Trade liberalization and Industrial Sector Productivity Growth in Nigeria

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Abstract: This paper explores the theoretical relationship between trade liberalization and economic growth in Nigeria. It will look at the structure of the economic growth performance during trade liberalization regime. Theoretical relationship is that weather trade liberalization affects economic growth, in a particular country depends heavily on the structure of the country exports and imports. Our argument in this paper is that what good governance agenda theorists fail to understand is that free market can only be applicable if labour productivity is competitive and that it can add value to the existing level of output. The big structural problems with Nigeria economy are of poor technological capabilities with serious unskilled manpower and with no international competitiveness.

Key words: Trade liberalization, sector productivity, economic growth.

INTRODUCTION

Central issues in development policy debate in the 1980 centre on Trade liberalization, it gain prominent positions among the international donor agencies such as the World Bank and the IMF These donor agencies emphasized on Developing countries to implement these trade policies through the structural adjustment programme (SAP), the idea is that trade liberalization will usher overall productivity in the domestic economy by enabling the home country to focus investment in sectors in which it has comparative advantage. The question that emerged from this plausible assumption is there really any linkage between trade liberalization on the one hand and industrial sector productivity growth in Nigeria? Should UNCTAD and other groups, who hold the view that there is some sort of relationship between trade liberalization and industrial sector productivity growth, be taken serious in Nigeria?

Theoretical relationship is that weather trade liberalization affects economic growth, in a particular country depends heavily on the structure of the country exports and imports. More upon than not, country with high level of export benefit more from trade liberalization, while on the other side country with high level of import lose. This portrays a typical situation of Nigeria, who have very small amount of export, experiencing worsening commodities prices, but are compel to liberalize their trade. At the end the country ends up with balance of payment deficit and low productivity growth. After becoming a member of WTO Nigerian imports as a proportion of GDP rose significantly, deteriorating the country balance of payment and the country, productivity growth, the outcome with Nigeria strict adherence to the WTO in terms of reduction in tariffs, and other commitments, the country level of imports as a percentage of GDP went up, causing more problems to Nigerian balance payment, and again there was exponentially rise in imports from 8.18 percent of total trade to 37.4 percent in 2001 which is higher than the 42. Percent in 1999.9 What was expected in terms of increase in the oil sector prices failed to materialized as such import flowed. This indicate a flow in import with very little to export outside of oil and gas.

The issues here are that if there is no non oil to export then what could have been the faith of high propensity to import? How they can be finance? In a situation where the supporting infrastructures is not in place to improve efficiency, and the enabling environment is not there, and the quality of human capital is very low, trade liberalization in Nigeria will results in more import than exports exacerbating the problem of balance of payment deficit. Therefore, the inefficiency in production process and the goods that emanate from such low productivity growth cannot compete against international standards. As such an import regime without capacities to raise resources from export cannot be sustained both in the short and long run.

With this background introduction the paper is divided into four sections, following the introduction which constitutes sections one, the sector two will explore the theoretical relationship between trade liberalization and economic growth. Section three will look at the structure of the economic growth performance during trade liberalization regime. Section four will provide policy recommendation. And finally, section five present the conclusions of the paper.

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Theoretical and Empirical literature on Trade Liberalization and Productivity Growth: 

There are two strands of school of thought that emerged from the debates, one of the approach is that trade liberalization will enhance industrial sector productivity by exposing the economy to superior foreign goods, forcing infant industry to short down production (Adenikinju and Chete, 2002). While the second stands argue that out ward oriented trade policy will influence entire industrial efficiency in the economy by exposing local industries to competition as result leading to improved efficiency in the allocation of factors across sectors and increasing the value of domestic production. (Adenikinju, 1998, Nwafor, Adenikinju and Ogjujuba, 2007)

However, the later argument will be situated within this paper because has led to the establishment of the theory of X- efficiency foreign exchange constraints and technological catch up, which are the major areas of considerable debate on trade policies in Nigeria. The idea is that trade protection reduces industrial sector efficiency and that when there is liberalization and greater opening up to international market the ensuing competition forcing domestic industries to adopt new technologies that will reduce X inefficiency and costs across the board (Adenikinju, 2005).

