Dissertation By

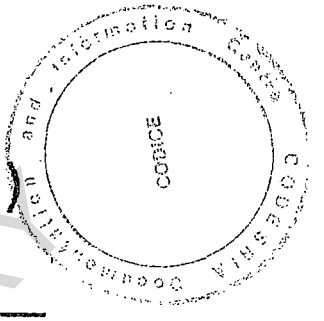
OLAJIDE SUNDAY OLADIPO

Departement of : ECONOMICS, FACULTY OF SOCIAL SCIENCES, OBAFEMI AHOLOWO UNIVERSITY, ILE- IFE, NIGERIA

Trade liberalization and economic growth in Nigeria (1970-1996)

MAY, 1998

TRADE LIBERALIZATION AND ECONOMIC GROWTH IN NIGERIA (1970-1996)



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MAY, 1998

TRADE LIBERALIZATION AND ECONOMIC GROWTH IN NIGERIA (1970-1996)

BY

OLAJIDE SUNDAY OLADIPO
B.Sc. (ECONOMICS), IFE.

A THESIS SUBMITTED TO THE DEPARTMENT OF ECONOMICS, FACULTY OF SOCIAL SCIENCES, OBAFEMI AWOLOWO UNIVERSITY, ILE - IFE, NIGERIA, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE IN ECONOMICS.

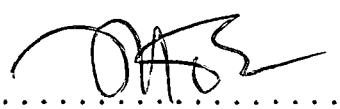
MAY 1998

DEDICATION

This research work is dedicated to GOD for seeing me through the programme and to my parents Mr. and Mrs. J.O. OLADIPO who zealously thought me fit for proper education.

CERTIFICATION

I certify that this work was carried out by OLADIPO, Olajide Sunday, under my supervision in the Department of Economics, Obafemi Awolowo University, Ile Ife, Nigeria.



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DR. S. I. Ikhide
Department of Economics
Obafemi Awolowo University,
Ile Ife, Nigeria.

AUTHORIZATION

AUTHOR : OLAJIDE SUNDAY OLADIPO

TITLE : TRADE LIBERALIZATION AND ECONOMIC GROWTH IN NIGERIA (1970 - 1996).

DEGREE : M. Sc. (ECONOMICS).

YEAR : 1998

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ACKNOWLEDGEMENTS

First and foremost, I thank the Almighty God, the Giver of life, for granting me wisdom, courage and necessary resources for the successful completion of this work.

My profound and unreserved gratitude goes to my able and willing supervisor, Dr. S.I. Ikhide. He taught me Monetary Theory and Policy, International Trade Theory and International Finance at the Postgraduate level. My current interest in International Trade Theory is as result of his motivation and unhindered access to his library. Also, despite the time demanding task before him, he could still afford time to read through, correct and give necessary assistance to make the research work a success.

My special thanks goes to my parents, Mr. J.O. Oladipo and Mrs. M.O. Oladipo for their moral, spiritual and financial support throughout the period of my studies at school. I equally appreciate the assistance from my brothers and sisters.

My sincere and heart felt gratitude is extended to all my lecturers in the department of Economics especially Dr. S.I. Oladeji who granted me the privilege to use his personal office as my study room since the inception of the programme, Mr. O.A. Olaloye, Dr. J.A. Fabayo, Dr. A.E. Akinlo, Dr. (Mrs) J.O. Olusi, Dr. (Mrs) R.O. Soetan, Mr.

A.A. Adebayo, Mr. O.O. Aiyegbusi and Mr. S.A. Olomola. I am specially grateful to Mr. Olomola for his assistance in the analysis of the data collected.

I am much indebted to my friends, especially Mr. Lekan Omisakin, Mr. Okoosi Taofeek, Mr. Lalude Lawuyi, Mr. Peter Ojo, Mr. Kunle Oyerinde and my M.Sc. Classmates, Mr. Lawrence Egbewole, Mr. Dapo Ako, Mr. Olajire Odunlade, Mr. Gbenga Afolabi, Rev. A .K. Ige, Mr. Ibiyemi and Miss Seun Omoyele.

Equally, the financial assistance towards data collection and analysis provided by the Council for the Development of Social Research in Africa (CODESRIA) is highly appreciated.

Finally, I express my gratitude to Abimbola, Toju, Bola and most especially Olaoluwasheyi.

To Almighty father I give all the glory.

Oladipo, Olajide Sunday

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ABSTRACT

The main objective of this study is to examine the role of trade liberalization on economic growth during the period 1970 to 1996. Quite a number of empirical studies over the years have demonstrated the importance of trade on economic growth in developing countries. A quantitative assessment of the relative impact of outward orientation on economic growth would shed more light on the efficacy of this strategy and contribute to the on going debate on trade liberalization in Sub-Saharan African countries.

We employed the recently developed econometric technique of Cointegration and Error Correction Modelling (ECM) which most analysts have found to be very adequate for handling economic data, particularly in LDCs to estimate the main equation in our research work. To confirm structural shift in our parameters, we divided the period into two (before and after adjustment) and compared the estimated parameters using Chow tests. Furthermore, a thorough analysis of the effect of trade policies on economic growth was investigated.

The results obtained from our investigation confirmed our main objective that openness affects economic growth. But from the estimated equation, capital and labour promotes economic growth as their coefficients are positive and numerically significant. The Chow tests revealed that

there was a structural shift and this could be explained by openness which was engendered in the trade liberalization policy stance of the government post- structural adjustment.

CHAPTER ONE

1.1 Introduction

Countries have at different time periods adopted various trade strategies depending on their perception of the probable effect of these strategies on the national economy.

Nigeria has pursued economic development via Import Substitution Industrialization (ISI), a development strategy pioneered by the Economic Commission for Latin America (ECLA) under Raul Prebisch and supported by the theoretical thinking of Hans Singer (1950) and Myrdal (1957). The Bridgen Report (1929) captured vividly the rationale for protection and gave it an air of respectability through the celebrated Stolper - Samuelson theorem (1941). Since many countries equate industrialization with development, ISI was eagerly pursued behind high tariff walls.

However, the experience of the Latin American Countries which had followed with almost religious zeal the dictate of import substitution offered a dramatic contrast to the rapidly growing East Asian Countries that had aggressively implemented outward oriented strategies. Thus, the experience of East Asian Countries revealed that import substitution strategy is not a panacea for the problems of

underdevelopment, Egwaikhide (1992)[1]. Specifically, empirical enquiries by Little, Scitovsky and Scott (1970), Balassa (1983), Krueger (1978) and Bhagwati (1978), for instance, have demonstrated that ISI strategy often leads to overvaluation of exchange rate resulting in a detrimental impact on the balance of payments. Moreover, the policy tends to be import dependent while it is biased against exports, the collective effect being macro-economic distortions.

There is a consensus that the import - substituting strategy of industrialization embarked upon in Latin America, has for the most part been unsuccessful. The main beneficiaries of the import substitution process have been the foreign firms that were able to locate behind tariff walls and take advantage of liberal tax and investment incentives. After deducting interest, profits, royalty and management fees, most of which are remitted abroad, the little that may be left over usually accrues to the wealthy local industrialists with whom foreign manufactures cooperate and who provide their political and economic cover.

Most of the import substitution has been made possible by the government subsidized importation of capital goods and intermediate products by foreign and domestic companies. In the case of foreign companies, much of this

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1 *Egwaikhide, F.O. (1992): "Import Substitution Industrialisation in Nigeria": A Selective Review (Mimeo), NISER, Ibadan, pp. 1-25.*

is purchased from parent and sister companies . Also, far from improving the LDCs balance of payments situation, indiscriminate import substitution often worsens it by increasing the need for imported capital - good inputs and intermediate products while a good part of the profits is remitted abroad in the form of private transfer payments. In order to encourage local manufacturing through the importation of cheap capital and intermediate goods, foreign exchange rates are often artificially "overvalued". This has the effect of raising the price of exports and lowering the price of imports in terms of the local currency.

Finally, import substitution strategies which may have been conceived with the idea of stimulating infant industry growth and self-sustained industrialization by creating "forward" and "backward" linkages with the rest of the economy, has in practice often inhibited that industrialization. Many "infants" never grow up as they are content to hide behind protective tariffs of the government. In general, the motives for ISI in Nigeria are quite similar to those in Latin American Countries. Consequently, a historically high protective trade regime has been maintained to support this development policy.

However, the collapse of the oil prices in 1981 and the resultant macro economic problem led to the introduction of stabilization measures in 1982. The

economic crisis which became acute in early 1984 was characterized, inter alia, by chronic balance of payment deficits, escalating external debts and a crushing debt-service burden. Oil prices had fallen considerably from the dizzying heights reached in the early 1980's.

In an attempt at finding lasting solutions to domestic recession, structural and external imbalances, the Federal Government in July, 1986 introduced Structural Adjustment Programme (SAP).

Liberalization is the antithesis of economic overregulation, excessive bureaucratization and red-tapism. It involves outright or phased deregulation of both the real and financial sectors of an economy; reduction of subsidies in all sectors and allowing market forces to determine the prices of commodities and hence allocate scarce resources.

Thus, trade liberalization is a process of moving away from quota restrictions, at possibly, disequilibrium exchange rate [Bhagwati[2] (1978) and Krueger[3] (1978)]. It could be regarded as any change which leads a country's trade system towards neutrality in the sense of bringing its economy closer to the situation which would prevail if

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2 *Bhagwati, J. (1978): Anatomy and Consequences of exchange control regimes. Cambridge, MA: Bollinger Pub. Co. for NBER, 1978.*

3 *Krueger, A.O. (1978): Foreign Trade Regimes and Economic Development: Liberalization attempts and Consequences. Cambridge, M.A.: Bollinger, Pub. 10, P. 151 - 181.*

there were no government interference (Michaely, Papageorgiou and Choksi, 1991). Edwards (1993) opine that trade liberalization policies should not aim at reducing the degree of anti - exports bias and generating a neutral trade regime but should rather strive to produce a liberal trade system where all trade distortions, including import tariffs and export subsidies are completely eliminated.

The unprecedented liberalization which was witnessed in developing countries in the last decade after decades of protection, has sparked off a lively debate about its prudence from the standpoints of both timeliness and economic rationale. The proponents of open trade regime argue that developing countries, irrespective of their level of development and industrial base should liberalize their trade regimes in order to expand production and export, particularly exports of manufactured goods and consequently promote their economic development. This is in addition to the indirect benefits that accrue in the form of a reduced regressive tax burden and positive dynamic externalities.

Although liberalized trade and exchange policies formed the centre-piece of structural Adjustment Programme, the programme nevertheless included many other policies all aimed at the liberalization of the Nigerian economy.

Therefore, this study focuses on the assessment of the impact of the liberalization policies on economic growth in

Nigeria. Also, attempts will be made to examine the trend of the various trade policies that were implemented in Nigeria since independence. This we find missing in previous studies, Oyejide (1975), Ojo (1977), Fajana (1979), Ekpo and Egwaikhide (1994), Odusola and Akinlo (1995). The motivation for the study arises from our research interest in tracking the effects of the economic reforms within the Structural Adjustment Programme since the liberalization policies component of the reforms is expected to affect the structure of the economy.

1.2 Objectives of the Study

The broad objective of this study is to examine the impact of trade liberalization on economic growth in Nigeria. The study will provide an empirical basis for us to determine whether or not the outward - orientation policies embarked upon in Nigeria between 1986 and 1996 has enhanced economic performance.

This broad objective can be broken down into the following specific objectives:

(i) to examine the various trade policies embarked upon before and after the introduction of the structural adjustment programme and assess their effectiveness.

(ii) to econometrically determine the impact of trade liberalization on economic growth.

1.3 Research Hypothesis

The hypothesis to be tested given the research objectives for this study is that: a liberalized trade regime impact positively on economic growth.

1.4 Significance of the Study

Excessive dependence on the oil sector in the early 1980s was responsible for the disruptive impact the collapse of the world oil market had on the Nigerian economy. Also, the experience of the country demonstrated clearly the limitations of the import substitution development strategy which the country had adopted and implemented since independence.

Instead of adopting an export-oriented development strategy Nigeria embarked on restrictive policy measures to conserve the foreign exchange generated from oil exports. Thus, the period 1980 to 1984 witnessed the continuation of import substitution policy with massive controls imposed in order to conserve foreign exchange. The Nigerian import substitution strategy was beset by inadequate infrastructural facilities, weak raw material base, dearth of technological know-how and shortage of manpower, administrative and institutional bottlenecks and vertical balance in import substitution (Fabayo, 1983).

Obadan (1994) observed that many countries embraced

outward orientation due to their unpalatable experiences with macroeconomic instability and other economic problems such as minimal growth in output, under-utilization of industrial capacity, high inflation, unemployment, huge fiscal deficits and balance of payments. Thus, outward orientation has been perceived as a potentially effective strategy for dealing with the myriad of economic problems. More importantly, outward-oriented strategy contributes more than import substitution to the objectives of greater employment and improvement in the distribution of income.

The government realized the need to urgently develop other methods of sourcing foreign exchange in addition to measures adopted to conserve what was already earned. This urgency arose as a result of the mounting obligation of the country to settle trade arrears and for debts servicing as well as meeting current trade bills. Thus, it became clear to policy makers that additional effort had to be made by the nation to earn more foreign exchange since oil could no more fulfil this role adequately. It was for this reason that the government adopted outward - oriented development strategy as a major cornerstone of Structural Adjustment Programme.

Trade liberalization policy formed the centre - piece of the structural adjustment programme which was introduced in July, 1986. The programme aimed at altering and re-aligning aggregate domestic expenditure and production

patterns so as to minimize dependence on imports, enhance the non-oil export base and bring the economy back onto the path of steady and balanced growth. The main elements of the programme include:

(i) the strengthening of demand management policies;

(ii) the adoption of measures to stimulate domestic production and broaden the supply side of the economy;

(iii) the adoption of a realistic exchange rate policy;

(iv) the further rationalization and restructuring of the tariffs in order to aid the promotion of industrial diversification;

(v) a movement towards improved trade and payment liberalization;

(vi) the reduction of complex administrative controls including import licensing, simultaneously with greater reliance on market forces;

(vii) the adoption of appropriate pricing policies.

