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NIGERIA'S TRADE POLICY AND ECONOMIC DEVELOPMENT: FROM THE LENS OF WORLD TRADE ORGANIZATION (WTO)

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ABSTRACT

Multilateral Trade Agreement occurs when countries come together and agree to discriminate against non-members of the group by means of removing trade barriers among themselves while maintaining such barriers against "third" countries. Developments in both multilateralism and regionalism have raise issues of trade policy strategies. At the country level, it raises issues of which best trade policy strategy to adopt. Consequently, this paper examines Nigeria's trade policy in the light of the World Trade Organization (WTO). Nigeria's response to these exciting developments is with a view to helping to chart an improved strategy for effectively taking advantage of them, as well as defending its rights in the evolving world trading system. Put more broadly, this paper examines what the developments portend for Nigerian's development strategies. It discusses the process of charting the way forward for Nigeria and examines the role of complementary policies in the development process, bearing in mind that trade policy, being one of many development policies, requires the support of other policies and programmes to produce optimum results.

Key words: Trade policy, Development, Tariffs, Structural Adjustment Programme, and Import Substitution.

INTRODUCTION:

Nigeria's trade policies seem to have recognized the need for an effective trade policy, in the light of developments in the global scene. The Trade document entitled: Trade Policy of Nigeria is a bold step in recognizing the need to be proactive at both the regional and multilateral levels of trade negotiations. Apart from focusing on the provision of trade support infrastructure required for international standard support services to producers and exporters, the document's provision have been designed to eliminate trade distortions. Thus, trade information service, quality certification, and control are some of trade support infrastructure identified. The institutional frame work for policy implementation has also been revisited. A National Focal Point (NFP) on multilateral trading matters has been established as a forum for systematic consultation or collaboration among the various government agencies.

Similarly, an inter-ministerial Trade Policy Advisory Council, a Nigeria Trade and Competition Commission and a National Council on commerce are among the trade institution scheduled for establishment. The document also identifies possible challenges in the process of implementing the policy and recommends an appropriate implementation strategy. However, as has often been the Nigerian experience, most of the provisions of the document have, so far, not been implemented.

The General Agreement on Tariffs and Trade (GATT) was established in 1947, but it was January 1995 that it was replaced by the World Trade Organization (WTO). This was an historical land mark in the world trading system. The World Trade Organization (WTO) is significantly different from General Agreement on Tariffs and Trade (GATT) in many respects, perhaps most profoundly in the sense that while the GATT only provided a provisional avenue for dialogue and coordination of the rules and regulations on international trade, the WTO Commitments are full, permanent and enforceable. Moreover, while the provisions of GATT were mainly applied to merchandise, the WTO Commitments have extended the frontiers of trade to include services and trade-related aspects of intellectual property. Apart from attempting to correct the selective nature of multilateral agreements that were introduced to GATT in the 1980s, the introduction of a single undertaking clause makes most of the WTO provisions multilaterally binding without an exception. The mechanism for settling disputes in the WTO framework promises to be faster and more effective than in the old GATT system.

Nigeria as a developing country, the notable changes in the World's Trading System (WTS) have been in the alterations to the structure of special and differential treatment and, hence, the ability of Nigeria to cope with the requirements for effective participation in the process of taking advantage of the system and in defending her rights.

Prior to the Uruguay Round (UR), multilateral trade negotiations had been the main feature of trade among developing countries; special and differential treatments were usually handed down to developing countries in the form of exemptions (Oyejide, 2004).

The WTO has changed all that. Now, special and differential treatments are mainly in the form of longer periods of implementation and a lower rate of reduction in commitments. The expanded range of issues that has to be taken on boards, as a result of a single undertaken clause, also complicates participation by most developing countries.