On the other hand the foreign exchange constraints argument posits that intermediate and capital goods imports are not readily substitutable with domestically manufactured products, as such, imported inputs embody technologies that are unavailable to domestic manufacturer and can only be obtained through imports. In the case only policies that tilted to limit such imports will resulted in poor productivity performance. On the other hand, policies that increase availability of foreign imported input or lower their cost will result into effective performance. (Nwafor et al 2007).

The empirical evidence on the causal linkage between trade liberalization and economic growth can be broadly divided into two set of categories, based on their methodological approach, the first group follows a two stage methodology, where a positive link is assume between export and trade liberalization. While in the second stage, go ahead to estimate the impact of exports on economic growth (see example, Balassa (1978), Greenway and Standford (1994), Krueger (1990), Edwards (1993) and Frankel and Romer (1999). For this studies the outcome result is that trade liberalization leads to economic growth. But there are a lot of issues raised with the conclusions reached by these studies; it is not clear whether evidence of export –growth relationship is considered as evidence of openness –growth relation. This is because the evidence openness and export is itself weak, especially in the context of Sub-Saharan Africa.

The second groups include in contrast, those that attempt to directly estimate the relationship between trade liberalization and economic growth. These study normally the use of certain measures of trade liberalization indicators in some form of growth regressions. Example sees the work of Dollar (1992), Ben-David (1998), Greenaway et al, (2002), Wacziarg and Welch (2003), Wang et al (2004), Romalis (2007), Wacziaring (2011), study to find out whether trade liberalization raises economic growth, using data of 57 countries, the used tariffs barriers, non- tariffs barriers and dummy for trade liberalization their study indicate that there is a positive effect of trade liberalization on economic growth. Economidou and Murshid, (2008) used the data of 12 OECD countries find out the impact of trade on manufacturing productivity, the findings from their study indicated that there is a positive effects of trade on productivity growth of manufacturing industries, the relationships is tenuous.

One of the interesting works on openness and economic growth was carried out by Sanusi, (2008) who use a cross-section sample of thirty six Sub-Saharan African countries and time series sample of selected seven countries. The findings of his study of his work suggest that countries that open generally tend to grow faster than those that are close. On his case study he fined that the experience of country with openness in terms of higher output depend on its own peculiarities.

Structure of the Economic Growth Performance under Trade Liberalization Regime:

Looking at the structure and pattern of the growth performance within and after the implementation of this trade liberalization policy period in table 1 below, one will noticed a serious weakness of the achieved growth process, because only top two primary products, agriculture and oil, continue to dominate sectoral contributions to GDP. With agriculture accounting for more than 50 percent of employment, and the oil sector accounts for over 95 percent of foreign exchange earnings and 80 percent of government revenue. Agriculture’s share of GDP rose from 30 percent in 1998 to about 36 percent in 2000 and 42 percent in 2007. The share of oil in GDP also rose during the period of this trade liberalization policy. But unfortunately the dominance of the contribution of these two sectors did not concomitantly provide the expected multiplier effect, or even propel the productivity growth of the industrial sector and raise employment in the country. In fact, what was experienced is the stagnation of the industrial sector growth and reduction in the share of its contribution to the GDP (Onyeiwu, Iorgulescu, and Polimeni, 2009).

However, this indicates that even though growth has been on the increases during the reform period but there is lack of proper structural linkages and transformation that can lead to increase in technology catch- up as well as shifts in employment from primary to secondary/tertiary sectors.
Table 1: Nigeria: Sectoral Composition of GDP 1999-2010.