Consistent with the tenets of the adjustment programme, the country embraced a liberal import policy and announced a plethora of incentives to boost non-oil exports. Import licensing was abolished, the exchange control decree was abrogated and the agricultural marketing boards hitherto charged with the marketing the country's export produce were dissolved. Furthermore, price controls

were abolished and non-oil exporters were permitted to retain 100% of their foreign exchange earnings in domiciliary accounts. Government also reduced the list of banned items from seventy-four (74) to sixteen (16), the 30 percent import levy was also scrapped.

The most important developments on the trade policy front during this period were the adoption of a comprehensive tariff structure designed to last for seven (7) years and the institution of a market determined exchange rate regime. The tariff review exercise enshrined in the customs, Excise, Tariff Decree which took effect from January 1st, 1988 repeals that of 1984 and provides for the imposition of ad-valorem import and export duties payable on goods imported and manufactured in the country basing its taxonomy on the New Harmonized system of custom tariff. The thrust was to reduce duties on imported finished products while lowering tariffs on intermediates. Rather than outright prohibition, the new dispensation favours the use of tariffs for effective protection of local industries, encouragement of further investments and enhancement of competition and efficiency.

The market determined exchange rate came into operation in September 1986 precipitating a steep depreciation of the naira, hitherto considered overvalued. The depreciation has persisted despite frequent changes in the bidding modality.

Also, in the spirit of liberalization, a vast array of incentives were introduced designed primarily to stimulate production for exports. This include the duty drawback Scheme, export license waiver, export credit guarantee and insurance scheme, the export development fund etc.

From our analysis above, we realised the vigour and seriousness with which the government pursued its liberalization policies. However, little efforts have been made to investigate the impact of liberalization policies in altering and re-aligning the production patterns. Specifically, how has the trade liberalization policies of the government affected the economic performance of the country?.

Also, we will want to know whether the policies embarked upon in the liberalization of trade have sufficiently stimulated economic growth. More importantly, the study will like to examine the various trade policies that have been embarked upon over the years. This work intends to break new grounds by investigating along this direction.

CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Literature Review

2.1.1 Empirical Evidence from Developing Countries

Several empirical studies have confirmed a positive outward-orientation performance link for developing economies. Modern empirical work on trade policy and growth can be classified into two broad and distinct categories: large scale multi-country studies that have investigated in detail the experiences of a group of countries with trade policy reform and econometric studies that have investigated, on broad cross-country data, the relationship between the pace of exports expansion and aggregate economic growth.

The study by Little, Scitovsky and Scott (1970) are the pioneering modern multi-country investigation on trade orientation and economic performance in developing countries. These influential work analyzed in detail commercial policies in a score of nations, trying to determine the way in which these policies had affected the overall economic structure of these countries. The

countries were Argentina, Brazil, Mexico, India, Pakistan, the Philippines and Taiwan. The most important contribution of these studies is that they provided comparative evidence on how the structure of protection to intermediate and final goods affected relative profitability to sectoral value added. This was done by computing Effective Rates of Protection (ERPS) for each of the countries. The concept of effective rate of protection pioneered by Corden (1966), Balassa (1965) and Johnson (1965), tries to capture in a single indicator, the rate of protection granted to value added in a given country. The rate of effective protection to industry j is defined as $\pi j^* = (VAj - VA^*j)/VAj^*$ where VA is the domestic value added and VA* is taken to be a proxy for the most efficient way of producing j.

They observed that the degree of protection granted to manufacturing value added was significantly higher than suggested by straightforward data on nominal import tariffs. Thus, they infer that the policies adopted in most of the developing world had excessively encouraged industrialization at the cost of reducing the incentives for expanding agriculture and exports. The consequences of this protectionist policy has been a worsening of income distribution, reduction in savings and very low capacity utilization. The main policy recommendation from these studies is that the developing countries should greatly reduce the degree of protection by opening up to

international competition.

Streeten (1971)[4] criticized the study by Little et al. and Balassa on the ground that no serious effort was made at analysing liberalization episodes. Second, neither Little et al nor Balassa ventured into the analysis of how specific countries evolved from one trade regime to another, nor did they investigate empirically and in detail how alternative policies had affected growth in particular historical settings. They concentrated their investigation on the characteristics of the import substitution regime, without comparing it with alternative ways of organizing the external sector.

Krueger (1978) and Bhagwati (1978) provide the first systematic attempt at formally classifying trade regimes. In order to evaluate the effect of trade policies, Krueger and Bhagwati identified five phases into the evolution of trade regimes. Phase I is characterized by across - the - board imposition of quantitative controls, usually associated with a balance of payment crisis. In phase II, the control system becomes more complex and discriminatory, increasing the anti-export bias of the regime. Phase III is the beginning of the liberalization process and is characterized by the implementation of a (nominal) devaluation and relaxation of some quantitative

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4 *Streeten, P. "Review of Little et. al." Economic Journal. March 1971. Vol. 8 No. 1 p. 144 - 148.*

restrictions (QRS). During phase IV further steps towards liberalization, through the replacement of quotas by tariff are implemented. In phase V, the economy has become fully liberalized; current account transactions are fully convertible and QRs are not used any longer. While the first two phases characterized an illiberal trade system, phase III through V represent different stages in the movement towards free trade. Bhagwati and Krueger found that by mid 1960s one half of the countries in their sample had evolved from highly protectionist policies to a liberalized stage.

Using data from the individual country studies, Krueger's econometric analysis revealed that there exists a strong evidence in favour of an indirect effect of liberalization on growth, higher exports positively affected GNP growth. However, the dummy variables coefficients were not significant in any of the regressions estimated suggesting that there is no direct effect of liberalization on growth. Therefore, her conclusion that trade regimes per se had no direct effect on economic growth troubled some scholars.

Balassa (1982) argued that Kruger's result were seriously affected by an inadequate taxonomy of trade regimes. According to him, Krueger focused exclusively on quantitative restrictions and thus ignored the protective effect of tariffs. He pointed out that even in the absence

of QRs, high tariffs usually introduced a strong bias against export. He thus, proposed an alternative way of classifying trade regimes. This ranged from outward orientation (where the export bias stemming both from QRs and tariffs had been eliminated) to inward orientation where the anti-export bias was the highest.

Using data on Effective Rate of Protection, effective export subsidies and nominal protection, he classified eleven (11) countries into four categories. He found that for the period 1960 to 1970, those countries with lower anti - export bias had experienced a faster rate of growth of exports and he concluded that this was strong evidence favouring the hypothesis that protectionism seriously hampered export expansion. In trying to test the more controversial proposition that trade regimes affect Gross Domestic Produce (GDP) growth independent of exports, he faced the traditional problem of measuring trade orientation. Instead of using dummy variables as Krueger had done, he decided to use the growth rate of exports as a proxy for outward orientation (P51). Using Spearman rank correlation coefficients on pooled data for the eleven countries, he observed that export growth and output had been positively correlated and concluded that, "the expansion of exports and the consequent growth of GNP have been the result of the incentives applied". Although his comparative analysis was backed by individual country

studies, yet it faced some limitations. This includes lack of role for real exchange rate in the explanation of export performance and the use of a highly suspicious proxy (export growth) for trade orientation.

Edward (1989) using an extensive cross - country data set, observed that, if nominal devaluations are accompanied by a set of consistent macroeconomic policies it is possible to generate significant real exchange rate devaluations and thus, reductions in the trade system anti-export bias. In his analysis of thirty - nine (39) major devaluation episodes in the developing countries between 1962 and 1982, Edward found that in twenty-five (25) out of thirty-nine (39) cases the nominal exchange rate adjustment succeeded in significantly altering the real exchange rate. Additionally, he found that in the vast majority of these cases, the successful devaluation package had been accompanied by major steps towards dismantling trade, capital and exchange controls. In every one of these cases, exports experienced a rebound and the overall external position of the country experienced a significant improvement relative to its pre-devaluation level.

Michaely, Papageorgiou and Choksi (1991) used dummy variables to classify trade regimes and evaluate the effects of trade policy on growth. Estimating a number of regressions relating economic performance to different attributes of the trade regime, the results obtained

supported the view that countries with more intense, sustained liberalization have outperformed those with failed liberalization attempts.

What makes the Chilean experience particularly interesting is that in the late 1970s and early 1980s, the country adopted open trade regime with low uniform import tariffs, no exchange or trade controls and minimum restrictions on capital movement. There is no doubt that Chile's trade policy during this period corresponds to phase V in the Bhagwati - Krueger classification: there was no QRs, licenses or prohibitions. The opening up of Chile's external sector, strong depreciated real exchange rate and elimination of quantitative restrictions resulted in a significant impact on Chile's economic structure and thus trade exports, the engine of growth in Chile. Openness to trade enhances the growth rate since it provides access to a variety of imported inputs which include new technology (Grossman and Helpman, 1992; Edwards, 1993).

Feder (1982)[5] analysed the sources of growth in the period 1964 to 1973 for a group of semi-industrialised less developed countries. An analytical framework was developed incorporating the possibility that marginal factor productivities are not equal in the export and non-export sectors of the economy. He found that econometric analysis

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5 *Feder, G. (1982): " On Export and Economic Growth", Journal of Development Economics, Vol. 12 No.1 and 2, Feburary/April. P.59-73.*

utilising this framework indicates that marginal factor productivities are significantly higher in the export sector. He concluded that growth can be generated not only by increases in the aggregate levels of labour and capital but also by the reallocation of existing resources from the less efficient non-export to the higher productivity export sector. Emery (1967) on the basis of a cross sectional study covering fifty (50) countries concluded that countries sought to aim at 2.5 per cent expansion of exports to obtain one (1) per cent expansion of GDP. Syran and Walsh (1968) in furthering the analysis of Emery's work divided the sample of fifty (50) countries into developed and less developed countries. They found that the association between exports and the rate of growth of GDP was greater for developed than for less developed countries.

Michael Mussa (1987) opines that trade liberalisation seeks to reform a country's international commercial policies in order to improve economic welfare by achieving a better allocation of resources in the long term. According to him liberalisation is assumed to reduce the general level of protection and to narrow the range of protection rates among different activities. In the long run these policies are assumed to achieve a shift of resources towards exports and away from import substitution. Asher (1970) pointed out that more than

eighty (80) per cent of the foreign exchange of less developed countries is earned through exports of goods and services. Yang (1986) also maintained that exports are the major dynamic factor in determining the level of general economic activity in most primary exporting countries. He argued that with the slow growth of less developed countries exports if not accompanied by the development of the home sector would cause a slow economic growth.

Corbo, de Melo and Tybout (1986) observed that for decades, Argentina, Chile and Uruguay pursued inward-looking development strategies that relied on extensive government intervention. According to them, these economies were characterised by anti-export biases, high spreads in protection across sectors and heavily controlled financial systems. Likewise, each economy suffered from recurrent balance of payments crisis and low growth. During 1970s, these countries switched from import substitution led industrialisation to a more neutral strategy. Their findings revealed that a fundamental way through which macroeconomic stability can be ensured is by removing barriers to free trade and capital flows. These measures would improve resource allocation, eliminate recurrent bottlenecks and lead to higher growth.

Todaro (1992) observed that countries that opened their economies to world trade and commerce invite not only

the international transfer of goods, services and financial resources but also the developmental influence of the transfer of production technologies, consumption patterns, institutional and organizational arrangements, educational, health and social systems.

In its World Development Report, 1987, the World Bank presented some evidence which showed that the economic performance of the outward - oriented economies has been broadly superior to that of the inward looking economies. The outward oriented economies performed better in terms of real GNP growth rates, manufactured export growth rates and efficiency as illustrated by lower incremental capital output ratio.

Kayode (1986) recognized the fact that the remarkable economic performance of the Newly Industrialized Countries (NIC's) such as South Korea, Taiwan, Singapore, Hong Kong etc. has been largely due to export oriented growth of their economies. In these countries, the government together with dynamic entrepreneurs have succeeded in promoting vigorous export-led growth industrialization. He also attributes the export competitiveness of the NIC's to factors such as government assistance in export promotion through various monetary and fiscal incentives to export industries and liberalized import policy which facilitate the imports of inputs and equipment required by export industries. The encouragement of export oriented foreign

investment, the international subcontracting arrangement these countries entered into with the multinationals and that their governments not only provided incentives and assistance in export promotion but also exerted pressure on the business community to expand exports.

Kavoussi (1985) opine that liberal trade policy generates a rapid expansion of exports and a high rate of economic growth. Liberalization of trade policies enhances export performance by producing a more competitive position in world markets. Resource allocation according to comparative advantage and large scale operations in those industries where economies of scale are significant are two important reasons why costs are likely to be low in countries that pursue export - oriented policies. The absence of high tariffs, excessive quantitative restriction and overvalued exchange rates also contribute to the cost advantage of such countries in world markets.

Export orientation generates pressures for increased efficiency, product improvement and technical change that in turn increased the competitiveness of exporters. The works of Maizels (1968), Chenery and Eckstein (1970) on the effect of export on savings show that export earnings contribute significantly to savings in rather cumulative manner. Exports are important to savings not only through their efforts on output but also because the export sector tends to have higher propensity to save than the rest of

the economy. Chenery and Strout (1966) have shown that sustained economic growth is hardly possible unless sustained export growth is maintained. They remarked that there is almost no example of a country which has for a long period sustained a growth rate substantially higher than its growth of exports.

In a study carried out on Least Developed Countries, Shafeaddin (1994)[6] observed that through the removal of the traditional bias against exports and production of manufactures, trade liberalization would lead to a diversification of production and exports in favour of manufactures. In general, he opined that high and medium liberalizers, tend to perform better than the low liberalizer, they had positive GDP, manufacture value added (MVA) and export growth and a greater degree of production and export diversification.

Karunaratne (1994)[7] opines that besides the static welfare losses, protection would undermine positive externalities and dynamic benefits of free trade. Proponents of liberalization of trade are of the opinion that protection drives a wedge between domestic and international prices and misaligns the exchange rate

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6 *Shafaeddin, S.M. (1994): The Impact of Trade Liberalization on Export and GDP Growth in Least Developed Countries. UNCTAD, Discussion Papers. No. 85. pp 1-20.*

7 *Karunaratne, N.D. (1994): Growth and Trade Liberalization in Australia. A VAR Analysis. International Review of Economic and Business. Vol. XLI, No. 8, August, pp 625-643.*

causing economy wide misallocation of resources. Protection insulates the domestic economy from the winds of competition and thus weakens the pressure to adopt best practice technology, quality control, management techniques and work techniques.