As most of the commitments are time bound and coupled with lack of capacity to effectively participate, Nigeria like most developing countries is overwhelmed by the range of complex issues. The post 1995 period has also witnessed a significant increase in the number of countries acceding to the multilateral trade institution; from 134 countries in 1994, WTO members had increase to 144, as of April 2002. Two members, Cambodia and Nepal, were also welcome to the fold at the 5th ministerial conference held in Cancun in September 2003. Currently, 26 Countries are at various stages of accession to the organization. As the multilateral trading system becomes more complex, its membership has also been expanding and WTO members currently account for 90 percent of the world trade. Membership of the WTO has also increase in tandem with the number of regional trading arrangements (RTAs). While about 98 regional integration agreements were notified to GATT from 1947 to 1994 (WTO, 1995), the number of such agreements had increased to 176 as at the end of December 2003 (WTO, 2003). The phenomenal increase in the number of RTAs, which has taken place in parallel with increasing activities at multilateral level, is a pointer to the important role assigned to trade in the growth and development processes of world economies.

THE CONCEPTS OF TRADE CREATION AND TRADE DIVERSION: THE NIGERIA EXAMPLE

Trade is created when a lower cost source of supply from a partner country is substituted for a higher cost domestic source in one or more of the member countries of an RTA. Trade is diverted when imports from a low cost country outside the RTA are displaced by imports from a higher cost partner country as a result of the elimination of tariffs in trade with partner countries.

Assume that Nigeria imports a particular product from both Ghana and the United Kingdom (UK), say chocolate bars. The hypothetical import figures of Nigeria from Ghana (a member of the RTA) and from the UK (a non-member of the RTA) before formation of the RTA, a unit of chocolate was imported at a cost of say 100 dollar from Ghana and 110 dollars from the UK. A tariff of 20% raised the imported price to 120 dollars and 132 dollars in Ghana and the UK respectively. In this case Ghana is still confirmed as the choice of a rational Nigerian importer.

But, if the RTA was between Nigeria and the UK, and Ghana now became a “third” country, then the removal of tariffs on the UK goods by Nigeria as a result of a new RTA

arrangement would make the UK, rather than Ghana, the choice of a rational Nigerian importer. If the existing tariff prior to formation of the RTA between Nigeria and Ghana were low, say, 5%, then the formation of an RTA between Ghana and Nigeria would not affect the choice of the UK as the preferred supplier by Nigerian importers. This example illustrates some features of an RTA: It can either be trade–creating (first scenario) or trade-diverting (second scenario). Its effects would depend on the level of tariffs prior to the formation of an RTA; the higher the tariffs, the higher probability of trade diversion. The relative cost structure of the members and non-members of an RTA would also play a significant role in the outcomes of trade effects of an RTA. As a first–best approach to multilateral trade liberalization, the WTO, like its predecessor, the GATT, is founded on the principles of reciprocity and non-discrimination. Various negotiating round have been contributed to a significant reduction in the average level of tariffs, especially in industrial products. The Uruguay Round, being the eight in the round of negotiation under the GATT and concluded in 1994 after about eight years of excruciating negotiations, gave birth to a major reform in the history of multilateral trade negotiations.

As noted earlier, the WTO is significantly different from GATT in that, unlike the latter, the arrangement requires effective participation: Fearing that the activities of RTAs might create obstacles to free trade, some provisions of the GATT/WTO protocols are aimed at checking possible abuses of RTAs. In particular, the WTO is mainly concerned about enshrining the principle of reciprocity and non-discrimination in RTAs. Hence Article XXIV of GATT 1947, which has also been adopted by the WTO, allows RTAs on the following conditions: that trade barriers, on average, after integration is not higher or more restrictive than prior to the establishment of any RTAs; that all intra-regional barriers are removed within a reasonable length of time; and that RTAs are notified to the WTO council, Similarly, Article V of the General Agreement on Trade in services (GATs) requires that RTAs should have substantial sectoral coverage (number of sectors, volume of trade affected, and modes of supply); provide for the absence or substantial elimination of all measures violating national treatment in sectors where specific sectors were made in GATs; and does not result in higher trade barrier against third countries.

The observed increased in the number of RTAs in recent years can be explained in terms of economic as well as political motivations (WTO, 1995 and 2003 and World Bank, 2000.) The Economic motivations include, in particular, the need to approach Trade liberalization (TL) on a

piece meal, meaning selective basis and to shut out the most efficient suppliers in areas where the regional members cannot compete internationally. There is an apparent lack of enthusiasm on the part of some governments to become committed at the multilateral level, possibly because of the irreversibility of commitment and the negligible influence that those governments can wield at the multilateral level (Ogunkola, 2004). RTAs would seem to provide the needed succour in this situation. RTAs may come about as a result of the willingness of some countries to go deeper into certain areas which are not of interest to other members of the WTO. The negotiating process of the WTO may be considered rather time consuming and expensive relative to the volume of the country's trade. In addition, the capacity to negotiate at the multilateral level may simply not be there. All of this may push a government to consider an RTA as a better option.

