of multilateralism and regionalism on Nigeria's trade policy performance in section five. Section six covers the conclusion of the study and the policy import of the study.

2. Trade policy and Performance in Sub-Saharan Africa: Evidence from Nigeria.

The literature is replete with rich documentation of the history and consequences of the trade policy strategies of SSA nations since independence. This is classified into two regimes: the pre and the post Structural Adjustment Programme (SAP) eras. For instance, the Nigerian trade policy during the pre SAP was highly restrictive. In the quest for development after the political and economic independence, a major trade policy strategy adopted in Nigeria was the Import Substitution Industrialization strategy. The policy was anchored on the importation of key spare parts and assemblage plants to aid manufacturing subsectors value-added. Despite the modest contribution of the ISI to manufacturing sector capacity utilization, the policy was confronted with a number of challenges including overvaluation of the exchange rate, lack of competitiveness of the economy and total neglect of the agricultural sector which affected non-oil export. A prominent factor that characterized this scenario was the attendant shift to the oil sector which manifested deep shocks to the economy during the global recession of the late 1970s and early 1980s. Thus, efforts were doubled to move away from inward looking policy to more outward looking policies with huge focus on export oriented economy in most part of the world.

As a general philosophy guiding the structural adjustment programme, an outward looking strategies of the external sector anchored on export promotion was favoured. The export promotion strategies were structured into two variants: the provision of export credits guarantees scheme and policies centered on securing market access through regional integration concerns. The plank of export promotion strategies was spelt out in the export incentive Decree No. 18 of 1986. The Export Credit Guarantee and Insurance Schemes were established to assist Nigerian companies to compete effectively in the international market. A compensatory scheme was also put in place to enable exporters of locally manufactured goods to claim subsidies from the export adjustment fund as well as the export expansion fund. Foreign exchange market was equally liberalized to enhance foreign trade.

Other measures include exports proceed retention scheme, export license waiver, rediscounting of short-term bills for exports, and additional annual capital allowance of five percent on plants and machinery, provided that the firm exports at least 50 percent of its annual turnover. The Nigeria Export-Import Bank (NEXIM) was established to facilitate the promotion of manufactured exports in Nigeria. The Nigerian Investment Promotion Council (NIPC) which replaced the Industrial Development Coordinating Committee (IDCC) was set up to coordinate the export promotion strategies of the government while the government also established the Nigeria Export Free Trade Zone (EFTZ) authority in Calabar in collaboration with the Federal Ministry of Commerce and Industry and other relevant stakeholders like the Organize Private Sector (OPS).

Moreover, the policy measures adopted to enhance market assess were anchored on the various trade negotiations and agreements particularly after the post Uruguay round held in 1994. Nigerian engaged herself in several trade agreements and negotiations to promote her access to the external markets. The preferential schemes enjoyed by the SSA countries under the non-reciprocal Generalized System of Preference (GSP) of the European Union-African Caribbean and Pacific ACP countries, the Everything-But Arm (EBA) of the EU and the African Growth Opportunity Act (AGOA) of the USA were all intended to promote trade. A prominent feature of some of these is the non synchronization and conformity with the WTO rules. This has further invoked the current renegotiations with implicit implications for the developing countries of SSA.

3. Multilateralism and Regionalism Experience in SSA

Apart from the Lome convention that was later replaced by the Cotonou agreement between the European Union and the ACP countries, the first major multilateral arrangement some developing countries of Sub-Sahara Africa participated in the world is the General Agreement on Trade and Tariff (GATT) which was transformed into the World Trade Organization (WTO) in January 1995. The ultimate goal is to promote freer trade and economic relationships among members. With the core principles of removing all forms of trade discrimination and national treatment, the responsibility of WTO included the administration and implementation of over 60 trade agreements on variety of issues ranging from Trade in Goods and Services to Trade-Related aspect of Intellectual Property Rights (TRIPS) (see, Agbaje and Jerome 2005).

More fundamentally, the new rule was expected to provide new trading regimes that would further integrate economies deeper into the world trading system. Against these background, several nations that were signatory to the pact including African nations have participated with great enthusiasm in one form of agreement or the other (Agbaje and Jerome, 2005). For example, Nigeria unlike most other developing countries' became a signatory to WTO in 1995 and in that instance, was required to accept all the 12 multilateral trade agreements at the time of incorporation (Soludo, 1995). The general framework of the WTO is the single undertaking principle which does not recognize development status of the participating members' policy space. In other words, it takes every member as obligatory to the multilateral trading rules.