Alam (1991) postulates that export oriented policies are believed to be superior to import substitution strategy for the following three reasons: their allocative efficiency, more rapid growth in export earnings and greater exposure to the discipline of international competition. The allocative gains are expected not only from the realignment of the economy towards areas of comparative advantage but also from the redirection of resources from rent-seeking to productive activities. Although these allocative gains are a short-run phenomenon, they could make several long run contributions to the growth rates of an economy. First, the marginal savings rates applicable to the gains from superior resource allocation may exceed the economy's average saving rates. Second, the redirection of resources toward labour - intensive activities could raise the growth rates out of unchanged savings by lowering the overall capital - output ratio.This has positive implications for labour surplus developing economies. Thirdly, and finally, reduced rent seeking may be an impetus to growth as entrepreneurs spend more time on innovative activities.

The rapid growth of export earnings under export oriented policies will ease the economy's balance of payments constraint. Freer access to imports will also raise the growth rate, by permitting higher capacity utilization in the industrial sector. There is also the possibility that access to higher quality imported inputs may raise both productivity and the quality of domestic output.

Export oriented policies are almost certain to increase the pressures of international competition in most industries. It would be difficult to sustain exports if they were restricted to using most of their inputs from high cost domestic sources. But while the discipline of competition will improve the efficiency of industries that can survive this test, there may be significant initial losses due to closure of other less efficient industries. In addition, by permitting more frequent external contacts, export oriented policies also provide firms with better access to technology, thereby improving their ability to meet international competition. Thus, we can infer that export oriented policies tend to increase growth rates by stimulating capital accumulation as well as increasing factor productivity. Iyoha (1996) purports that the main argument for trade liberalization is that it tends to promote efficiency and reduce distortions in domestic production.

In a survey of the effect of trade liberalization in Developing countries on global trade and output, Hickok (1991) observed that the estimates obtained suggest that liberalisation in developing countries will have a substantial long-run positive impact on global trade and output. The easing of import barriers will cause LDCs to shift their output away from import competing goods towards what they can produce more efficiently. Although measured output may initially decline as import competing firms face increased competition, output will eventually increase well beyond the level it would have reached without liberalization.

After evaluating forty-one (41) countries, the International Monetary Fund (IMF) concluded that outward - oriented economies achieved on average "significantly higher growth rates of potential GDP and of total factor productivity" than inward oriented economies. According to the World Bank independent studies, measuring the static GDP benefits of moving to freer trade found positive gains varying from less than one (1) per cent to as high as six (6) percent of GDP. The Bank's analysis of sixty (60) developing countries showed a positive correlation between trade liberalization and productivity growth, a key generator of GDP growth.

Protection from a general equilibrium perspective blunts the competitive edge of the productive industries

by making intermediate inputs costly and by distorting the incentive structure in the economy. Free trade or openness would maximize national and global welfare and any restrictions of trade are pareto inefficiency or sub-optimal.

A preponderance of studies have been undertaken for the South- East Asian Countries. It is well respected in the literature that a major factor in the fast development of most South-East Asian Countries is the liberalization of their trade sectors with emphasis on export orientation. A recent study by Amsden (1989)[8] and the recent survey by Perkins and Roemer (1994)[9] are instructive of the role of openness in the growth process in South-East Asia.

2.1.2 Empirical Evidence from Nigeria

In Nigeria, several studies have investigated the export - growth nexus. Fajana (1979)[10] used the two-gap model to examine the export growth link for the period 1965 to 1975. He discovered that exports have a significant effect on growth and recommended export promotion and

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8 *Amsden, A. (1989): Asia's next giant: South Korea and late Industrialization: Oxford University press.*

9 *Perkins, D.H. and M. Roemer (1994): Differing Endowments and Historical Legacies in Asia and Africa, Legacies and Opportunities in Development, Lindaeur and Roemer (eds.) ICS Press. San Franciso.*

10 *Fajana, O. (1979): Trade and Growth: The Nigerian Experience. World Development. Vol. 7, 1 P. 73 - 78.*

reduced reliance on external financing. Earlier research, Langley (1968) and Ojo (1977), concluded that export have been instrumental to the growth process in Nigeria. Alade (1983) observed that a unit foreign exchange saved by import substitution is equivalent to a unit of foreign exchange earned by export promotion.According to him, an export oriented industry will bring about the enlargement of domestic market that will allow the economy to capture rewards of modern techniques and obtain economies of scale. In addition, Oyejide (1975), found exports to be one significant variable influencing output for the period 1950 to 1986. More recently, Ekpo and Egwaikhide (1994) examined the link between exports and economic growth in Nigeria between 1959 and 1989 using an error correction modelling method. This approach is appealing as it eliminated the problem of spurious estimates which previous ordinary least squares regression studies ignored . Ezenwe (1979) examined the importance of foreign trade to Nigeria's economic development and the appropriate policy mix required to realise this role in the 1980s. He found that foreign trade sector is the most dynamic sector of the economy since independence. However, these studies used a narrow perception of openness. The studies did not really assess the impact of the outward orientation on economic growth.

Thus, our findings from the various studies suggest

that an outward oriented development strategy offers the best prospect for economic growth. In fact, countries such as South Korea, Taiwan, Singapore, Hong Kong and Japan with high export ratios are thriving better on economic growth track than those pursuing an inward-looking strategy.

2.2 The Theoretical Framework

The central proposition from normative trade theory is that there are gains from trade and that free trade is, pareto superior to all forms of trade restrictions (Corden, 1984).

Under autarky, a country's consumption possibilities are limited by its production possibility frontier. The consumption possibilities are increased by net trade with the rest of the world. Thus, with trade, the consumption possibility frontier lies outside the country's production possibility frontier and touches the latter only where the Marginal Rate of Transformation (MRT) in domestic production equal those attainable with trade.

2.2.1 The classical model of international Trade

The classical theory of international trade was essentially a reaction to what was known as the doctrine of Mercantilism. The mercantilists advocated that countries should stimulate economic activity through exportation of goods and services. Also, exports will provide revenue base for building a strong nation. The expenditure identity of national income accounting framework lends credence to the mercantilist position.

Given that

$$Y = C + I + G + (X - M)$$

where Y is the gross national income

I = gross investment

C = aggregate private consumption

G = government expenditure

X = exports and

M = Imports.

If international trade is going to stimulate economic growth from the mercantilists point of view, then, net trade, (X - M), must be positive. The distinguishing characteristic of the mercantilist position therefore is that a country should export as much as possible while reducing imports substantially.

Adam Smith attacked the mercantilists view on trade, that is, he opposed restricted trade and advocated instead free trade as the best policy for countries to adopt. He based his theory on the idea of division of labour. According to him, if each worker in a factory specializes in a certain task, the output of the factory will far exceed the sum of what each worker could produce by working on his own. His predictions rested on the following assumptions:

(i) There are two countries and two commodities in the world

(ii) All economic agents are rational

(iii) Labour theory of value: This implies that

labour is the only relevant factor of production. The theory states that for countries in autarky the price of a good is determined by the amount of labour hour taken to produce it

(iv) Labour is perfectly mobile within a nation but completely immobile internationally

(v) There is perfect competition in all factor and product markets

(vi) Factor endowments are fixed and technology is constant

(vii) Transportation costs equal zero and there are no barriers to trade

(viii) Exports must pay for imports. This implies that goods are exchanged for goods and money only plays the role of a veil.

Using a hypothetical example of Nigeria and Ghana.

Table 2.1
Absolute Advantage

Commodity	Nigeria	Ghana
Cocoa	6	4
Crude oil	3	12

Table 2.1 above shows the input - output ratios for two commodities (cocoa and crude oil) in Nigeria and Ghana. The numbers reflect the amount of Man-hours required to produce one unit of each commodity. It takes six (6) Man-hours to produce one unit of cocoa in Nigeria while it

takes four (4) Man-hours in Ghana. Since Nigeria can produce crude oil in less time than Ghana, she is said to have an absolute advantage in the production of crude oil. Similarly, Ghana has an absolute advantage in the production of cocoa.

The validity of Smith's model was unquestionable but left many questions unanswered. For instance, what happen if Nigeria had absolute advantage in the production of both cocoa and crude oil?. Does this imply that Nigeria produces cocoa and crude oil while Ghana produces nothing?.

These questions were addressed by David Ricardo who stated that countries should specialize where they have their greater absolute advantage if at the outset they have an absolute advantage in both commodities.

If, however, they have an absolute advantage in neither commodity, they should specialize where they have the least absolute disadvantage. Given hypothetical example of Nigeria and Ghana, we have table 2.2

Table 2.2
Comparative Advantage

Commodity	Nigeria	Ghana
Cocoa	6	8
Crude oil	3	12

Here, unlike in table 2.1, Nigeria has an absolute advantage in both commodities. However, Nigeria's absolute advantage is greater in the production of crude oil and she

therefore has a comparative advantage in crude oil production. Likewise, because Ghana's least absolute disadvantage is in cocoa production, she is said to have a comparative advantage in cocoa. Thus, world output could be greater and both countries will be better off through trade than they would be in autarky.

2.2.2 The Neoclassical Model of International Trade

The Ricardian theory employs a highly stylized model of technological differences. It assumes the existence of a single factor of production, labour, that exhibit constant returns to scale. This led to some sharp theoretical predictions: constant opportunity cost, the likelihood of complete specialization in trade and the existence of positive income gain from trade for all workers in both countries.

These outcomes are hardly ever realizable. The existence of trade unionism is an indication of the fact that workers in certain industry benefit more than others during free trade. In other words, freer trade may result in loss of income for workers in certain industries. To be able to reach more realistic predictions about trade, the Heckscher - Ohlin model was developed. Named after two Swedish economists, Eli Heckscher and Berti Ohlin,the

Heckscher - Ohlin model attempted to explain the patterns and determinants of international trade in terms of relative factor endowments and factor intensities. Thus, trade results from the fact that countries have different factor endowments and hence different factor prices. The model adopts and maintains four assumptions about production characteristics in each country.

First, there are two countries and two factors of production; Labour and capital, which are homogeneous and perfectly mobile between industries within each country. Second, the production functions exhibit constant returns to scale. Third, there are no market distortions such as imperfect competition, labour unions or taxes that would influence production or consumption decisions. Thus, these assumptions ensures that factors of production are fully employed. Fourth, preference in both countries are taken to be identical and homogeneous, this assumption eliminates the possibility that comparative advantage can be based on difference in demand behaviour. Countries are assumed to differ in their relative factor endowment.

From these assumptions, the production possibility frontier becomes concave rather than a straight line reflecting rising opportunity cost. This also means that countries will tend to produce both goods in free trade rather than specializing in one.

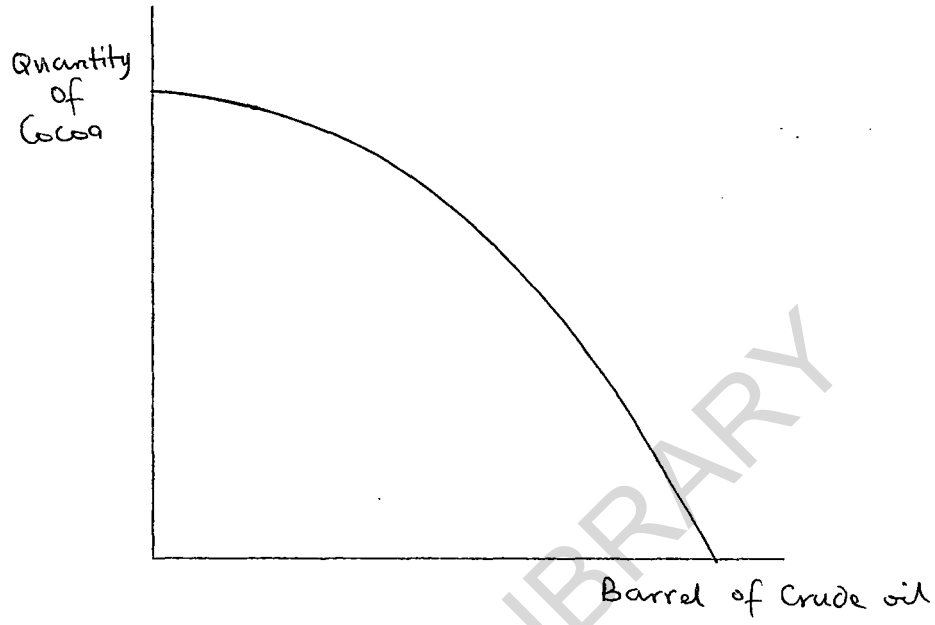
A nation's production possibilities curve or the

transformation curve shows the various alternative combinations of two commodities that a nation can produce by fully utilizing all of its factors of production with the best technology available. The slope of the production possibilities curve refers to the Marginal Rate of Transformation (MRT) or the amount of a commodity that the nation must give up in order to get one more unit of the second commodity.

Suppose a country produces only two goods: cocoa and crude oil. The quantity of each good she produces will depend on her factor endowments and on her technical knowledge. By factor endowment we mean the amount of factors of production the country possesses.

Graphically, using our earlier example of cocoa and crude oil, we have

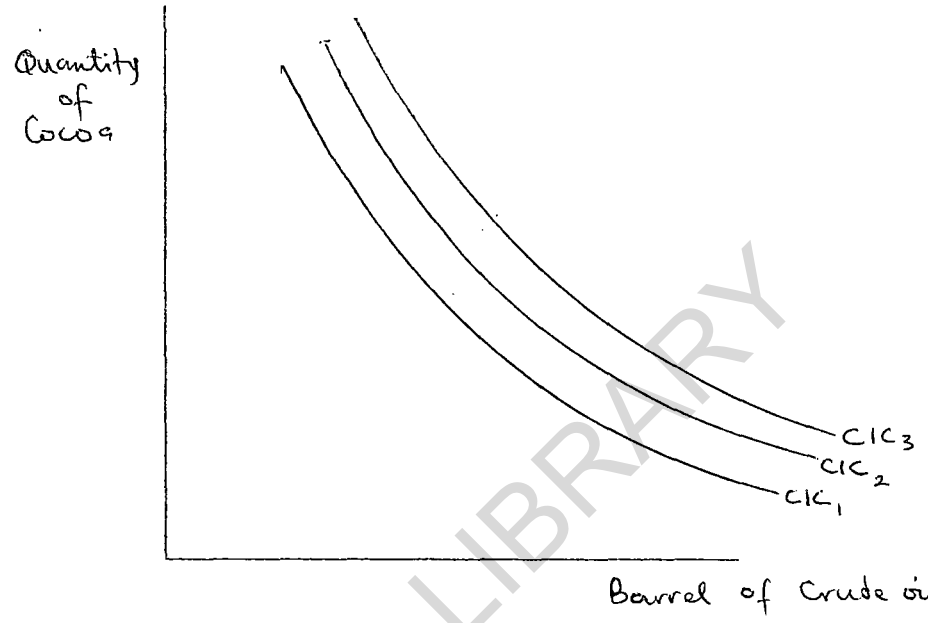
FIG 2.1
A Concave Production Possibility Curve (PPC).