Governments may also fear the exclusion of their countries from certain markets and therefore, struggle to participate in them (the domino effects). The need to protect preference margins and prevent preference erosion may also spur some countries, particularly those with small economies, into seeking an RTA with their major trading partners. The need to attract FDI and the credibility offered by such North-South relationship, may explain the popularity of this type of RTAs in recent years (WTO, 2003).

GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT) AND WORLD TRADE ORGANIZATION (WTO) OBJECTIVES AND AS INSTRUMENTS FOR TRADE POLICY

The structure of the emerging multilateral trading system has long recognized the role of other complementary policies as long as they do not, directly or indirectly, constitute trade restrictions. For example, that agreement on Agriculture of the WTO allows the use of different production support mechanisms: domestic support in the form of subsidies is permitted, with certain restrictions. Similarly, there are provisions for dealing with unfair trading practices. There are even provisions for meeting the transition costs of implementing the agreements.

Perhaps, the missing link at the country level is the inability to inculcate the required discipline and to properly situate the emerging multilateral trading scenario within the national goals and developmental aspirations. So, what does it take to formulate an optimal tariff policy?

The elements of an optimal tariff policy are justified on various grounds, including the desire to eliminate distortions in consumption and production, the need to protect an infant

industry and promote self –sufficiency and the desire to boost revenue generation to mention a few (Oyejide, 1998). Assuming a distortion – free economy and the existence of relatively superior alternatives to protect infant industries, the objective of revenue generation and other related issues would require less emphasis on imposing tariffs on the external trade of a country. Thus, issues in the formulation of an optimal trade policy would include the treatment of imported intermediate inputs; as well as the relative level of distortion that tends to inform the structure of tariffs. Thus, the issues border on whether or not tariffs should be uniform or not.

A tariff policy necessarily distinguishes and ranks three categories of objectives of import protection, industrial development, and fiscal balance. Import protection is borne out of the desire to be self-sufficient in the production of some items, such as food. The industrial development objectives is derived from the prescription of an import- substitution industrialization strategy that supports the need to protect infant industries, while the fiscal balance objective is derived from the taxing powers of government. Since these objectives are not necessarily complementary, they are usually prioritized in the process of implementation. The effectiveness of tariffs in achieving these objectives rests critically on the level of institutional development of a particular country, its adopted development strategy, and the availability of other alternative policy instruments to handle the various objectives. It has been argued that only the import protection objectives belongs to the domain of international trade in which trade, and particularly tariff policy, is most appropriate. In the same vein, industrial and domestic tax policies seem best suited to the protection of infant industries and revenue generation objectives respectively. The usual practice is to push the overarching objective forward at any given time while other objectives are pursued with less emphasis. (Obadan, 1993). Uniform tariffs are easy to administer and are helpful in minimizing deliberate misclassification of imports, etc.

The adoption of a uniform tariffs theoretically plausible and can be justified on efficiency grounds when the objective of trade policy is only to restrict the value of imports at world prices (i.e., the self-sufficiency argument). The advantages of a uniform tariff are many and may be enumerated as follows: It is transparent and easy to administer as it minimizes the tendency to misclassify goods and, hence, reduces delays in the process of customs clearances; it serves as deterrence to directly unproductive, profit – seeking activities aimed at obtaining higher tariffs. Agitation for higher tariffs tends to be minimized under the uniform tariff regime, especially

where it is costly to organize pressure groups to lobby for higher tariff rates; and finally, a uniform tariff confers equal protection on all sectors of an economy.

A non – uniform tariff regime would be optimal only when the protection of an infant industry and revenue generation were the major objectives of an economy. The presence of smuggling, economies of scale, and imperfect competition would tend to further compound the implementation of uniform tariffs and increase support for preferring a non-uniform tariffs regime (Egwaikhide, 1997).