Regionalism on the other hand, is based on discrimination but goes beyond national treatment towards mutual recognition and/or the harmonization of national policies and the creation of supranational governance mechanism (Soludo, 1995). Mainstream economic analysis revealed that regionalism has re-occurred to promote welfare and as a defensive instrument against multilateral fallouts for her members. Moreover, the structure of regionalism is hardly different from multilateral arrangement except for the reason and scope. Despite the WTO Article XXIV discipline that offered such opportunity and bounds for Regional Trade Agreements (RTAs), balancing of obligations against rights has raise serious tensions in trade concerns for many SSA nations. In Africa, there are variants regional arrangements across the African continent. These include the SADC, EAC, WAEMU, CAEMU, ECOWAS, Asia Maghreb zone etc.

A more fundamental issue in this right concerns the link between the costs and benefits of participating in these multilateral and regional trade arrangements. In broad term, issues relating to rights and obligations are even more critical in undertaking an assessment of the performance of African countries in the global trade architecture (Oyejide, 2010 and Agbaje and Jerome, 2005). There are equally other important issues ranging from institutional governance and operational framework of MTS to the capacity of SSA countries in implementing these rules which have monumental implications for African countries to realize the goal of the multilateral trading system. Therefore, the next sections offer a critical assessment of the impact of multilateralism and regionalism on the trade policy performance.

4. Review of Related Literature

One main controversy that is largely unresolved in the literature is whether regionalism promotes or hinders external trade. From theoretical perspective, it has been suggested that trade liberalization leads to freer economic relations among countries. Thus, trade facilitation is one major benefit expected from such policy space, and perhaps, remains the driving force for the growing wave of preferential trading agreements (PTAs) Nathan (2007), Rodrick (2005) and WTO (2007). Accordingly, most developing countries have integrated trade policy into the circuit of their economic policy in line with their national aspirations vis-à-vis poverty reduction, improved trade taxes and income generation Nathan (2007), Olaniyi (2005) and Bankole (2005). This assertion favours the views of those who see multilateralism and regionalism as a weapon to foster deep economic integration. On the other hand, the opponents of this view argue that regionalism erects some walls that could restrain free trade. Against these backgrounds, several issues have dominated the debate on the pros and cons of multilateral trading system.

The WTO being the institution governing the new multilateral trading system is guided by principles such as non-discrimination, amplified under such concepts as the most-favoured nation (MFN) status and national treatment, transparency, coherence and predictability; and increased tariffication or tariff bindings. These elements provide the basis for adjudging the potency of the WTO in administering the trade rules in a predictable manner. For instance, lowering tariff in a non-discriminating status is one focal instrument applicable to this new regime. Therefore, the implications of abiding by these obligations without mutual recognition of the strength of least developed and developing countries by the WTO disciplines have manifested a lot of challenges and opportunities (reducing and binding tariffs) for Sub-Saharan African countries (Rodrick, 2007). This draws closely to the institutional governance and operational framework of multilateral trading system (MTS).

Adenikinju (2005) argued that the multilateral trade rules under the aegis of the most favoured nation (MFN) has reduced substantially the trade preferences and duty free offered by the EU to the ACP members due to the inability to recognize the peculiarity of the zone. Although the MTS came with tariff reduction, it equally manifested huge tariff preference erosion. This according to him has led to huge revenue losses and loss of competitiveness of the developing countries economy given the inability of the SSA countries to adjust the post

UR/MFN gap (Ogunkola and Oyejide, 2001). It may be arguable that the developing countries do not have adequate capacity to negotiate or know what to negotiate as suggested by Oyejide (2009) but not contentious that some of these negotiations and agreements takes due cognizance of the economic fundamentals and constraints of the SSA that affect their trade policy effectiveness.