Introducing demand into our model implies that we explicitly consider the tastes or preferences of each nation. These are represented by Community Indifference Curves (CIC). A Community indifference curve shows the various combinations of two commodities which yield equal satisfaction to the community. Higher curves refer to more satisfaction, lower ones to less. The slope of CIC at any point gives the Marginal Rate of Substitution (MRS) or the amount of a commodity which the nation is willing to give up to obtain one additional unit of the other commodity.

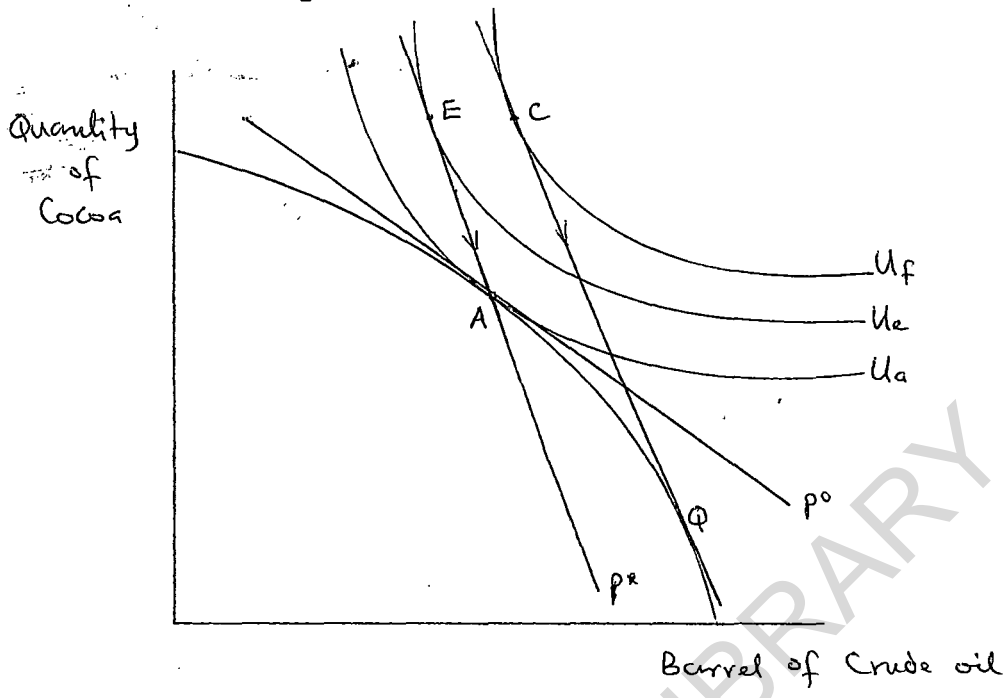
Graphically, we have,

FIG 2.2
Community Indifference Curves (CIC).



In the absence of trade, a nation is in equilibrium when it reaches the highest indifference curve possible with its production possibilities curve. This occurs where a community indifference curve is tangent to the nation's production possibilities curve. The common slope of the two curves at the tangency point gives the internal equilibrium relative commodity price in isolation in each country. When this pre-trade relative commodity price differed in the two countries, there is a basis for mutually beneficial trade between them.

FIG 2.3
Equilibrium Under International Trade.



The figure 2.3 above shows how total gains from trade can be decomposed into gains from exchange and gains from specialization.

Point A gives the autarky production or consumption point and Ua gives the autarky utility level. Suppose the economy can now trade at price P^* and suppose that the economy cannot change its output levels (production fixed at A). Gains from exchange can still be realized by trading at point E. The movement from A to E and the increase in utility from Ua to Ue depicts the gains from exchange. Further gains can be realized if we move the production point to Q showing relatively more specialization in crude oil. The movement from E to C and the increase in utility

from Ue to Uf illustrate the gains from specialization.

Furthermore, static allocative efficiency gains demonstrate that greater outward orientation results in better economic performance in terms of a higher level of output. The traditional argument for increased openness or enhanced neutrality of trade are anchored on generalizations of static allocative efficiency gains. Hence, the removal of trade barriers shifts forward the feasible set consumption possibilities by providing an efficient technology to transform domestic resources into goods and services. Thus, efficiency gains from a better allocation of resources raise the level of national output. Furthermore, reducing trade barriers minimizes other costs such as deadweight losses resulting from domestic monopolies, scale inefficiency, technical inefficiency, rent seeking and directly unproductive activities (Liebenstein, 1966; Krueger, 1974; Bhagwati, 1986; Ekpo, 1995).

The new growth theories also suggest that to utilize the advantages of openness, developing economies must have reasonable stock of human resources. However, the new growth theories are not clear about how increased openness affects the growth rate. It does not predict that greater openness will unambiguously raise the growth rate. This is because the new growth theories show that growth can be lowered by increased foreign competition or through import

protection; if protection promotes investment in the research intensive sectors of the economy (Matin, 1992). Hence, the openness performance issue remains an empirical issue.

CHAPTER THREE

Trade Policies in Nigeria

3.1 Pre-SAP Trade Policies

International trade ensures foreign exchange earnings for future growth and hence a potential force for survival in the presence of dramatic changes in the character of capital flows. This has become more relevant in the current dangerous decade of external debt nightmare. Therefore, the trade strategy embarked upon by a nation becomes important because a country's trade policy may well determine the rate of growth, industrialization and the possibility of redressing a balance of payment disequilibrium whenever it exists.

Trade policy analysis generally can be broadly classified into two categories, namely, the inward-oriented which emphasize import substitution industrialization strategy and the outward-oriented strategy that focused on export promotion drive.

Nigeria, for a long time, pursued economic development via import substitution industrialization strategy. Thus, imports were subject to quantitative controls implemented through a combination of outright bans on agricultural and manufacturing goods and a comprehensive licensing system. The main thrust of trade policy in the 1960s and 1970s was

on revenue generation and protection of domestic industries. Protectionist policies were put in place to stimulate industrial development. The period was characterized by high tariff and non-tariff barriers. Tariff as high as one hundred and twenty (120) per cent were imposed on commodities like Textiles, Beverages, Tobacco etc (Kayode and Teriba, 1977). Nigeria had a selective (non-uniform) single column tariff system in 1965 consisting of both specific and Ad valorem rates. Before, 1962, the rates were generally low, usually not higher than thirty-three one-third per cent and remained stable as long as the revenue generating objective was met. However, between 1964 and 1965, tariff rates were altered at least twice yearly. Oyelabi (1977) attributed the unstable tariff rates to weaknesses inherent in Nigeria's tariff policy making machinery.

Prior to 1966, tariffs had the effect of controlling the composition of imports. But from 1967, balance of payments and foreign exchange difficulties became acute, the tariff structure was redesigned to control both the composition and volume of imports. Thus, it is possible to identify some stages in the evolution of tariff policy during this period. During the first phase dating back to the 1950s and leading on to 1961, changes in the tariff structure was infrequent and conditioned by revenue generating considerations. A further objective of

protecting the country's nascent industries was added on in the second stage beginning in 1962. Consequently, tariff rates were revised upwards.

In the 1970s, the oil boom enabled enormous financial resources to accrue to the government, thus, providing the impetus for considerable liberalization of imports. The role of tariffs as a source of revenue to the government was tempered with as the economy became more open. With favourable balance of payment position, the government control on the economy was relaxed. Specific tariff policy measures during this period included the reduction in import duties on a wide range of commodities, industrial raw materials, food and other consumables. For instance, duties on industrial materials were reduced to a uniform rate of ten(10) per cent in 1974. Licensing requirements in respect of a number of items were liberalized while trade bans imposed on some others were lifted. Thus, licensing requirements for stockfish were removed and the ban on importation of corned beef, margarine, edible nuts etc. was lifted.

In 1976, import and excise duties on food and other commodities associated with agriculture and food processing activities was considerably cut, import levy was abolished for stockfish. However, following government's resolved determination to encourage the growth of local industries by protecting the domestic market for specific industries

in 1977, nominal tariff rates on a wide variety of imported finished goods were raised. Selective tariffs were imposed on a wide range of commodities for the purpose of changing the consumption pattern of Nigerians towards home made goods, preventing the erosion of foreign exchange reserve, avoiding the dumping of state products into the country's shores, consolidating the import substituting industrialization strategy and freeing foreign exchange for developmental purposes.

The persistent balance of payments deficit occasioned by dwindling oil revenue between 1978 and 1981 promoted greater trade restrictiveness. Non-tariff quantitative import restriction became dominant as an instrument of trade policy. Plummeting foreign exchange reserves, increasing debt service payments coupled with the reluctance of the country's trading partners to extend further trade credit forced the authorities to adopt extremely stringent quantitative restriction measures to curb importation.

In 1982, as a result of persistent external disequilibria, huge balance of payments deficits and depletion of external reserves to the level that it could hardly finance one month's imports, an Economic Stabilization Act was enacted. This Act imposed a blanket ban on "non essential" imports and the list of goods requiring license soared to two hundred and thirty five

(235) items. Tariff increases were effected on forty nine (49) items and new duties were placed on some others. Duties on agricultural commodities with local substitute ranged between fifty (50) and one hundred (100) per cent, while those on luxuries were between one hundred and fifty (150) and two hundred (200) per cent. Capital goods, however attracted low duties of between five (5) to ten (10) per cent and basic raw materials ranged from fifteen (15) to twenty (20) per cent. Compulsory advance deposits for imports were imposed on certain classes of imports, these include raw materials, twenty five (25) per cent; spare parts, twenty five (25) per cent; building materials, fifty (50) per cent; capital goods, fifty (50) per cent etc.

In 1983, additional one hundred and fifty two (152) commodities were added to the list of imports subject to specific import license. Industrial raw materials or intermediate goods which hitherto were largely under Open General License (OGL) were brought under Specific Import License (SIL) to enhance control over foreign exchange expenditure. All these policies put in place were of course not without a considerable social cost.The drastically reduced supply of raw materials and spare parts to the import dependent industrial sector to the extensive plant closure,substantial drop in capacity utilization and large lay-off of the work force. Several market shortages led to

high prices of many essential commodities. Investments both by public and private sector declined. Reduction in public expenditure also meant further delays in completing viable projects thus escalating their costs and depriving the economy of their expected benefits. Nigeria, in 1986, witnessed a marked shift in policy away from inward looking strategies to the use of external dynamics to achieve higher level of growth. The shift was predicated on the belief that the prolonged stagnation of the previous years was engendered by high levels of protection which perpetuated domestic inefficiency.

3.2 Measures And Strategies Adopted Since the Introduction of SAP.

The Structural Adjustment Programme aimed at altering and re-aligning aggregate domestic expenditure and production patterns so as to minimise dependence on imports, enhance the non oil export base and bring the economy back on the path of steady and balanced growth.

As a way of liberalizing the export sector, the exchange control decree was abrogated and the agricultural marketing boards hitherto charged with the marketing of the country's export produce were dissolved. As a means of encouraging exporters further, the government formulated and adopted a comprehensive export incentive legislation

known as the Export Incentive and Miscellaneous Provision Decree No 18 of 1986. The government declared its political and financial commitment to this policy as it was seen as a cardinal necessity for the successful implementation of SAP. The following are the incentives packaged for the Nigerian exporter as contained in the Export Incentive and Miscellaneous Decree.

(i) **100% Currency Retention Scheme:**

This allows the Nigerian exporter to keep for his use all his export proceeds in foreign currency in a separate domiciliary account in any of the authorized banks in Nigeria. The exporter is free to sell the currency through the Bank for the purpose of converting it to the local currency, the naira. This is a complete reversal of what obtained before september 1986 when an exporter had to surrender all foreign exchange earned through exportation to the Central Bank of Nigeria (CBN). This incentive has facilitated production for export as manufacturing exporters could now easily obtain imported raw materials for industrial production. It has enabled them to travel on short notice and meet overseas liabilities or export agency obligation which otherwise could have been almost impossible.

(ii) **Abolition of Export Licensing for non-oil Exports:**

Export licensing which constituted a bureaucratic bottleneck for exports was removed and all taxes on non-oil export were abolished. The latter has increased the competitiveness of the Nigerian exports in the international market.

(iii) **Scrapping of the Commodity Boards:**

The age-long export marketing system was scrapped. The boards were dissolved giving way for private sector export merchants to take their place. The private exporters have since 1986 become directly involved in the exportation of the scheduled commodities which were formerly monopolized by the Boards to the total exclusion of the private businessmen.

(iv) **Duty Drawback Suspension Scheme (DDSS):**

This scheme has a more direct and immediate impact on the pricing of Nigerian export products, thus, making such products more competitive price wise. This scheme is made more flexible and functional since exporters are able to obtain refunds for duties paid on imported inputs for export production. For

instance in 1988 the DDSS committee approved the refund of ₦0.6 million to five (5) exporters, ₦1.4 million to 3 exporters in 1989 and ₦0.27 million to 8 exporters in 1990. In 1991, total refunds was ₦22.2 million and in 1992 ₦36.4 million was approved. The scheme was adversely affected in 1993 and 1994 due to political crisis. For instance,of the 18 applications received in 1993, thirteen (13) received refunds amounting to ₦31.1 million but by 1994 only five (5) applications were approved for a total refund of ₦7.3 million. In 1995, 18 applications were approved for a total of N38 million and the highest amount,N51.3 million was approved for a total 6 applications in 1996 (See table 3.1)

Table 3.1
Actual Total Duty Drawback Refunds Granted 1988-1996

Year	No of application	No of successful application	Amount Refunded
1988	5	5	₦645,009.78
1989	3	3	₦1,421,866.40
1990	15	8	₦278,185.76
1991	37	18	₦22,200,451.29
1992	41	17	₦36,440,849.39
1993	18	13	₦31,128,003.98
1994	5	5	₦7,311,725.16
1995	9	18	₦38,076,894.85
1996	10	6	₦51,399,172.34

Source: Central Bank of Nigeria Statistical Bulletin 1996

(v) **Export Financing:**

The incentive package provided by the government has in it a number of cash incentives which reduced the cost of export development and promotion for individual enterprise. The Export Credit Guarantee and Insurance Scheme which is in operation provide the pre-shipment finance of exports as well as reduce the risks involved in exportation.