<table>
<thead>
<tr>
<th>Sectors</th>
<th>% of GDP</th>
<th>Growth %</th>
<th>Contribution to GDP Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Large Sectors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crops</td>
<td>36.9</td>
<td>7.70</td>
<td>40.88</td>
</tr>
<tr>
<td>Oil and gas</td>
<td>23.2</td>
<td>2.23</td>
<td>-4.49</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>14.2</td>
<td>15.96</td>
<td>28.78</td>
</tr>
<tr>
<td><strong>Medium sectors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial institutions</td>
<td>3.93</td>
<td>2.16</td>
<td>1.79</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3.88</td>
<td>9.05</td>
<td>5.20</td>
</tr>
<tr>
<td>Electricity</td>
<td>3.28</td>
<td>24.46</td>
<td>3.91</td>
</tr>
<tr>
<td>Livestock</td>
<td>2.67</td>
<td>6.19</td>
<td>2.62</td>
</tr>
<tr>
<td>Road transport</td>
<td>2.26</td>
<td>13.9</td>
<td>3.35</td>
</tr>
<tr>
<td>Building and construction</td>
<td>1.6</td>
<td>8.70</td>
<td>2.38</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>1.62</td>
<td>50.90</td>
<td>6.62</td>
</tr>
<tr>
<td>Real Estate</td>
<td>1.47</td>
<td>9.67</td>
<td>2.20</td>
</tr>
<tr>
<td>Fishing</td>
<td>1.38</td>
<td>5.51</td>
<td>1.92</td>
</tr>
</tbody>
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Moreover, looking more closely at what is happening with the industrial sector one can notice a fall in output which leads to a significant fall in both industrial and agricultural share of GDP by which in 1995 the employment share in both industry and agriculture fell to almost half of the 1990 period, resulting to a sharp increase in open unemployment reaching a high of 13.7% in 1999. Similarly also this caused an increased in open unemployment which indicate that a significant amount of workers gain employment lies in the shadow economy such as services sectors. Thus as started earlier, it is estimated that the informal sector employs 30% of the workforce UNDP, (2000), therefore considering this apparent limitations glaring in the Nigerian growth process, after the implementation trade liberalization policy of one may need to argue that sustainable growth in Nigerian may requires critical state good governance abilities that can speedy up productivity in all sectors of the Nigeria economy, with much given emphasis to manufacturing sector that is labour intensive (Adogamhe, 2010).

In fact, the experience of the successful developers who achieved faster growth with trade liberalization within the East Asian countries does not exactly follow the World Bank variant of the policy exactly. This inform the argument that for Nigeria to emulate similar success stories of achieving faster growth with trade liberalization policy it need to have good governance capacities that can lead efficient market but at the same time it need to make sure that such Governance capacities can ensure resources allocation to the desiring sectors that are growth enhancing and poverty reduction. In fact in terms of the one size fit all World Bank Trade liberalization policies East Asia does not strictly adhere to their policies subscriptions. In fact on the contrary they succeeded in establishing effective institutions that are growth enhancing and technologically efficient, without strict adherent to the so called liberalization policies propagated by the World Bank, (Onyeiwu, Pallant and Hanlon, 2011).

In fact looking at the face and structure of growth achieved in table 1 above during the trade liberalization policies in Nigeria it does not indicate resources distribution to the desiring sectors that can lead to sustainable growth. This can be explained by the low technology and low value-added activities that continue to dominate most growth enhancing sectors such as industry and the agricultural sectors, similarly one important point to note is that in Nigeria projects that aim to enhance technological capacity involve learning how to use new technologies and new methods of organizing work practices which involves potentially long periods of losses with the promise of high profitability in the future, this can only be possible when there is very rapid and disciplined learning which is virtually missing in Nigeria due to, lack of Conducive atmosphere for investment and coupled with the uncertainties involved in investing in this type too high risk learning technologies to be worth the risk given that alternative investment opportunities are less risky and immediately profitable. Rapid catching up in this kind of environment therefore requires complementary growth-enhancing interventions by states government and the governance capabilities to ensure that they are effectively implemented (Aigbokhan, 2008, Ambert, 1998, Khan, 2000a).

However, the exchange rate also appreciate during the reforms period against international exchange rate but that does not means improving in the export based of the economy because the industrial sector performance continued to be poor declining from 21.33 percent at the end of 1999 to 17.66 percent at the end of 2005, despite increase in our foreign reserved from us 4 billion in 1999 to US 43.5 billion as at 2006 in infrastructures deficit continue to soar. Lending rate also improved from 21.33 to 17.66 but it is still considered high and with majority cannot afford taking loans from the government.

