Public Policy and Trade Liberalisation in Nigerian Economic Development

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Abstract
The policy advice of bilateral and multilateral donors to developing countries during the past two decades has been centered on favouring greater market openness and better integration into the global economy. There are uncertainties about the effects of the trade policy on Nigerian economic development. This study considers the components of the trade policy such as trade openness, privatization, investment flow and import tariffs with a view to assesses the impacts of some of those policy prescriptions on Nigerian economic development. Secondary data was utilized to descriptively analyze the impacts of trade liberalization policy on Nigeria economic development. The result showed that trade liberalization policy has not had a positive impact on Nigeria economic development. Accountability, transparency and good governance should be encouraged while a more sound economic policy should be employed. A self-reliance approach that encourages more export and less import should be encouraged.

Keywords: Trade liberalization, dependency, deregulation, privatization, division of labour

1. Introduction
Trade has long been identified as a veritable way through which the quest of nations for improved well-being of their citizens could be achieved. Adam Smith recommended division of labour and specialization, and the pursuit of foreign trade as a way of increasing the wealth of nations [Obadan, 2008: 12; Ajayi, 2010:86]. He went further to state that division of labour was limited by the size of the domestic market [Bakare, 2011:5; Wikipedia Encyclopedia, 2011]. The developing countries continue to experience underdevelopment despite the economic growth of the early and late sixties. The sustained crisis, 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 implement one trade policy or the other [Mesike, et al, 2008: 1]. Nigeria, with the aim of liberalization of the economy as well as achievement of greater openness and greater integration with the world economy, has put various policies in place to ensure a higher degree of openness of the Nigerian economy. Such policies 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 further trade exchange liberalization, various export incentives, bilateral, regional and trade preference agreements with different countries and lots of others.

From 1986, there was a significant shift in trade policy direction towards greater liberalization. The shift in policy was directly attributed to Structural Adjustment Programme. It provided for a seven-year (1988 – 1994) tariff regime, with the objective of achieving transparency and predictability of tariff rates [ibid]. The regime of Gen. Sanni Abacha (1993 – 1998) abandoned some aspects of the economic reform and pursued what it called “guided deregulation” [Adeyemi, 2006: 4]. Gen. Abdusalam Abubakar laid legal framework for the second phase of the privatization exercised continued under President Obasanjo (1999 – 2007) regime (ibid.). Nigeria thus facing daunting challenges in its efforts to reviwe economic growth and to improve the living conditions of people. 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. According to Uri Dadushi,(Spanu,2003:13) Director of the International Trade Department of the World Bank, his institution continues to support its position that trade liberalization encourages economic growth if there are other conditions met – macroeconomic stability, good governance. He believes that openness of market could generate an additional increase 1 – 1.5 per cent of growth per year [Spanu, op cit, Winters, 2004: 16]. The World Bank also believes that the greatest gain from trade liberalization comes from trade liberalization in both developed and developing countries [Spanu, op cit]. The argument that trade liberalization can enhance growth has been a key rationale for undertaking trade policy reform.

Liberalization of trade has been believed to be successful in some countries like South-Korea, but Nigerian experience seem to be quite unsatisfactory. This perhaps explains the reasons why many criticized the policy. It is against this background that critical issues continue to emerge to be addressed:

- Whether liberalization has helped economic growth of Nigeria.
2. Theoretical Framework

In the course of this study, the approach that will be used is systems theory. The history of systems theories includes contributions from such seminar thinkers as Alfred North Whitehead, Ludwig von Bertalanffy, Anatol Rapoport, Kenneth Boulding, Paul A. Weiss, Ralph Gerard, Kurt Lewin, Roy R. Grinker, William Gray, Nicolas Rizzo, Karl Menninger, Silvano Arieti (Laszlo and Kriooner, accessed 2013). A system is defined by von Bertalanffy as "a set of elements standing in interaction" (Tamas, 2000:1). The concept of system, according to Chase-Dun (2012: 1), means that all the human interaction networks, small and large, from the household to the global trade, constitute the world-system. To him, the world system is all the people of the earth and all cultural, economic and political institutions and connection among them. This approach requires we think structurally. States have always been subject to larger geopolitical and economical forces in the world system, and it is still the case, some have been more successful at exploiting opportunities and protecting themselves from liabilities than others (op cit.).