(vi) **The Foreign Exchange Market (FEM):**

The promulgation of the Second Tier Foreign Exchange Market (SFEM) Decree of September 1986, which created the new foreign exchange market in Nigeria is in itself a major incentive to export. As a result of the SFEM Decree, the naira has been greatly devalued, thus making Nigerian export goods cheaper in foreign currency terms. The exports from Nigeria now enjoy a price advantage whereas prior to the SFEM Decree, Nigerian products had serious price disadvantage in view of the unduly high value of the naira vis-a-vis major international trading currencies.

(vii) **Rediscounting of Short-Term Bills:**

The scheme makes provision for an exporter of any product to discount his bills of exchange and promissory notes with his bank in order to increase his liquidity and minimize cash - flow problem before the realization of export proceeds from the overseas importer. This facility is granted by the bank if the bank is satisfied with the exporter's financial standing, his reputation and business integrity as well as his capacity to repay the amount on the bill in case of non-payment by the overseas buyer. The scheme covers all export

products.

(viii) **Establishment of the Nigeria Export Processing Zone (NEPZ):**

The NEPZ was established in 1991 with the purpose of attracting foreign export - oriented industries which are expected through their investments and operations, to provide investible resources, technology, employment and foreign exchange. As incentives, the industries of the EPZ are provided with free import and export duties, tax exemption for a fairly long time and unrestricted importation of production inputs. Even though all the necessary preliminary arrangements have been concluded, the EPZ is yet to fully take off.

(ix) **Export Development Fund (EDF)**

The Export Development Fund is a special fund provided by government to give financial assistance to exporting companies to cover part of their initial expenses in respect of the following export promotion activities.

(a) Participating in training courses, symposia, seminars and workshops in all aspects of export promotion

(b) Advertising and publicity campaign in foreign markets

(c) Export market research studies

(d) Product design and consultancy

(e) Participating in trade missions, buyer-oriented activities, overseas trade information.

(f) Cost of collecting trade information

The fund is to cover part of the cost involved in any export related activity. Exporters are therefore to meet the remaining part of such costs.

(x) **Export Expansion Grant Fund (EEGF)**

The fund is to provide cash inducement for exporters who have exported a minimum of ₦50,000 worth of semi-manufactured or manufactured products to enable them increase their volumes of export and to diversify export products and market coverage. The level of such inducement approved for exporters are:

(a) ₦50,000 - ₦100,000 export sales per annum 5% grant

(b) Additional up to ₦500,000 export sales per annum 4% grant

(c) Additional up to ₦1 million export ales per annum 3% grant.

The Export Expansion Grant Fund is made available only to exporters who have repatriated their proceeds from their export transactions. The repatriation must be certified by the Central Bank of Nigeria.

In 1991, thirty-three (33) companies got ₦3.6 million compared with twenty-seven (27) companies that benefited to the tune of ₦4.3 million in 1990. In 1991, a total claim of ₦13.2 million approved for fifty eight (58) new companies could not be paid due to lack of funds (Central Bank of Nigeria, 1991). In 1993, a total of ninety - seven (97) companies were granted a sum of ₦67.5 million as against sixty-five (65) companies granted a sum of ₦35.0 million in 1992. Export of fertilizers, rubber and shrimps received the highest grants accounting for 35.7, 21.3 and 16.6 per cent of total disbursements respectively. By 1994, the total grant received by sixty - two (62) companies had declined to ₦27.7 million. In 1995, twenty - four (24) companies received N18.8 million and N79.7 million was granted to ninety - three (93) companies (See table 3.2).

Table 3.2
Disbursement of Export Expansion Grant Fund 1989- 1996

Year	No of successful companies	Total Grant
1989	8	₦1,742,789.70
1990	27	₦4,363,566.33
1991	33	₦3,659,984.02
1992	122	₦35,009,654.93
1993	97	₦67,469,628.81
1994	62	₦27,627,581.96
1995	24	₦18,813,237.62
1996	93	₦79,782,774.91

Source: Central Bank of Nigeria Statistical Bulletin 1996.

(xi) **Pioneer Status:**

The provision of the industrial development (income tax relief) act of 1971 in respect of pioneer status will apply to any manufacturing exporter who exports at least fifty (50) per cent of his annual turnover.

(xii) The Nigerian Export - Import Bank (NEXIM)

The Nigerian Export-Import Bank commenced operations in 1991. It is an export agency required to make finance available in local and foreign currency to exporters and

is expected to provide risk bearing facilities in support of exports in the form of credit guarantees and insurance. The bank introduced facilities in the area of trade finance, project finance, treasury operations, export advisory service, market information and market risks guarantees.

The Nigerian Export -Import Bank under the trade finance introduced the Refinancing and Rediscounting Facility (RRF) in 1987 to assist banks in providing pre and post shipment finance in local currency in support of non-oil exports. Though, RRF, exporters have access to the export portfolio of banks. From initial disbursements of ₦53.6 million in 1988, ₦713.5 million in 1989 and ₦1371.2 million in 1990, a total of ₦2098.9 million was disbursed under the facility in 1991 to seventy five (75) commercial and merchant banks in support of three hundred and forty three (343) exporters. Total repayments stood at ₦1,545 million by the end of 1991. Of total disbursement, cocoa beans received the largest allocation of ₦839.6 million,that is, 40 percent.

Disbursement increased from ₦2098.9 million in 1991 to ₦2871.2 million in 1992 and to ₦3062.7 million in 1993 . In 1996, a total of N4,242 was disbursed (Table 3.3). Thirty commercial and merchant banks took part in providing financial support to four hundred and eighty nine (489) exporters in 1993. Cocoa received the bulk of

disbursements. Total repayments stood at ₦3420.0 million as at the end of 1993 compared with ₦2642.9 million at the end of 1992. Disbursements standing at ₦3026.7 million in 1993 declined by 34.9 percent to ₦1970.7 million in 1994. The number of benefiting exporters declined from 489 to 233. Although cocoa received the highest share of 28.2 percent of gross disbursement, its dominance fell from the levels of 54.3 per cent attained in 1990 and 46.9 per cent in 1991. This could be a reflection of diversification of non-oil exports. Total repayment, ₦3420.0 million in 1993, fell by 12.7 percent to ₦2985.3 million in 1994 . The total disbursement in 1995 was ₦5434 million (Central Bank of Nigeria, 1995).

Table 3.3
Refinancing and Rediscounting
Facility Granted, 1988 - 1996

Year	Amount Granted (₦ Million)
1988	₦53.6
1989	₦713.5
1990	₦1,371.2
1991	₦2,098.9
1992	₦2871.2
1993	₦3,062.7
1994	₦1,970.7
1995	₦3,198.0
1996	₦4,242.0

Source : Central Bank Of Nigeria Statistical Bulletin 1996.

The Foreign Input Facility (FIF) was introduced in 1989. It provides foreign exchange to exporters needing imported inputs for export promotion. This facility is funded by the African Development Bank (ADB) loan referred to as the Export stimulation Loan (ESL), received in three trenches of US $76.8 million, US $81.6 million and US $85.4 million in October 1989, July 1990 and February 1991 respectively. Of the total disbursement of US $99.3 million received by the end of 1991, cocoa processing had the largest share of US $29.2 million, followed by textiles US $18.5 million and industrial fishing, US $14.6 million. In all, a total of 152 projects were funded by the loan through 88 commercial

and merchant banks. The amount disbursed from January to September 1992, fell to US $26.9 million compared with us $86.6 million disbursed during the same period of 1991. The number of projects dropped to 14 in 1992. Disbursements further fell to us $2.7 million in 1993 following exhaustion of the facility and the number of projects dropped to 4. The performance of the Foreign Input Facility was not encouraging over the 1991 - 1993 period. Disbursements stopped completely in 1994, following the exhaustion of funds in 1993 (CBN, 1995).

The Stocking Facility (SF) was designed mainly for the procurement and stocking of scarce local raw materials to meet optimal capacity utilisation in export oriented companies. Stocking facility disbursement was N190.2 million in 1991. It increase from N249.1 million in 1992 to N281.5 million in 1993. Disbursements maintained an upward trend with a sharp increase to N496.3 million in 1994. The combined share of cocoa, rubber and palm kernel average 81.5 per cent of total disbursements in the period 1991 to 1994. Cocoa alone accounted for about 50 per cent of total disbursement during the same period. The disbursement of N267.6 million and N277.6 million was made in 1995 and 1996 respectively.

Due to the inability of many beneficiaries of the Foreign Input Facility to meet their repayment

obligations to NEXIM appropriately, the Repurchase Facility (RF) was introduced to assist such beneficiaries. In 1991, notes worth US $3.9 million were repurchased. From January to September 1992, a total of 76 projects were involved in NEXIM'S Repurchase Facility with a total amount of US $21.5 million. However, this facility has been constrained due to inadequate funding arrangements.

In 1991, arrangements were completed for the establishment of a price Guarantee Facility meant to protect exporters against adverse movements in prices, exchange rates and other market conditions. This Facility which was to be introduced in 1992 is yet to take off.

(xiii) Manufacturer-in- Bond Scheme

The manufacturer- in- bond scheme was designed to enable manufacturers to export products that have a minimum value added of twenty (20) per cent to import, duty free, their raw materials for producing exportable products. It is expected that the production would take place in an existing or new factory, or the unit of a factory specifically designed for that purpose in any part of Nigeria.The beneficiary companies will however be required to produce performance bond from a first class bank to cover 110 per cent of the customs duty due on each consignment of such imports. Therefore, the Nigeria

customs service will bond the affected factory or the unit of a factory in order to ensure that raw materials imported under the scheme are exclusively used for the purpose intended. If for any reason the raw materials are not used for the designated purpose, appropriate customs duty will be charged on the consignment.

(xiv) ECOWAS Trade Liberalisation Scheme

An export liberalisation scheme that focuses on the ECOWAS sub- region has been put in place. The scheme known as ECOWAS Trade Liberalisation Scheme (TLS) is an incentive primarily geared towards export activities within the ECOWAS sub- region .The objective is to significantly expand the volume of intra- community trade in the sub- region via the removal of both tariff and non- tariff barriers to trade on goods originating from ECOWAS countries.

The scheme is implemented in stages viz; the consolidation of customs duties and charges of equivalent effect and non- tariff barriers, immediate liberalisation of unprocessed goods and traditional handicrafts; gradual liberalisation of industrial products originating from member states and gradual establishment of common external tariff. Unprocessed goods and handicrafts can now move freely within the sub- region . Liberalisation of industrial products commenced in 1990.

3.2.1 Tariff Measures Under the Structural Adjustment Programme

The recent trade liberalization measures following the institution of SAP in 1986 were driven by the desire to improve domestic and external economic performance. Between 1986 and 1988, import and export licensing was eliminated, the list of prohibited imports was shortened, price and distribution controls on agricultural exports were removed. These measures stimulated domestic production of cocoa, cotton, rubber, groundnut and grains. Realizing that the impact of customs and excise duties would increase as controls on imports and foreign exchange were eliminated, government reformed its duty schedules as part of its adjustment programme. Interim import-duty and excise schedules were implemented in October 1986. The interim tariff reduced the dispersion of tariff rates, reducing the trade - weighted, average nominal tariff from thirty-three (33) per cent to twenty-three (23) per cent. In addition, most duty rates fell between ten (10) per cent and thirty (30) per cent.

Shortly after adopting the interim tariff, the government made two further adjustments to tariffs and excises. The 1987 budget reduced tariffs on eighteen (18) items and one month later, tariff and excise covering an additional twenty four (24) product groups were adjusted.

Thus, in 1988 a new tariff regime was introduced, the customs and Excise Tariff Consolidation Decree, based on a comprehensive tariff structure. As the foundation for a more permanent set of customs and excise duties, the Decree sought to bring greater stability and predictability to the incentive system.

The Federal Government in 1988 established an independent Tariff Review Board (TRB), attached to the Office of the President. This board which included representatives from both the public and private sectors, was created to provide a central source of impartial and technically proficient advice on all aspects of Nigeria's protection policy. A Technical Secretariat consisting of government representatives and private companies provided analytical support. As it turned out, however, government's many decrees and policy amendments undermined the stability and predictability of the trade incentive system. Trade policy became highly politicised and vested interests were able to secure changes in the rules favourable to themselves. More often than not, the professional advice of the TRB was ignored.

The limited effectiveness of SAP export promotion efforts led to an increase in funding for the Duty Drawback Suspension Scheme (DDSS) and provision of a new manufacturing- in -bond scheme (to encourage importers of raw materials to produce exportable products) in the 1991

budget. In November 1991, an export processing zone was established in the Southeastern part of Calabar. The Federal Government provided domestic and foreign firms in operation export incentives such as exemption from all duties, levies, taxes and foreign exchange restrictions. The 1988 Tariff Decree expired in 1994, the TRB prepared a comprehensive tariff structure which was introduced in the 1995 budget. Also the Modified Value Added Tax (MVAT) was introduced as a non discriminatory tax on goods and services.

In 1996 budget, the Federal Government aimed at promoting and sustaining the tempo of non-oil exports. Government also encouraged the administration and disbursement of export incentives. In January 1996, some import duties were reduced, few additional commodities were placed on the import prohibition list while a few others have been removed entirely from the list.

3.3 Impact of the Measures and Incentives on Nigeria's Export Performance

The export incentives which were enumerated above may be categorized into two main groups. These are those that are meant to encourage new exporters and those aimed at gearing up the current exporters towards increased output.

As contained in the Export Incentives and

Miscellaneous Provision Decree of 1986, the first category includes the abolition of export licensing and export taxes on non-oil exports, the scrapping of commodity Boards which now enable exporters to have direct access to the final market for their products. Also, the establishment of the Nigerian Export Credit Guarantee and Insurance Scheme will help intending exporters with insufficient funds to finance the export of their products. The Export Adjustment Fund Scheme serves as a supplementary export subsidy to compensate new exporters that are envisaging high production cost arising from infrastructural deficiencies and purchasing of commodities at prices higher than the prevailing world prices but fixed by the government. The currency retention scheme enables exporters to retain one hundred (100) per cent of export proceeds in a domiciliary account operated in any of the authorized banks in Nigeria.