NIGERIA'S TRADE POLICY AND ECONOMIC DEVELOPMENT IN THE LIGHT OF GATT AND WTO

Nigeria's trade policy seem to have recognized the need for an effective trade policy, in the light of GATT and WTO which dictate economic development to a very large extend in the global scene. Notwithstanding the significant role which trade has played in the development of Nigeria, an appreciation of the role and value of a strategic trade policy in the process has been less than satisfactory. This situation partly explains the country's almost total and continuing dependence on a single, raw export commodity, oil.

The proposition here is that unless the country adopts a strategic trade policy stance, it would be difficult for it to realize its goal of diversifying and increasing the value of exports.

Nigeria's pre-SAP (Structural Adjustment programme) trade policy had been directed mainly at addressing the problems associated with a deteriorating balance of payments (BOP) Position and, especially, in ensuring an increase in, and easy collection of, government revenue, (Obadan 1993). Even when a trade policy was adopted as part of import substitution industrialization (ISI) Strategy, it was still subjugated to the twin objectives of managing the BOP – associated problems and generating government revenue. Indeed, the high tariff walls that had been built in the implementation of the ISI strategy had also served as a source of government revenue and a check on BOP – associated problems; the corresponding trade policy had protected finished goods at the expense of imported raw materials and capital goods.

High tariffs and import license requirements (quantitative restrictions in general) had been the main instruments used to pursue the goals of an ISI strategy. While the Nigerian Federal Government had recognized the dangers of pursuing such an ISI strategy early enough; it had failed to avoid succumbing to the dangers. And most disturbingly, a high–cost industrial economy was emerging, thereby making Nigerian manufactured goods grossly uncompetitive.

The success of an export promotions strategy also depends on the formulation and implementation of a strategic trade which has emerged as a viable alternative to the failed ISI strategic, if the support and recommendations of the Brettonwood institutions and the experiences of Japan and other East Asia countries are anything to go by. Although the goal of diversifying Nigeria's export products and markets had been recognized as early as the 1960s, an export – oriented industrialization strategy first received the necessary boost under the structural Adjustment programme (SAP). The corresponding trade policy that had emerged was trade liberalization, through a reduction in tariffs and non-tariff measures, and the creation of export incentives.

A unilateral trade liberalization had been adopted and there had been so much attempt to harmonize it with existing regional trade liberalization policies, under the auspices of the Economic Community of West African States (ECOWAS), neither was the trade liberalization (TL) that had been achieved under SAP locked in under the Uruguay Round (UR) (1986 – 1994) multilateral trade negotiations. Similar to the implementation of an ISI strategy and the corresponding restrictive trade policies of high tariffs and quantitative restrictions, the implementation of an export oriented industrialization strategy has been equally faulted on many grounds. It has failed on account of stability as the country is drifting away from the "tariffs only" provision of the WTO. This is evident in the expansion in the list of items on import prohibition and other quantitative measures. Nigeria's current trade policy lacks transparency, at least on two grounds: (1) The wide gap between bound and applied rate, and (2) the incompatibility of domestic policies and institutions with the WTO standards. There is the need to move from the current "ceiling" binding to 'floor' binding and to align the domestic polices and institutions with the WTO standards, if investors and trading partners are to take the country seriously. Nigeria's scheme of export incentives is also fraught with problems. Government's export incentives assistance has remained largely general and lacking in focus, uncoordinated and under funded and, hence, generally ineffective.

Ajakaiye, (1985), Obadan, (1993), and Egwaikhide, (1997), have respectively dwelt on different aspects of export promotion in Nigeria and the possible ways of improving performance in the sector. Targeting products for export promotion at the micro level, as is being currently suggested, also raises some challenges relating to the structure of the economy, especially the characteristics of the targeted actors. There must be a deliberate programme of linking the

products with the intermediate users at a minimum cost. In the case of the agro-allied chain of production, for example, there is also the need to ensure that farmers will not be penalized as a result of responding positively to the incentives when there is an increase in the demand for their products by the firms that are processing them for export (Ajakaiye, 1998).