In this perspective, trade liberalization is a powerful means by which the rest of the world’s economics are been firmly integrated into global capitalist economy (Ninsin cited Ogunleye, 2003: 9).

In a nutshell, a system may be defined as a series of interrelated and interdependent parts such that interaction of any part (sub system) affects whole system, (Wikipedia encyclopedia, op cit.). Liberalization of trade thrives on the basis of interdependence than ever in the history of man. The system theory rest on belief that there is international division of labour, which divides the world into core countries, semi-periphery countries and the periphery countries. (Wikipedia encyclopedia, 2012; Ajayi op cit: 86-87; IMF in Obadan, 2008: 20). Core countries focus on higher skill, capital intensive production, and the rest of the world focuses on low-skill, labor-intensive production and extraction of raw materials. This constantly reinforces the dominance of the core countries. Nonetheless, the system is dynamic and individual states can gain or lose the core status over time, (Wikipedia encyclopedia, op cit.).

According to Pearce (Nnanna, 2003), liberalization encourages the adoption of policies that promote the greatest possible use of market forces and competition to coordinate economic activities. It is believed that through trade liberalization, growth could be transmitted from rich countries to poor countries by removing artificial barriers to trade which hinder flow. Charles Gore (Briggs, 2007: 2) put it succinctly when he stated that international trade is essential to poverty reduction.

In reality, many international relations are competitive rather than cooperation and antagonistic. Wallenstein (in Wikipedia, op cit.) characterizes the world system as a set of mechanism which redistributes resources from the periphery to the core. In this terminology, the core is the developed industrialized part of the world, and the periphery is the “underdeveloped” typically raw materials-exporting, poor part of the world; the market been the means by which the core exploits the periphery (Wallenstein in Wikipedia, op cit.).

3. Trade Liberalization Policy

Trade liberalization, according to Kunle Ajayi (op cit: 117), entails the removal of controls on trade. In the word of Todaro (Bakare, 2011) trade liberalization is the removal of obstacles to free trade (obstacles such as quotas, nominal and effective rates protection and exchange controls). Trade liberalization involves the elimination of non-tariff barriers to imports, the rationalization and reduction of tariffs, the institution of market determined exchange rate and removal of fiscal disincentives and regulatory deterrents to exports. The motive is to create competitive atmosphere between local and foreign industries. (Bakare, 2011:1; Mesike, op cit.)

Trade liberalization encompasses some components which shall be highlighted as follows:

3.1 Openness of market
Trade Liberalization usually implies tariff rationalization, discontinuation of import licensing and the elimination of marketing boards. It is the removal of obstacles on trade (Ajayi, op cit:117). The motive is to create competitive atmosphere between local and foreign industries. The Uruguay Round Multilateral trade negotiations further globalised the world production processes for world tradable goods and services through liberalizing measures which include:

- Broad reduction in tariffs imposed on agricultural as well as manufactured products.
- Greater control of quantitative restrictions and subsidies in order to limit domestic policies that industrial countries maintain to protect their agricultural sector.
- Reduction in most favoured nations (MFN) tariffs.
- Bound tariff (i.e. subject to commitments not to raise the tariff rate). (CBN in Ogunleye, 2003:43).

3.2 Privatization
Privatization has been a major element of the economic liberalization of the 1980s and early 1990s. Privatization...
means the transfer of ownership of public enterprises to the private sector. According to decree No 25 of 1988, through which the federal government promulgated it, privatization is “the relinquishment of parts or all of the government or its agency in enterprise whether wholly or partly owned--” (Akpotaire, 2004:4; Umezurike, 2012:10).

The decree established the Technical Committee on Privatization and Commercialization (TCPC) – the implementing agency (Umezurike, op cit.). Subsequently, the Bureau for Public Enterprises came into existence through the public Enterprises. The Bureau which had been established in 1993 as the administrative hub of the exercise noted that “the primary goal of Privatization and Commercialization programme of Government of Nigeria is to reduce the dominance of the public sector in the economy and allow the private sector to play its proper role as the leading engine of growth--” (ibid.)