The second group consist of incentives which serve as a means of assisting in general, the non-oil exports. Such incentives include Export Expansion Grant Fund (EEGF) which is to produce cash inducement for exporters with increased output beyond a specific level, the duty drawback scheme to provide the refund of duties on raw materials imported and also exempt products destined for export from excise duty. The Export Development Fund is also a special fund provided by the government aimed at giving financial assistance to exporting companies to cover part of their expenses. Also,

the Industrial Development Act of 1971 confers on any manufacturing exporter who exports at least fifty (50) per cent of his annual turnover the pioneer status.

There is no doubt from the foregoing that a lot has been done in terms of provision of incentives in order to boost the export of Non-oil commodities. The Non-oil exports dominated the export scene in 1960s. According to Olalokun (1979), commodities exported during the period include cocoa, groundnut, coffee, palm oil, palm kernel, cotton and rubber. The non-oil export share of the total export in 1970 stood at 42.6 per cent (Table 3.4). However, the decade witnessed improvement in the price of crude oil form $3.56 to $40 per barrel. Petroleum export therefore constituted the bulk of export earning accounting for 98.1 per cent in 1981. With the emergence of oil glut in 1978 and the collapse of the world oil market in 1982, the share of oil exports in total exports declined to 94.3 per cent in 1983. Thus the earnings from oil exports fell drastically.

With the measures and institutional framework put in place, there was an improvement in the contribution of Non-oil exports to total exports from 1986 to 1989. Its contribution to total exports rose from 6.2 per cent in 1986 to 8.3 per cent in 1989 . As a result of the Gulf War, the contribution of oil in total exports once again increased to 97.03 per cent in 1990. In 1992, oil

contributed N201,383.9 million as against N116,856.5 million in 1991. The Non-oil contribution nose-dived to 2.06 per cent in 1992 and later increased to 2.69 per cent in 1995 (Table 3.4).

Nigeria's export earnings increased from N855.40 million in 1970 to N14,077 million in 1980 an increase of 94 per cent. The earnings from exports went down to N7,636.6 million in 1983. It increased from N30,360.6 million in 1987 to N748,361.1 million in 1995. It reached the highest peak of N1,286,247.5 million in 1996. The main factor responsible for the increment in export earnings was the sharp depreciation in the value of naira under SAP.

Table 3.4
Growth of Nigeria's Exports (₦ million),1970 - 1996.

Year	Total Exports	Crude Oil Exports	Share of Crude Oil in total %	Non-Oil Exports	Share of Non-Oil in total %
1970	885.4	510.0	57.6	375.4	42.6
1971	1,293.3	953.0	73.7	340.3	26.3
1972	1,434.2	1,176.2	82.0	258.0	18.0
1973	2,277.4	1,893.5	83.1	383.9	16.9
1974	5,794.8	5,365.7	92.6	429.1	7.4
1975	4,925.5	4,563.1	92.6	362.4	7.4
1976	6,751.1	6,321.6	93.6	429.5	6.4
1977	7,976.6	7,453.6	93.4	523.0	6.6
1978	6,064.4	5,401.6	89.1	662.8	10.9
1979	10,836.8	10,166.8	93.8	670.0	6.2
1980	14,077.0	13,523.0	96.1	554.6	3.9
1981	10,470.1	10,280.3	98.2	189.8	1.8
1982	8,206.4	8,000.9	97.5	205.5	2.4
1983	7,636.6	7,201.2	94.3	435.4	5.7
1984	9,131.2	8,840.6	96.8	290.6	3.2
1985	11,214.8	10,890.6	95.8	324.2	2.9
1986	8,920.5	8,368.5	93.8	552.1	6.2
1987	30,360.6	28,208.6	92.9	2,152.0	7.1
1988	31,138.1	28,435.45	91.3	2,702.7	8.7
1989	59,971.2	55,016.8	91.7	4,954.4	8.3
1990	109,886.1	106,626.5	97.03	3,259.6	2.97
1991	121,533.7	116,856.5	96.15	4,677.2	3.85
1992	205,613.1	201,383.9	97.94	4,227.8	2.06
1993	218,765.2	213,778.8	97.72	5,022.8	2.28
1994	206,059.2	200,710.2	97.40	5,349.0	2.60
1995	748,361.1	728,265.3	97.31	20,102.8	2.69
1996	1,286,247.5	1,262,911.0	98.19	23,336.5	1.81

SOURCE: Central Bank of Nigeria - Economic and financial Review (various years)

The performance of the non-oil export sector, which was the main focus of the various measures and for which most incentives were introduced was not all that encouraging. Before the introduction of the structural Adjustment Programme (SAP) in 1986, the export volume of the major exports crop has been falling from the early 1970s. There was a drastic reduction in the production of cocoa from 1976 to 1987. The average cocoa production was 246.4, 179.6, 157.0 and 164.8 tonnes between 1970-1974, 1975-1979, 1980-1984 and 1885-1989 respectively (see table 3.5). The volume of cocoa production declined steadily in the 1980s up to 1987. The declining output was due to poor price incentives to the cocoa farmers. For example, between 1980 and 1986 harvesting seasons, the domestic price of cocoa fluctuated between one thousand, three hundred naira (₦1,300.00) and one thousand, six hundred naira (₦1,600.00) per tonne. The produce marketing was then handled principally by the cocoa marketing Board, whose price stabilization policy denied the farmers the full benefits of the world price of cocoa.

Table 3.5
Production of Major Exports Crops in Nigeria Metric Tonnes (Averages)

Crop	1970-1974	1975-1979	1980-1984	1985-1989	1990-1994	1995-1996
Beniseed	32.8	37.2	37.6	36.0	49.4	61.0
Cocoa	246.4	179.6	157.0	164.8	286.6	327.0
Coffee	3.06	3.08	3.12	138.2	341.6	289.0
Cotton	291.0	242.4	56.6	111.4	265.6	227.5
Groundnut	1,227.2	556.8	523.6	691.6	1,377.8	1,800.5
Palm Oil	472.6	546.4	548.0	676.0	786.8	823.5
Palm Kernel	286.6	287.0	300.4	441.6	894.4	709.5
Rubber	65.6	58.8	51.6	62.8	215.6	239.0
Sheanuts	74.8	96.2	109.0	105.2	292.8	359.0
Soyabeans	62.6	70.0	64.0	115.2	157.2	209.5

Source: Computed from the Annual figures published by the Central Bank of Nigeria.

In 1986, the commodity Boards were scrapped and the Federal Government liberalized the export pricing. Thereafter, the marketing of cocoa was handled by private cocoa merchants. Coupled with the new foreign exchange System (the Second-tier Foreign Exchange Market - SFEM) these two policy measures resulted in a dramatic increase in the domestic price of cocoa. During the 1986 harvesting season, the domestic price of cocoa jumped to ₦7,500.00 and further increased to ₦16,000.00 per tonne in 1988 and ₦26,000.00 per tonne in 1989. Thus, the Nigerian cocoa farmers witnessed what may be described as cocoa boom which in fact, transformed the standard of living of the cocoa farmers.

Reacting to this favourable price incentive, the cocoa farmers paid better attention to old cocoa trees while also, planting new ones. Consequently, cocoa output increased tremendously as a result of proper farm management. Thus, cocoa output has been on the increase. It jumped from 268 thousand tonnes 1991 to 320 thousand tonnes in 1994. On average, cocoa output was 341.6 thousand tonnes between 1990 and 1994. It must however be noted that given the total Non-oil export value, agricultural produce accounted for the bulk with its share declining from 84.0 per cent in 1984 to 62.0 per cent in 1989. It share rose to 72.0 per cent in 1991. Cocoa output was 289 thousand tonnes between 1995 and 1996.

However, the ban on some non-oil exports in 1990 such as cocoa and palm kernel and the withdrawal of government accounts from the commercial banks during the period inhibited banks ability to extend credit to exporters for the purpose of buying exports produce for export. Consequently, the volume of export especially of the major tradeable such as cocoa and palm produce declined. The export volume of cocoa rose after the lifting of the ban to 196.1 thousand tonnes in 1991. The ban was lifted when it became clear that the products were the major Non-oil export foreign exchange earners. In 1995 cocoa output was 331 thousand tonnes. Thus, there has been a persistent increase in cocoa output since 1988 with exception of 1989.

Table 3.6
Growth Rate of Major Exports Crops in Nigeria (Percentage)

Crop	1970-1974	1975-1979	1980-1984	1985-1989	1990-1994	1995-1996
Benniseed	14.29	7.69	-32.26	12.5	21.43	9.38
Cocoa	-42.52	-43.05	-9.29	57.03	34.05	-2.48
Coffee	-16.67	6.25	-12.90	97.67	22.11	16.32
Cotton	25.57	150.40	28.70	39.04	-34.63	2.17
Groundnuts	-67.12	11.44	-14.04	23.80	40.67	26.71
Palm Oil	-0.62	23.08	-18.18	12.14	13.98	-12.24
Palm Kernel	-1.61	-5.38	17.94	40.00	25.93	-58.94
Rubber	16.67	-21.43	22.41	37.50	61.74	4.90
Sheanuts	19.28	16.19	-12.11	10.00	66.57	0.56
Soyabeans	10.77	10.96	-74.42	14.93	17.98	5.12

Source: Computed from the Annual figures published by the Central Bank of Nigeria.

In the early 1960s, Nigeria was the leading exporter of groundnut and palm oil in the world. The contribution of these two items was very vital to the volume of export. They constituted about 48.7 per cent of the total export in the decade. Groundnut production stood at 1.5 million tonnes in 1970 but as a result of total neglect due to increased earnings from the sale of crude oil, unfavourable weather condition and rapid fluctuation in the market price of groundnut, its output declined persistently uptill 1983, while the output of palm oil was 488 thousand tonnes in 1970 its production was in fact more stable than other exported crops . The average palm oil production between 1970 and 1974 was 472.6 tonnes (Table 3.5). However, there was a great upward swing in its production due to

favourable weather condition, improved palm seeds and the incentive offered by the government . In fact, its production in 1995 far exceeded the proceeding years record. Groundnuts output was 691.6 thousand tonnes between 1985 and 1989. Between 1995 and 1996, groundnut output was 1,800.5 thousand tonnes on average.

Palm kernel is an important item when its contribution to total export is viewed from 1970s. The average production of palm kernel between 1970 and 1974 was 286.6 thousand tonnes whereas it was 315 thousand tonnes in 1970. Between 1990 and 1994 increased levels of export were however recorded for palm kernel, its value rose from ₦6.5 million in 1981 to ₦17.4 million in 1985. There was an impressive increase in the production and export volume of palm kernel because of the incentives that were put in place in 1986. The output of palm kernel was 286.6, 287.0, and 300.4 between 1970-1974, 1975-1979 and 1980-1984 respectively.It increased from 353 thousand tonnes in 1987 to 1,321 thousand tonnes in 1992 due to favourable weather condition and improved palm seed . It fell to 491 thousand tonnes in 1993. Its output increased from 491 thousand tonnes in 1993 to 837 thousand tonnes in 1994 and 871 thousand tonnes in 1995. It fell to 548 thousand tonnes in 1996. In value terms, almost the same trend was maintained with total export rising from $5.3 million in 1986 to $15.7 million and $6.4 million in 1990 and 1991 respectively due

to ban placed on its importation by the government and owing to the combined effectiveness of poor harvests and increased local consumption.

There was a persistent increase in the production of Sheanuts and soyabeans from 1970 to 1996. In 1991, sheanuts output increased from 118 thousand tonnes in 1990 to 326 thousand tonnes. Thus, it was 353, 358 and 360 thousand tonnes in 1994, 1995 and 1996. The output of soyabeans also increased throughout the period under consideration . The highest output of 215 thousand tonnes was produced in 1996.The increased importance of this relatively new commodities could be accounted for by export diversification measures under SAP. Coffee output was on the increase uptill 1995. Actually the increment was substantial since 1986. It increased through 1990 from 303 thousand tonnes to 400 thousand tonnes in 1995. It fell to 178 thousand tonnes in 1996 due to unfavourable weather conditions. Also, cotton output fluctuated throughout the period under consideration. Its output was substantially large in 1971 as a result of favourable weather conditions. From 1978, its output was on the decrease up till 1987. However it increased from 194 thousand tonnes in 1988 to 225 thousand tonnes in 1995. Cotton output was 230 thousand tonnes in 1996.

Rubber, one of the most important items responded positively to the measures and incentives that were

introduced. Rubber production was on the increase almost throughout the 1970 decade but there was a decrease in its production between 1982 and 1984. The export of rubber declined in value terms from $11.3 million in 1982 to $6.6 million in 1983. In volume terms, it declined from 18.9 thousand tonnes in 1982 to 8.2 thousand tonnes in 1983 owing to bad weather and increased local consumption. Thus, rubber output increased persistently from 1985 to 1990 with the exception of 1987 in which the output was 56 thousand tonnes. Furthermore, in 1991, there was an upward swing in its output up till 1992. On average rubber output was 215.6 thousand tonnes between 1990 and 1994 indicating a positive response to export measures.

The increase in the total value of exports witnessed since 1979 continued, although at a sharply reduced rate. Total value of exports, in naira terms, grew from ₦57,971.2 million in 1989 to ₦218,765.2 million in 1993. The value of non-oil sector exports increased between 1989 and 1993 except in 1992 when it declined by 9.6 per cent.

In 1995, Nigeria's aggregate exports totalled ₦748,368.1 million indicating an increase of 263.3 per cent over the level of ₦206,059.2 million in 1994. The sharp increase in the naira value of exports was due to improved products and the exchange rate at the Autonomous Foreign Exchange Market (AFEM). The increase in non-oil exports reflected a more liberalized market situation following the

introduction of the autonomous foreign exchange market in February, 1995 which resulted in an increase in value of non-oil exports.

From the above analysis, we observe that the volume and value of the non-oil exports has increased as a result of the measures and incentives introduced by the Federal Government. The depreciation of the naira exchange rate also contributed tremendously to the persistent increase in the contribution of Non-oil exports to the Federal Government revenue . Thus, we can conclude with some caution that the export promotion drive has actually contributed to the diversification of our exportables.