According to UNCTAD (2005), market access and improved domestic production is at the heart of the issues involved in multilateral and regional trade negotiations and agreements. The literature is mixed in the various attempts in both the theoretical and empirical literature to provide critical assessment of the influence of multilateral trading system on the trade performance of nations. For instance, Mansfield and Reinhardt (2003) argued that the driving force of the growing PTAs is to enhance bargaining power at the multilateral levels which is targeted to promote and secure market access for the members. However, Mina, Lakshmi and Taisuke (2005) opined that the duplication and complex obligations and interface between multilateral and regional trade arrangements has erected huge constraints to freer inter and intra-regional trade rather than weaken the barriers to trade opposed by the multilateral trading system. In clear terms, the proliferation of RTAs in Africa demands dual loyalty and obligations for SSA countries even though it is recognized by the article XXIV of the WTO disciplines. Thus, the impact on trade vis-à-vis market access depends on whose own interest and capacity to internalize the opportunities offered. Interestingly, SSA countries do not have strong voice and capacity to shaping WTO rules, even though Donna (2012) argued that African voice is increasing in WTO.

In terms of trade performance, Rodrick (2003) noted that since the evolvement of the WTO disciples, African countries have benefited and improved significantly in their trade performance. He however, argue that African lagging behind Asia countries in world trade should not be attributed to external factors rather the internal constraints built by the domestic environment. Reinforcing this view, Oyejide (2001) argued that the potential opportunities offered in the WTO agreement under Most Favoured Nation (MFN) and Generalized preference (GSP) have not been fully tapped. According to him, the capacity to negotiate is not the main issue but to understand how to maximize the opportunities available under this regime.

On the other strand, Oyejide (2010) admit that the emerging problems facing the SSA in realizing the potential gains of the MTS covers the capacity to participate, capacity to negotiate the complex issues involved in MTS as well as the capacity to bear the cost of implementation of the body of rules. A closer analysis of these issues reinvent the challenges of the MTS to the problem of codification of developed country status quo as rules of the game, the extent of trade openness at different levels of development and extent of policy space permissible by the WTO to the developing countries in trade policy making.

5. Implications of the Multilateral Trading System on SSA

The principle of "single undertaking" that bounds all WTO members under the new multilateral trading system recognizes all the elements of the concluded Uruguay Round negotiations, thereby reinforcing the fundamental principle of Most-Favoured Nation (MFN) treatment. Under this arrangement, all members are expected to adopt the new trading rule centered on tariff reduction and application of national treatment principles. More also, the introduction of TRIPS, TRIMS, GATS and other disciplines following the Uruguay Round were among the WTO's agenda beyond trade in goods concerns to cover both reducing tariffs and Non-Tariff Barriers (NTBs) at the border and beyond-the-border regulatory bodies. Thus, market access and export supply response are at the heart of the opportunities and challenges offered by this trading regime. *TARIFF STRUCTURE AND PREFERENCES OFFERED BY THIS REGIME ARE ESSENTIAL INGREDIENTS TO A REASONABLE ANALYSIS OF THE IMPLICATIONS OF THE MTS ON SUB-SAHARAN AFRICAN COUNTRIES.*

In terms of market access, it is arguable that both tariff and Non-Tariff Barriers (NTBs) are the major quantitative and qualitative measures that have affected the trade policy performance of the sub-Saharan African countries vis-à-vis to other developed countries. Tariff structure and mode of administration affect the degree of market access and penetration for emerging market economies. For instance, Adenikinju (2005) provides evidence that the average low tariff on industrial products masked the relatively high tariff rates on industrial products that are of key interests to developing countries like Nigeria. Moreover, the levels of tariff alteration and escalation on industrial products of developing countries (SSA) have varied impact given the various forms of preferences being enjoyed. Amjadi, Reinke and Yeats (1996) showed that while Nigeria exports 525 tariff line products to the EU, about 521 tariff line, 99% of Nigeria's exports face zero duty or preference rate lines in the EU. Non-zero MFN only applies to four duty line. In respect of non-oil exports, the average preference margin, Nigeria has over non-African exporters to the EU, US and Japan were -2.6% for EU, -0.8% for Japan but 0.7% for US (because the USA does not extend GSP tariffs to OPEC members). This type of preferences could have damaging influence on trade policy effectiveness depending on who exerts greater influence on the economies of the SSA.

According to Adenikinju (2005), the overall impact of MTS on African's manufactures access is in terms of preference margin reduction which makes them less competitive to the developed countries. He further stressed that since the potential effects of trade preference depend on the gap between preferential rate and the MFN rate, multilateral trade negotiation that liberalize MFN rate reduces the potential effects of existing preference. Ogunkola and Oyejide (2001) noted that it has become more difficult for the ACP countries to adjust the duty free preference rates enjoyed before the UR in order to maintain the pre-UR/MFN gap. Interesting, the expiration and required compliance with the WTO supported negotiations of the Economic Partnership Agreements (EPAs) between the ACP countries and the EU is likely to increase the tariff rate and further erode the trade competitiveness of sub-Saharan African economies.