During Obasanjo presidency which ended in 2007, as much as 105 enterprises had been privatized while 24 commercialized by 2004 (Ibid. 11).

3.3 Investment Flows
Liberalization policy has expanded effects on economic space where producers and investors could interact, thus promoting globalization in which the economic actors behave as if the entire world is a single market. (Adelakun, 2006:8).

The motivations for FDI tend to be very diverse. Market protectors, sometimes unwillingly, resort to FDI in an endeavour to protect their market share abroad which has being eroded, by increasing transport costs or a failure to provide a satisfactory level of service to customer. These are natural barriers arising from protectionism. Information seekers invest overseas to establish “listening posts”. By controlling their operations in sophisticated and competitive foreign markets they obtain valuable knowledge and experience. As the name implies, cost and efficiency investors produce overseas because it is more efficient and less costly to do so (Presto in Ogunleye, op cit.).

3.4 Import Tariffs
The government policy was designed to allow a certain level of protection of domestic industries and enterprise. Concretely, this has translated into tariff escalation; with high effective rates in several sectors and lower import duties on raw materials and immediate goods unavailable locally. This policy perspective has led to the application of relatively high import duties on finished goods which complete with local production.

Import prohibition continues to be a major tool for pursuance of trade policy. Comparison between 1998 and 2006 has seen the addition and withdrawal of items on the prohibition list. In line with the government’s desire to scale down prohibitions, a number of prohibitions were placed on high tariffs (Akanji 2006; Briggs, op cit. 10-11)

Under Export Prohibition Act, certain agricultural products have also been placed under prohibition to enhance domestic food security and support local processing. These include raw hides and skins, timber (rough and sawn), unprocessed rubber lax and rubber lumps, rice, yam, maize and beans. (Briggs, op cit.)

4. Trade Liberalization Policy and Nigeria Economic Development
Trade Liberalization has been described as Nigeria’s plan for prosperity, the vision for a greater tomorrow. The trade policy objective is to lay a solid foundation for fully exploiting Nigeria’s potentials in international trade. Trade liberalization, it’s believed, aids growth, which in turns aids poverty alleviation, the impacts on Nigerian economy will be assessed.

4.1 Trade
While Nigeria is referred to as the giant of Africa, the countries competitiveness can be benchmarked against large countries on the continent and large emerging economies outside Africa. (Oshikoya, 2008).

Nigeria’s rank of 119th (out of 160) in Trade outcome reflects a decline in its real growth in total trade of goods and services from 7.2per cent in the early 2000 to 5.0 percent in 2007. (World Trade Indicators, 2008: 1).

The World Economic Forum had in its 2007 report ranked Nigeria 88 out of 117 countries on its global competitiveness index, which is far below its potential (The Nation, 2008:21).

Nigeria contributed 11 percent of sub-Sahara Africa’s total economic output, a situation that ranked her 34th out of 47 countries analysed in a special report prepared for Business Day (African Network, 2007:48). The result of the survey, which was produced from an analysis of Nigeria’s economic performance of the year (1999-2007), examined 47 countries based on population in relation to sub-Saharan African’s total Gross Domestic Output (GDP). Nigeria has 20 percent of the continent’s population. The reports showed that 33 countries did better than Nigeria and contributed more output than their share of population would suggest. For instance, South Africa contributed 37 percent of the continent’s GDP, despite having 7 percent of African’s population; Zimbabwe with two percent of the continent’s population contributed 3 percent. Namibia, Swaziland, Ghana and Sudan were among 33 countries that contributed significantly more than Nigeria. (Ibid:49)
4.2 Gross Domestic Product
In terms of GDP, Nigeria is a small player in the global economy with GDP at S100 billion, the country accounted for 0.28 percent of world’s GDP in 2005, roughly the same as Algeria (Oshikoya, 2008). Although, Nigeria’s population is the 9th largest in the world, its economy ranks 49th in the world, up to 55th in 2000. Among the emerging market economies, it population ranks 28th compared to 31st in 2000 (Ibid).