CHAPTER FOUR

MODEL FORMULATION AND ESTIMATION

The econometric model specified in our study purports to describe the impact of trade liberalization on economic growth in Nigeria between 1970 and 1996. We utilise an econometric model as our tool of investigation because it is one of the most important (quantitative) approaches to the study of economic relationships.

4.1 Model Specification

An aggregate production function approach is employed in estimating outward orientation performance link.

Let the country's aggregate production function be

$$Y = Y\ [\ (k,L);\ DOP] \quad . \ . \ . \ . \ . \quad 4.1$$

where Y is the real aggregate output, k is the capital input, L the labour input and DOP represent the degree of outward orientation.

Thus, the growth of output is a function of capital stock, the labour force and the measure of outward orientation (DOP). Here, our
DOP is defined as X+M / GDP often referred to as the index of openness.

Expressing equation (4.1) in growth terms, we differentiate the equation totally and obtain

$$d_Y = Y_k\, dK + Y_1\, dL + Y_{DOP}\, dDOP \quad \ldots\ldots \quad 4.2$$

where Yi is the partial derivative of Y with respect to its argument in equation (4.1). Equation (4.2) indicates that the level of real aggregate output (Y) can be higher with the same capital and Labour inputs if productivity is higher due to a greater degree of outward orientation.

That is, $Y_{DOP} > 0$. Dividing equation (4.2) by Y and rearranging terms, we have

$$dY/Y = e_k\, dK/K + e_L\, dL/L + e_{DOP}\, dDOP/DOP \quad \ldots \quad 4.3$$

where dY/Y, dK/K, dL/L and dDOP/DOP
are the rate of change of output, capital, labour and trade policy respectively. e_i is the elasticity of output with respect to the relevant independent variable in equation (4.1).

Equation (4.2) argues that the greater the outward orientation of the trade regime, the faster is growth because of faster adoption and expansion of technology allowing for changes in capital stock and labour force. The contention is derived from the "new" growth theories.

For estimation purposes, equation (4.1) and equation (4.2) are stated in a more flexible form with a constant term, thus, we have

$$\text{Log } Y = ß_0 + ß_1\, \text{LogK} + ß_2 \text{LogL} + ß_3\, \text{LogDOP} \quad \ldots \quad 4.4$$

we expect $ß_1 > o$, $ß_2 > o$ and $ß_3 >$ or $< o$

4.2 Model Estimation

4.2.1 Data Definition and Techniques of Variable Measurement

In exposing the effect of trade liberalization on economic growth in Nigeria. One main equation will be estimated for the period 1970 to 1996. The equation employs time series quarterly data (Time series so as to be able to capture the trend in outward orientation since the commencement of the adjustment programme). Our preference for quarterly data rather than annual data stems from the fact that we will be able to reflect short- run dynamic changes that took place in the export and import sector within the period. It is our opinion that the use of quarterly data will lead to more meaningful deductions. The focus on the period 1970 to 1996 is justifiable for this study in an attempt to gain some insight into how the external sector has responded to one of the policies of Structural Adjustment Programmes (SAP), the liberalization of trade.

4.2.2 Measurement of Specific Variable

For the purpose of the study, quarterly data of the Gross Domestic Product (GDP) were derived from the annual (GDP) using the following procedure.

We used the relation Y = f(X), Y = Annual GDP and X =

Annual value of export. This relationships is based on the fact that over the years export alone contributed more to the GDP than any other component. Given the four quarters within a year, total exports (X) is expressed as;

$$X = \Sigma^{4}_{i=1} X_i \quad \ldots\ldots\ldots\ldots \quad 4.13$$

Where X_i are quarterly export figures. Also, annual GDP (Y) is expressed as

$$Y = \Sigma^{4}_{i=1} Y_i \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad 4.14$$

where y^{s} are unknown quarterly GDP. Since X and Y and X^{s} are known, to construct the quarterly GDP (Y), we then use the relation;

$$y_i = \frac{Y}{x^{1}} (X_i) \quad \ldots\ldots\ldots\ldots \quad 4.15$$

Therefore $Y = \Sigma_{i=1} y_i \quad \ldots\ldots\ldots\ldots \quad 4.16$

The outward - orientation was measured by the index of openness which was obtained using X + M/ GDP. Where X is export and M represents import. Gross capital formation was used as proxy for capital input while employment in the manufacturing sector was used as proxy for labour input. This is due to inconsistent data on them.

Pritchett (1991) observed that no openness measure is devoid of methodological problems and several different measures now in use still exhibit some difficulties. The existing measure of openness include; shares growth of export and import in Gross Domestic Product (GDP); the black market exchange rate premium; the Halevi - Thomas

index of trade liberalization; the dollar index of outward orientation; the Learner index and the index of relative price of tradeables.

However, emphasis will be placed on the use of trade shares. Our decision is influenced by the absence of consistent data on other measures of openness in Nigeria. Moreover, other measures such as Learner index may not be relevant to Nigeria (Ekpo, 1995).

Most empirical studies, including the present one, seem to favour the log - linear functional forms because elasticities can be directly obtained from the estimated coefficient.

4.2.3 Sources of Data

Data on the various variables of interest were obtained from the publications of the Central Bank of Nigeria (CBN) notably: the Statistical Bulletin, Economic and Financial Review and Annual Report and Statement of Accounts. Economic and Financial indicators and Annual Abstract of statistics published by the Federal Office of Statistics (FOS) were also used.

4.3 Estimation Procedure

In this study our estimation technique utilises the recently developed econometric techniques of cointegration

and Error Correction Modelling (ECM) which most analysts have found to be very adequate for handling economic data particularly in LDCS. Central to this framework of analysis is the examination of the variables in the econometric model for stationarity. Basically, the idea is to ascertain the order of integration of the variables and the number of time a variable has to be differenced to arrive at stationarity. This enables us to avoid the problem of spurious or inconsistent regressions that more often than not accompany non stationary time series models.

First, we perform a unit root test on each variables in the model using methods currently employed to evaluate the time series characteristics of macroeconomic variables and apply the Dickey - fuller (DF) and Augmented Dickey - fuller (ADF) tests

The Dickey - Fuller test is specified as

$$\Delta y_t = \alpha + (\lambda - 1)\, y_{t-1} + U_t \quad \ldots\ldots\ldots\ldots \quad 4.17$$

Let $\beta = \lambda - 1$, where y represents the variables, LGDP, LLAF, LGCF and LDOP. When β is negative and significantly different from zero, then the series is I(o), that is, stationary . In most cases stationary series have a finite variance, transitory innovations from the mean and a tendency for the series to return to its mean value. The critical t values for the test were calculated by Monte Carlo simulation in Fuller (1976) because the distribution

is not standard.

However, the error terms, u_t, should be white noise. This problem is overcome by adding lag values of y_t, that is

$$\Delta y_t = \alpha + (\lambda - 1)\, y_{t-1} + \Sigma^{p} c_j\, \Delta y_{t-j} + U_t \quad \ldots \quad 4.18$$

which is the equation for the Augmented Dickey Fuller (ADF) test, with P sufficiently large enough to obtain autocorrelated residuals. The t statistic computed in equation (4.18) for the coefficient $\beta^{*} = \lambda - 1$ is the ADF test. It has critical values as that of DF in equation (4.17).

Next, we test for cointegration using Engle and Granger (1987) two critical steps. First, the long run relationship is fitted in levels by the Ordinary Least Squares (OLS) estimation. The hypothesis of cointegration is then tested by applying the ADF test to the residuals from the regression. If it is found significant, then, the second step is followed whereby the residuals from the static regression is used as an error correction term in the dynamic first difference regression estimation.

Following Engle and Granger (1987), the residuals

$$\hat{U}_t = \text{LogGDP} - \beta_0 - \beta_1\, \text{LogGCF} - \beta_2\, \text{LogLAF} - \beta_3\, \text{LogDOP} \quad \ldots \quad 4.19$$

from the regression

$$\text{LogGDP} = \beta_0 + \beta_1\, \text{LogGCF} + \beta_2\, \text{LogLAF} + \beta_3\, \text{LogDOP} + E_t$$

. . . . . 4.20

is examined if it is I(o). Hence, we use the following ADF test without time and trend.

$$\Delta \hat{U}_t = \lambda \hat{U}_{t-1} + \Sigma^{4}_{i=1} \delta_i \Delta \hat{Y}_{t=1} \quad \ldots\ldots\ldots \quad 4.21$$

If the calculated t - values for this test is less than the critical values, then U_t is I(0) and Y,K,L and DOP are considered cointegrated.

4.4 Empirical Results

The result of the unit root test on the variables using DF and ADF as specified in equations (4.17) and (4.18) are reported in Table 4.1.

Table 4.1
Unit Root Test

Variable	DF	ADF
GDP	0.3147	1.0216
GCF	0.1193	0.6014
LAF	-0.9254	-0.7655
DOP	-2.3643	-2.1166

Using - 2.89 as the critical value (Adams[11], 1992) implies that the variables are not stationary.

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11 *Adam C. S. (1992): Recent Developments In Econometric Methods: An Application to the Demand for Money in Kenya. African Economic Research Consortium. Special Paper Fifteen, PP 1-53.*

However, since the variables are not stationary, we intend to established their order of integration (whether I(1) or I(2) series). To do this, we differenced the dependent variable twice and then regress it on the first differenced lagged level of the variable as stated below:

$$\Delta\Delta \log GDP = a_0 + \Delta \log GDP_{t-1} + \Sigma^{4}_{i=1} C_i \log GDP_{t-i} + U_{t1} \quad 4.22$$

$$\Delta\Delta \log GCF = a_1 + \Delta \log GCF_{t-1} + \Sigma^{4}_{i=1} C_i \log GCF_{t-i} + U_{t2} \quad 4.23$$

$$\Delta\Delta \log LAF = a_2 + \Delta \log LAF_{t-1} + \Sigma^{4}_{i=1} C_i \log LAF_{t-i} + U_{t3} \quad 4.24$$

$$\Delta\Delta \log DOP = a_3 + \Delta \log DOP_{t-1} + \Sigma^{4}_{i=1} C_i \log DOP_{t-1} + U_{t4} \quad 4.25$$

The result obtained using the above expression is contained in table 4.2.

Table 4.2
Establishing Order of Integration

Variable	DF	ADF
Δlog GDP	-12.4578	-4.4682
Δlog GCF	-10.88245	-2.8214
Δlog LAF	-10.53049	-4.70102
Δlog DOP	-10.73809	-5.25625

With the critical value of -2.89, given the values in

Table 4.2, we discovered that all the variables are I(1) series with the exception of GCF which is not significant when only ADF is used. This implies that stationary is induced after first differencing.

Next, we test for cointegration. The idea of cointegration is that if two series are I(1) series, then, it is possible that there residuals are stationary, that is, I(0). We employ the ADF test to the residuals of the cointegrating regression rather than the levels of the series. Following Engle - Granger (1987) as explained in equations (4.20) and (4.21), we obtained the result of the cointegration estimation in equation (4.26) while the result of the ADF test on the residual is presented as equation (4.27).

$$\underset{}{\text{Log } Y} = -\underset{(-8.69)}{14.67} + \underset{(6.31)}{0.50\log K} + \underset{(8.27)}{1.45\log L} - \underset{(-6.12)}{0.53\log D@P26}$$

ADF Regression:

$$\Delta U_t = -\underset{(-3.14)}{0.26\, U_{t-1}} + \underset{(0.06)}{0.07\, \Delta U_{t-1}} - \underset{(-0.07)}{0.07\, \Delta U_{t-2}} - \underset{(-1.08)}{0.11\Delta U_{t-3}}$$

$$+ \underset{(2.98)}{0.30\Delta U_{t-4}} \quad \ldots\ldots\ldots\ldots \quad 4.27$$

The estimated t - value on U_{t-1} is -3.14 and the critical value at 5% is -2.89 (with t-statistic in parenthesis).

As evidence from equation (4.26) and (4.27) above, when an

ADF test was applied to the residuals from equation (4.21), the null hypothesis that the variable Y "is a random walk" was rejected at the 5% level indicating that Gross Domestic Product, Gross Capital Formation, index of openness and labour force are cointegrated. The test on residual (U_t) in equation (4.21) produced -3.14 and since the t - value is lower than the 5% level of significance -2.89 (with a sample of 100) obtained by Engle and Granger (1987) and Monte Carlo experiment, U_t is considered stationary.

Given the OLS regression of equation (4.26) we discovered that both the R^2 and F statistic are significant, the Durbin Watson (DW) statistic is very low suggesting the possibility of serial correlation or autocorrelation. This may be due to the fact that some dynamics which though important are not included in the specification. To take care of this, we developed a parsimonious error correction model. Here, we over parameterize the variables and then use Schwarz information criteria to guide parsimonious reduction so as to identify the main dynamic pattern in the model and to ensure that the dynamics of the model have not been constrained by too short lag length.

To check the latter we calculate a series of F tests against information from each lagged period. The tests are against the null that the information at period t-1 is not significant in determining the current period value of the

dependent variable (Table 4.3).

Table 4.3: Tests on the Significance of each LAG

LAG	F-statistic	Value	Probability
4	F(4,78)	1.227	0.306
3	F(4,78)	2.017	0.100
2	F(4,78)	0.249	0.910
1	F(4,78)	0.163	0.956

On the basis of F tests we can conclude that the significant information in the model is contained principally at the third lag and to a lesser extent at the 4th lag; but the information content of the data falls of dramatically below the second lag.

Furthermore, the idea of parsimony is to ensure both data admissibility and the existence of consistency between our model and theory. The Schwarz Information Criterion provides a guide to parsimonious reductions and is defined as

$$Sc = In\sigma^2 + KInT/T \quad \ldots\ldots\ldots\ldots \quad 4.28$$

where σ^2 is the degree of freedom adjusted equation standard error, K the number of parameters and T the sample size. The Schwarz criterion is increasing in σ^2 and in K: thus a fall in SC is an indication of model "parsimony".

Table 4.4 below presents overparametised result. No definite inference can be made here, hence the need to make

the model more parsimonious. Thus, we reduce the size of the model by imposing zero coefficient on those lags where the " t " statistic is low. To confirm parsimony, the Schwarz Criterion reduced significantly from -3.047 to -3.602 . The final result is given in table 4.5.

Table 4.4
ADL REGRESSION USING ΔLGDP.