In the 1980s the manufacturing sector constituted 17% of overall GDP, but by 2006 it had fallen to 3% of GDP. The manufacturing industries as at 2006 operate at 22% of its installed capacity. GDP per capita of Nigeria in 1980 was 938 Units (US$ per person), but by 2005 it had fallen to 560 and by December 2006 to 450 productivity in the industrial sector continue to fall. The unemployment also continue to declined falling from
18% in 1990 to 5.3% in 2006, poverty also decline from 70% in 1990 to 54% in 2006 but continue to rise to 94% in 2010, the incidence of poverty still remain very high in Nigeria (NBS 2010).

The issue of low productivity discussed above indicates instead of the economy to transit from agriculture to industries what is obtained is labour moving backward from industry to Agriculture indicating the economy is suffering from productivity of labour. Moreover, in the industry the share of employment has continued to fall, implying that the process of economic growth has not led to shift in labour from low productivity sectors to more productive sectors. However, these can be summarized to mean that the trade liberalization policy implemented so far in Nigeria has led to the displaced labour both in high productivity industrial sector and low productivity agricultural sector being absorbed into the informal sector (Eteyibo, 2011).

These are structural constraints within the internal growth dynamic of Nigeria which Collier, (2007) trade liberalization led growth to Africa cannot explain. This has given us a point of divergent in this paper with trade liberalization thesis policy recommendation on how to achieve faster technology catch-up in Nigeria. Considering the nature of the structural constraints in Nigeria reflecting in low productivity, market cannot be efficient enough to ensure growth as argued by Eteyibo, (2011), as such inviting capital and new technologies in high valued sectors will be difficult to actualize. Because efficient market generally only import capital to well established market where all the necessary prerequisite are put in place capital and technologies to countries where these technologies are already profitable and the requisite skills of workers and managers already exist, as argued by CBN governor Sanusi (2010) free market will lead to rapid convergence if capital flow to Nigeria to her cheap labour. Our argument in this paper is that what good governance agenda theorists fail to understand is that free market can only be applicable if labour productivity is competitive and that it can add value to the existing level of output. The big structural problems with Nigeria economy are of poor technological capabilities with serious unskilled manpower and with no international competitiveness.

Policy Recommendation:

Thus, tackling this type of structural productivity gap problem goes beyond establishing infant industries and allowing them to operate as argued by free trade fundamentalists in Nigeria, but also of creating up institutional compulsion that make sure that the attempt involved in learning is not wasted. Absence of these specific governance capacities that can enforce compulsion describe why technology catch-up strategies failed woefully in Nigeria. This is important in order to correct the lesson why the trade liberalization that came up with complete trade openness in Nigeria failed in achieving industrial growth and poverty reduction within the reform period. Ignoring the structural problems of low productivity for caching up was completely the major sources of failure of the entire government industrial sector policies (Sanusi, 2010).

We recommend to Nigeria to exploit a big historical lesson from the success achieved in East Asia countries where opportunities and compulsions for learning were created by very different types of institutions and policies. There is no one accurate blueprint way of setting up these opportunities and compulsion it lies on a particular country in questions, but varies from country to country being context specific, they includes tariffs protection, direct subsidies in particular example is South Korea, while in some countries it was completely a different approach such as, subsidized and prioritized infrastructures for priority sectors in China and Malaysia, and subsidizing and licensing of advanced foreign technologies in Taiwan. These opportunities and compulsion where strongly supported by state institutional and political capacities to ensure that non-performance was not accepted for too long. Observing at cross-section data through economic regression analysis is not sufficient to provide the clear picture behind their success. These countries of our historical references were far below Nigeria in terms of economic growth in the 1970 and do not fared well in stability of property right, corruption control or the rule of law before they began their take off. In fact what history suggests their success stories was determine by their ability to set up fragmented and local context trade liberalization capacities for effective resources distribution to growth sectors, through prioritizing infrastructures for the critical sectors growth, and in making credible and attractive terms available to investors importing in advanced technologies.

Conclusion:

In conclusion, the paper tried to examine the role of good governance reforms policy on economic growth in Nigeria. We argued in line with the current rethinking of the role of developmental state. In the wake of market forces failure to set thing right, as experience by many countries during the recent cyclical downturn of the global economy, it is being increasingly realized that the non market assets transfer through the public distribution of resources constitute the key to economic development. This study learns testimony to the above rethinking of the role of government in identifying specific good governance capacities to addressing the structural problems of productivity growth.
REFERENCES