Per capital GDP as at 2007 was estimated at S1,158 (TDS op cit:6). The GDP average growth of about 3.6 percent is still lower than the minimum of 5 percent required to prevent poverty from worsening. (Aladenola, op cit: 30)

4.3 Privatization
The type of privatization being pursued by the Obasanjo regime allowed the plundering of the national assets for the benefit of an elite few. It offers very little and warrants little or no support as a sufficient economic policy directive for pro-people policy (Aluko, 2007: 32). It does not promote equitable distribution, or rapid economic growth, or a decent economic and social environment. Much of the revenues derived from privatizing public enterprises are not directed to the build-up of human capital to stimulate productivity in the economy. Rather, it goes hand in hand with retrenchment of workers, instead of for the employment of more workers to propel the economy. (Ibid.). According to Akpotaire (2004:13), Government equity in companies, corporations and parastatals are being sold to private individuals and companies including foreigners. The effect of this is to transfer the ownership and control of many Nigerian companies’ back to the hands of foreigners. The same foreigners from whom the equity shares were bought when the indigenization decree was promulgated were now being considered for the transfer, control and management of the commanding heights of the Nigerian economy in place of Nigerians (Ibid.:5.).

4.4 Non-oil sector
The performance of non-oil exports (manufacture, agriculture) has remained dismal as crude oil continues to dominate Nigeria’s export. Globally, the agriculture sector has failed to keep up with the rapid population’s growth (Africa Biz Online 2007:2). Nigeria, once a large net exporter of food, now must import food. Nigeria which was once self-sufficient in agricultural production is now classified as one of the chronically hungry countries in the world. A Washington based International food policy research the Global Hunger Index (GHI) ranked Nigeria 20th, out of 118 “sampled Countries” (The Nation 2008:13). The performance of the industrial sector was quite disappointing. African Biz online reported the industrial production growth rate between May 29, 1999 to April, 2007 to be 3.1 percent. This include crude oil, coal tin, columbite, palm oil, peanuts, cotton, rubber, wood, hides and skins, textiles, cement and other construction materials, food products, footwear, chemicals, fertilizer, printing, ceramics, steel. (Africa Biz Online: 2).

Alishu Modibo lamented the decline of the industry from over 170 operating companies in its peak to only 10. An industry that used to employ millions of Nigerians had gone into complete paralysis following a catalogue of problems caused largely by infrastructural deficiencies in the country, an unfavourable import duty regime and governments lack of interest in the industry’s plight over the years (Africa News Network, May 7, 2007:1).

4.5 Unemployment
Unemployment remains one of the most important tools of assessing the economies of nations globally. Unemployment has reached a very alarming proportion in Nigeria, with a greater number of the unemployed being the primary and secondary schools leavers and university graduates. According to the Nation’s Manpower Board (NMB) report in the year 2000, over 5.5 million Nigerian graduates are unemployed. The same number put the number of unemployed youth at 18.8 million or 18.8 percent of the entire population (Ogunleye, op cit: 65). The situation has recently been compounded by the increasing unemployment of professionals such as bankers, engineers and doctors (Vision 2010 report in Nnanna O.J et al 2003:240).

Also, as industries close up, many workers are rendered unemployed. For instance, steel industry has lost more than 30,000 workers in the past few years. (The Nation, 2008:24). NNPC sacked 1,388 workers of the corporation in the name reforming (The Comet, 2003:1). The strength of textile industry which was once self-sufficient in agricultural production is now classified as one of the chronically hungry countries in the world. A Washington based International food policy research the Global Hunger Index (GHI) ranked Nigeria 20th, out of 118 “sampled Countries” (The Nation 2008:13).

4.6 Poverty Trend
Poverty to Monke in (The Nation, 2008:8) is a condition that reflects the disregard for a wide range of human rights. Nigeria was within the low Human Development Index as our rank in 2004 was 151 out of 183 countries and has since gone down in spite of growing GDP. Our life expectancy at birth on the average has been fluctuating between 48 and 52 years, with the adult literacy less than 60 percent, implying what half of the country’s population are illiterate by all stands; the gross enrolment in schools is equally low, and about 70 percent of Nigerians are living below critical poverty level (The Punch, 2012).