VARIABLE		COEFFICIENT	STD ERROR	H.C.S.E.	t-VALUE	r^2
ΔLGDP	1	-.0419116	.12245	.12419	-.34226	.0015
ΔLGDP	2	.0262462	.11092	.10661	.23663	.0007
ΔLGDP	3	-.1867704	.10913	.15953	-1.71144	.0362
ΔLGDP	4	.2326315	.11110	.12062	2.09388	.0532
ΔLDOP		-.4101535	.08497	.18053	-4.82695	.2300
ΔLDOP	1	.0118344	.09939	.09152	.11907	.0002
ΔLDOP	2	.0210289	.09379	.07355	.22422	.0006
ΔLDOP	3	-.0957788	.08969	.11795	-1.06785	.0144
ΔLDOP	4	.1446612	.09124	.09128	1.58551	.0312
CONSTANT		.0315376	.02213	.01953	1.42520	.0254
ΔLGCF		.1005989	.10292	.15870	.97746	.0121
ΔLGCF	1	.0519206	.09397	.06958	.55251	.0039
ΔLGCF	2	-.0132361	.09235	.05712	-.14332	.0003
ΔLGCF	3	.2235233	.09099	.11723	2.45644	.0718
ΔLGCF	4	.0150430	.12914	.12262	.11649	.0002
ΔLLAF		.1105322	.20006	.14433	.55250	.0039
ΔLLAF	1	.0025787	.19463	.10520	.01325	.0000
ΔLLAF	2	.1806379	.19726	.14306	.91574	.0106
ΔLLAF	3	-.2010794	.19932	.16617	-1.00885	.0129
ΔLLAF	4	.0054757	.21639	.20415	.02530	.0000
u4	1	-.0876826	.06028	.05841	-1.45452	.0264

R^2 = .4202388 σ = .1515931 F(20, 78) = 2.83 DW = 1.882

Information criteria Sc = -3.046799 HQ = 3.364554 FPE = 0.027855

Note: HCSE Heteroscedastic Standard Error

Table 4.5
A MORE PARSIMONIOUS MODEL

VARIABLE		COEFFICIENT	STD ERROR	H.C.S.E.	t-VALUE	r^2
ΔLDOP		-.3827650	.07236	.25110	-5.29002	.2313
CONSTANT		.038232	.01616	.01845	2.36562	.0568
ΔLGDP	4	.2063559	.08542	.11710	2.41572	.0590
ΔLGCF	3	.2034261	.08291	.13499	2.45344	.0608
u4	1	-.0967690	.04552	.05180	-2.12571	.0463
ΔLLAF	3	-.2459284	.17930	.18099	-1.37157	.0198

R^2 = .3387999 σ = .1482611 F(5, 93) = 9.53 DW = 2.059
RSS = 2.0442659677 for 6 Variables and 99 Observations

Information Criteria: SC = -3.601589; HQ = -3.695233;

FPE = .023314

In table 4.5 above, it is revealed that about 34 per cent variation in the growth of Gross Domestic Product is explained by gross capital formation, growth of labour force and the degree of openness. Capital and labour have the expected signs. Thus the result shows that change in income (GDP) is influenced significantly by the degree of openness , the fourth lag of GDP , the third lag of Gross Capital Formation and insignificantly by the third lag of labour force . The Error Correction Term is low but significant. The coefficient is -0.097 which implies that there is a feed back of approximately 10 per cent of the previous quarter disequilibrium from long run elasticities of income.

However, the DOP variable is negative which implies that openness decreases output. Although one would expect that openness should promote growth but we can argue following Ekpo (1995) that the Nigerian economy may have suffered from the import dependency syndrome. To further buttress this position, we use the share of exports on GDP,LXDOP, as a measure of the degree of openness instead of the

conventional (X +M)/GDP.

Table 4.6

A more Parsimonious Model (using X/GDP as a measure of openness)

VARIABLE	COEFFICIENT	STD ERROR	H.C.S.E.	t-VALUE	r^2
ΔLGDP 2	.2106704	.13513	.20068	1.55897	.0255
CONSTANT	.0271893	.02910	.02617	.93431	.0093
ΔLGCF 3	.0678502	.13424	.11196	.50542	.0027
ΔLLAF 2	.0213910	.29816	.19960	.07174	.0001
ΔLXDOP 2	.3364592	.14680	.25834	2.29192	.0535
Uhat 1	-.1301926	.07267	.07427	-1.79150	.0334

R^2 = .3154145 σ = .2617163 F(5, 93) = 1.52 [.1920]
DW = 2.200

The result as given in table 4.6 above shows that there is a positive correlation between LXDOP and GDP. The coefficient of the export-GDP variable is 0.34 with a t-value of 2.29 which is significant at 5 per level. Although the degree of openness measure in table 4.5 confirms the import dependency syndrome of the economy.

4.4.1 Test Of Structural Shift

To capture any structural shift in the variables post liberalisation , apart from comparing the estimated parameters, formal test for stability was carried out using Chow test (Chow 1960).

In doing this, we pool the two samples, before the adjustment programme, 1970 - 1985 (n_1) and during the

adjustment programme, 1986 to 1996 (n_2), thus forming a sample of (n_1 + n_2) observation. From this we compute a `pooled' function

$$Y_p = ß_0 + ß_1K + ß_2L + ß_3\ DOP \quad \ldots\ldots\ldots \quad 4.5$$

and we estimate the unexplained variation

$$\Sigma e^2_p = \Sigma y^2_p - \Sigma \hat{y}^2_p \quad \ldots\ldots\ldots\ldots\ldots \quad 4.6$$

with (n_1 + n_2 - k) degree of freedom (p stands for `pooled' and k is the total number of ß's, including the intercept $ß_0$, from the above equation (4.5), k = 4). We performed regression analysis on each sample separately.

From the first sample 1970 - 1985, we have.

$$Y_1 = a_0 + a_1K + a_2L + a_3DOP \quad \ldots\ldots\ldots \quad 4.7$$

$$\Sigma e^2_1 = \Sigma y^2_1 - \Sigma \hat{y}^2_1 \quad \ldots\ldots\ldots\ldots\ldots \quad 4.8$$

with (n_1 - K) degree of freedom.

From the second sample 1986 to 1996, we obtain

$$Y_2 = b_0 + b_1K + b_2L + b_3\ DOP \quad \ldots\ldots\ldots \quad 4.9$$

$$\Sigma e^2_2 = \Sigma y^2_2 - \Sigma \hat{y}^2_2 \quad \ldots\ldots\ldots\ldots\ldots \quad 4.10$$

with (n_2 - K) degree of freedom.

Thus, we add together the unexplained variations of the two samples and form a total unexplained variation

$$Q = \Sigma e^2_1 + \Sigma e^2_2 \quad \ldots\ldots\ldots\ldots\ldots \quad 4.11$$

with (n_1-K) + (n_2- k) = (n_1+n_2-2k) degree of freedom.

Forming the ratio, we have

$$F^* = \frac{\sum e_P^2 - (\sum e^2 P + \sum e_2^2]/K}{(\sum e_1^2 + \sum e_2^2)/(N_1 + N_2 - 2K)} \text{---} 4.12$$

The null hypothesis is $a_i = b_i$, that is, there is no difference in the coefficients obtained from the two samples. We compare the observed F^* ratio with the theoretical value of F with $v_1 = k$ and $v_2 = (n_1 + n_2 - 2k)$ degree of freedom. The theoretical value of F is the value that defines the critical region of the test (at the chosen level of significance). If $F^* > F_a$, we reject the null hypothesis, that is, we accept that the two functions differ significantly, or, the two samples give different relationships. This implies that the economic relationship being studied changed over time.

The F^* ratio is 6.33. The theoretical value of F at 5 per cent level of significance with $V_1 = 4$ and $V_2 = 89$ degree of freedom is 2.49.

Thus, $F^* > F_{0.05}$ ie 6.33>2.49, and hence we reject the null hypothesis. The two sample size differ significantly. That is, there is structural shift in the variables.

The structural shift could be adduced to the openness which is engendered in the trade liberalization policy stance of the government.

CHAPTER FIVE

SUMMARY RECOMMENDATIONS AND CONCLUSION

5.1 Summary

The main objective of this research work is to investigate the impact of trade liberalization on economic growth between 1970 and 1996. We equally examined the various trade policies that were implemented over the years and how they impacted on economic growth. To achieve these stated objectives , we employed the recently developed econometric technique of Cointegration and Error Correction Modelling (ECM) which most analysts have found to be very adequate for handling economic data particularly in LDCs. Also we carried out Chow tests to confirm structural shift of our parameters.

In chapter one we examined the various trade strategies adopted in various countries of the world. Many countries initially embarked on economic development via import substitution industrialization. Nigeria in particular, embarked on this policy in an attempt to developed the industrial base of the economy but the economic strategy has been found to be inadequate in solving the economic problems confronting the economy (Fabayo 1983; Alade 1983; Egwaikhide 1992 and Obadan 1994).

Also, there is a consensus that the import substituting strategy of industrialization adopted in Latin America has for the most part been unsuccessful. The experience of the East Asian countries revealed that import substitution strategy is not a panacea for the problems of underdevelopment. Thus, most Sub-Sahara African Countries are presently involved in economic reforms which has liberalization of their economies as the main channel to economic development.

To achieve the most important objective of this study, the theoretical underpinning of the impact of outward orientation on economic growth was analyzed in chapter two of the study. Discussions of various ways in which outward - orientation has contributed to economic growth of various countries that had adopted this strategy were brought to sharp focus.

Chapter three focused on trade policies implemented during the pre-SAP period and SAP era. The impact of protectionist policies that were put in place during the pre-SAP era were discussed and the need for the liberalization of the external sector examined. The impact of the trade policies implemented during the SAP era were critically analysed and there impact were carefully articulated. In chapter four we specified and estimated our model and the result shows that change in output (GDP) is influenced significantly by the degree of openness, capital

measured by Gross Capital Formation and the labour force. Specifically, our results appears to confirm the import dependency syndrome of the economy. This last chapter deals with Summary, Recommendation and Conclusion of the study.

5.2 Recommendations

There is a general consensus that outward orientation leads to rapid expansion of exports and a high rate of economic growth. Liberalization of trade policies enhances export performance by producing a more competitive positions in world markets. Resource allocation according to comparative advantage and large scale operations in those industries where economies of scale are significant are two important reasons why costs are likely to be low in countries that pursue export oriented policies. The absence of high tariffs, excessive quantitative restrictions and overvalued exchange rates also contribute to the cost advantage of such countries in world markets.

Thus, as a way of encouraging export, the following are recommended:

(i) there is the need for increased local processing of agricultural commodities before export. All things being equal, this will enhance the prospects for reasonable earnings from their exports and avoid export difficulties of primary produce likely to be caused by the slowly "expanding" world market for

primary products due to the shifting pattern of demand in the developed countries to goods with a relatively low content of primary commodities and the increasing development of synthetic substitutes for raw materials made possible by technological progress

(ii) the Federal Government should embark on the intensification of the diversification of the economy through efforts at export zoning, export priority sectors, export incentives and funding etc.

iii) export policy should be well articulated and aim at long-term objectives rather than been formulated on ad hoc basis with the aim of merely increasing foreign exchange earnings. The policy should be formulated in such a way as to blend with the overall trade and industrial strategies, taking into account specialization based on comparative advantages in manufactured exports.

(iv) the government has an important role to play in properly encouraging the organization of the private sector for project identification, design and implementation, largely because only the government has the resources to provide such services.

(v) as a way of earning more foreign exchange, efforts should be directed at solid mineral exploration, exploitation and exportation. Nigeria is rich in many mineral resources like gold, tin ore etc. which are

always on high demand in the world market. Equally, the Export Stimulation Loan Scheme currently targeted at small and medium scale enterprises should be extended to cover also large scale enterprises. This is because such firms have established the machinery, organisation and capacity to process and export finished products. Given the fledging nature of small scale enterprises in Nigeria, there may arise such a situation whereby such outfits have no products to export while the firms with the capacity and initiative to process and export products are not motivated. This will be a case of gross resource misallocation.

(vi) More importantly and as a way of checking the import dependency syndrome, there is the need for the government to create conducive atmosphere so that the domestic industries can make greater efforts to look inward for the sourcing of raw materials as inputs for production instead of relying on imported inputs.

(vii) The liberalised import trade policy of the government, though desirable, should be administered with caution so as not to discourage local producers of import substitutes. Much as it is needless to be advocating import controls, it is still

desirable if duties on such imports are raised to make local products competitive.

Inspite of recent events, it is still widely recognized that the East Asian Countries had a remarkable record of high and sustained economic growth in the 80s. They enjoyed much higher per capita income growth in addition to improved income distribution (World Bank, 1996). From all indications, the East Asian countries achieved high growth by getting the basics right. Private domestic investment and rapidly growing human capital were the principal engines of growth. Agriculture, while declining in relative importance experienced rapid growth and productivity improvement. In fact, some of these economies got a head start because they had a better educated labour force and a more effective system of administration(World Bank, 1996).

Fundamentally, sound development policy was a major ingredient in achieving rapid growth. In most of these economies, in one form or another, the government intervened to foster development and in some cases the development of specific industries. Policy intervention took many forms; targeting and subsidizing credit to selected industries, keeping deposit rates low and maintaining ceilings on borrowing rates to increase profit and retained earnings, protecting domestic import substitutes, subsidizing declining industries and ensuring proper and effective information dissemination between the public and private sectors.

5.3 Conclusion

From all indications, we can say that the experience of the country with outward orientation has been interesting, educative and at times, very frustrating to the policy makers. It can be seen from our analysis that on the aggregate, the outward orientation embarked upon during SAP period have recorded some measure of success. Non oil export volume and earnings have increased and some degree of diversification into minor commodities has taken place. Thus, the need to develop the Non-oil export sector cannot be played down since it could be a main foreign exchange earner even as it remain the main source of employment.

This study like every other, is faced with some limitations, such as paucity of data in some area analyzed. But inspite of these limitations, we are confident that they have not hampered our analysis or rendered our results unreliable.

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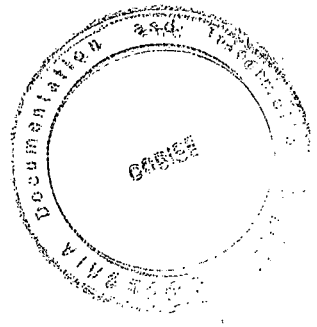

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