One recurring issue is that various government activities point to a lack of coordination among unilateral, bilateral and multilateral efforts. For example, the review of tariff rates, sequel to the expirying of the second seven year tariff regime, is still being awaited, three year after the reviewed edition was supposed to have taken off! It is doubtful if the review would, in any significant way, incorporate the regional agreement at the ECOWAS level, neither is there any assurance that it would take into consideration the on going negotiations towards an economic partnership agreement with the European Union. The African Growth Opportunity Act (AGOA) is also not in any way related to other negotiations, similar, multilateral trade negotiations, under the auspices of the WTO, are also taking place separately from, and without any explicit reference to, other levels of negotiations or agreements.

A related feature is that the Nigerian government agencies responsible for these negotiations and trade matters are diverse, and there is no evidence of coordination of their stance regarding issues. The federal ministry of finance is the most prominent agency in the review of custom duties while the new ministry of cooperation and interaction in Africa dictates the tune in matters relating to the ECOWAS and the African Union (AU). The implementation mechanism for taking advantage of the US-led Africa Growth Opportunity Act (AGOA) is under a special Adviser who reports directly to the president of the Federal Republic of Nigeria. Similarly, a special Adviser is in charge of matters relating to the New Economic Partnership for Africa's Development (NEPAD), and the federal ministry of commerce is coordinating the country's position on issues relating to multilateral trade negotiations.

While the routine involvement of various government agencies in the process of initiating and conducting negotiation cannot be ruled out, the lack of coordination and understanding of basic issues and procedures in the terms of the internal workings of the WTO is clearly hampering the effectiveness of integrating the Nigerian economy into the emerging world trading system.

CONCLUSION

In summary, neither a pure ISI strategy nor its export – oriented counter part would be sufficient to meet Nigeria's quest for rapid economic development. An appropriately mixed strategy, with correspondingly mixed policies and trade policy instruments, is strongly recommended. Such a strategy must be pursued within an integrated frame work and, hence, a coordinated negotiating frame work would be required to make it effective.

The arguments of this part of our analysis and their implications for Nigeria, non-trade objectives, such as peace and security, promotion of good governance and good neighborliness, have tended to dominate the country's activities at the level of ECOWAS deliberations; effort at coordinating and harmonizing policies, projects, programmes and institutions as pre-requisites for boosting intra-regional trade seem to be a low level priority. There is, therefore, the need to harness the potential for a more robust regional trade and economic integration among member states of the sub-region and explore more actively the benefits from Nigeria's participation in such arrangement. But Nigeria should also be actively involved at the multilateral level, especially in seeking better market access for its products, pressing for more favourable special and differential treatment, and in defending its rights.

Thus, a mixed strategy that combines regionalism with multilateralism should be explored in maximizing the benefits accruing to Nigeria at both levels. The Nigeria's trade policy must be designed within the general context of economic development objectives and goals. An effective trade policy directed at promoting industrial development would necessarily be situated within a strong and well-articulated industrial policy. Without first determining the overall goal of an economy and the specific role that trade policy would play in the overall scheme, trade policy would be reduced to mere stabilization measures, rather than playing its best suited role of promoting a country's development in the medium to long run. (Federal Minisry of Commerce, 2000). The emphasis on maximizing government revenue from taxes on international trade seems generally misplaced; the trend is to develop better tax instruments.

Similarly, the use of quantitative restriction instruments appears misguided in that, apart from being against the multilateral trade agreements, its administrative cost is usually exorbitant. Trade policy is not a panacea for all economic ills and, even where its potency is high, different trade policy instruments and the ways they are structured should be objectively evaluated and carefully applied.

Finally, multilateral trade negotiations implicitly assume the existence of a coherent economic growth and development plan and or strategy at the national level; the role of the WTO and its members is, essentially, to ensure that multilateral trade rules and commitments help to promote the achievement of national economic goals. Consequently, only products which give Nigeria a global comparative advantage should be considered for liberalization at the multilateral level. Regional integration at ECOWAS and AU levels should be developed as a stepping stone to opening up the economy to global competition. In this way, the regional trade arrangement would serve as a voice to be reckoned with at the multilateral level, in addition to maintaining security and promoting good governance in the region. The Federal Government should consider the establishments of a council on trade consistency of agreements, but also ensure that national goals are not compromised in the process of trade negotiations. Coherent policies and particularly trade policy and different negotiations cannot be over emphasized.

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