The United Nations Development Programme Human Development Report (2008-2009) ranked Nigeria among the 25 poorest countries of the world despite its vast resources (Ekpe, 2011:1). Massive poverty is a man’s most powerful and massive affliction. It is a projector of much pain- from hunger, ignorance and disease to social conflicts all of which are prevalent in the country. It is the cause of political and social disorder in the country.
4.7 Inflation Trends
After staying at the single digit in 1999 and 2001, inflation surged to double digit in 2001. From a level of 7.6 percent in 1999 and 5.4 percent in 2000, the rate of inflation to 18.4 percent as at September 30, 2002, inflation went upwards to 23 percent (Business Times; 2002:15). By the end of 2003, inflation rate was 14 percent. Inflation was estimated at 8 percent in early 2007. The decline was attributed to favorable climate conditions for food production in some parts of the country (CBN, 2008:2).

According to Bafarawa (The Anchor, 2002:30), food importation accounted for 70 percent of inflation in the country, over 20 different brands of toothpick are imported, 25 brands of foreign made fruit juice drinks just there are several brands of imported frozen foods( Ibid). This development kills local industries and discourages investment and entrepreneurship (Ibid).

Apart from a large appetite, the influx of foreign food has also been attributed to World Trade Organization (WTO) agreement on trade liberalization which is fast turning developing countries into a dumping ground.

4.8 Level of External Debt
Nigeria’s total foreign debt is about 28 billion as at May, 2002, despite the fact that she has paid to her creditor some 47 billion in interest (The comet 2002:31). Nigeria had towards the end of 2005 incurred close to 409 billion dollars debt which is over 30 billion dollars of the amount owed the Paris club alone. (Ayandiji in Union Digest, 2005:47).

The nation’s external debt of about $35 billion in 2005 had to be managed in such a way that to qualify for debt relief/forgiveness, the country paid $12.4 billion to obtain the debt relief of $18 billion(Adesina, 2010). The Paris club debt cancellation of 2005 was to the effect that poverty stricken Nigeria would cough out $12 billion to buy exit from $30 billion debt trap. It can be deduced that the creditor nations have come to realize that the debt profile of close to $40 billion had become unimaginable but unpayable despite Nigeria’s rich economic potentials. (Ayandiji, op cit.).

5. Conclusion
The aim of this work is to find out the impacts of trade liberalization in Nigeria to see if openness has helped in Nigeria economic growth and development. The various components of trade liberalization were considered such as integration of market, investment flows, import tariffs, and privatization. From the findings, trade liberalization has not brought the growth and the development expected. Trade liberalization has been an uneven process rather than benefitting all nations, it tends to produce gains for some at the expense of others. Many reasons have been given for failure of Nigeria to harness the gains of trade liberalization. Among such are foreign domination, pervasive trade, agricultural economy, insecurity, and endemic corruption.

In order for Nigeria to get out of her current problems and be properly integrated with global economic development, certain actions must be taken. We must be mindful of our relationship with the international community. Prudent national policies should be pursued with resilient and transparent institutions. Nigerians abroad should be encouraged to invest in Nigeria and to encourage foreign direct investment and discourage capital flight. Deliberate efforts should be made to promote technologies which may optimize our resources use. Local production of goods and services should be encouraged to reduce reliance on imported items, and encourage export. Government should put in place tariff structure that will increase duty paid on imported finished products and reduce duty paid on imported raw materials. Nigerians should support the drive by looking inwards, changing their pattern of consumption, patronizing local industries and doing away with unwholesome behaviours that may hamper socio-economic programmes.

Nigerians should imbibe the culture of transparency, accountability, good-governance; efficient practices and anti-social behaviours. Government should demonstrate openness.

Crime must be stamped out to attract foreign investment. There is need for government to diversify our economy and save the nation the danger of putting our eggs in a basket

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