Another major implication of the MTS on the trade policy performance of the SSA is related to the export supply response capacities. Although the central goal of the MTS is to strengthen world trade, the benefits for African economies is still not very satisfactory. Africa's share of the global trade has not been satisfactory despite the view of Rodrick (2005) that observe a significant increase on the share of African trade since the implementation of the MFN disciples.

Table 1 indicates that Africa declined from 5.96% in 1980 to 3.06% in 1990. This could be adduced in large part to external market environment. In particular, the period coincided with the time of the last Uruguay round negotiation. Similarly, Africa's share from the world trade further declined to 1.92% in 2000 from 3.06% before rising marginally to 2.99% in 2006. The implication is that Africa countries still lag behind Asia in the total share of world trade due to the weak and less competitive nature of their economy.

In addition, African nation's inability to upgrade their industrial base from a supplier of primary commodities and minerals to highly manufacturing competitive driven economies accounts for a substantial degree of her poor trade policy performance over the years. Oyejide (1998) emphasized that the binding constraints against a robust and rapidly growing manufactured export sector in Nigeria and other developing countries are not the often allege barriers in foreign markets. According to him, the problems clearly lie much closer home and probably include inappropriate trade regime. The fact is that Nigeria has not been able to fully utilize the numerous opportunities available in foreign markets, such as those for manufactured export provided by the duty and quota-free access to the EU market under trade arrangement of the Lome Convention. This may require aggressive industrial policy space. However, what must not been forgotten is the asymmetry in operational issues related to rule of origin and status quo (protectionism) that still affect African exports penetration in developed markets.

Table 1: African Share of Total World export (per cent)

Year	**Growth rate performance.**
1980	**5.96%**
1990	**3.06%**
2000	**1.92%**
2006	**2.99%**

Source: WTO 2007c

Following the report of the economic commission for Africa, Table 2 shows the ten African countries exports in 2006. Five of the countries that witnessed the highest share of total trade include South Africa, Algeria, Nigeria, Libya and Angola. However, the Africa's export performance remains dominated by the oil exporting countries except for non-oil dominated South Africa. This provides a clear view that oil which is not regulated by the WTO has a better market for African economies. This calls for a greater concern for policy makers of the region.

Table 2: Top 10 African countries exports in 2006

Top 10 exporters	Exporters in $US million	Cumulative share of Africa's total exports
South Africa	58 412,000	16%
Algeria	52 822,000	31%
Nigeria	52 000,000	45%
Libya	38 300,000	56%
Angola	35 100,000	66%
Egypt	13 702,000	69%
Morocco	12 559,000	73%
Tunisia	11 513,000	76%
Equatorial Guinea	8 900,000	79%
Cote d'Ivoire	8 715,000	81%

Source: WTO, 2007c

6. Conclusion

This study has endeavoured to provide insight on the impact of multilateralism and regionalism on the trade policy effectiveness of Sub-Sahara African countries. Within the changing global economic environment, SSA countries face enormous challenges in their efforts to organize domestic productive base and secure market access in a highly competitive world market. This becomes apparently more complex in the current interface between multilateral and regional trade agreements and negotiations confronting the developing countries of Africa. Interestingly, these arrangements are expected to promote freer trade and increase welfare. The effectiveness of multilateral and regional frameworks is a self judge weapon contingent upon how developing countries are able to convert the challenges thrown to them as opportunities meant to deepen their trade relations. However, evidence has shown that African countries have rather deteriorated in their trade performances due to both the associated internal and external constraints. The greatest obstacle is that as SSA countries continue to organize themselves into regional blocks to enable them push with one voice in this rough multilateral trading system, the phenomenon has further conjure dual loyalty which increases their obligations. It is against this background that the tension of balancing costs and benefits becomes even more unfavourable to SSA countries.

It is therefore, apposite that a new framework that recognizes trade as a tool/strategy for development be reconsider for SSA countries. Such framework should offer African nations a stronger voice to renegotiate in line with their economic fundamentals, development aspirations and capacities by the institution governing the multilateral trading system so as to leverage trade policy performance of SSA nations.

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