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Federal Government of Nigeria (FGN) Lands Boarder Automobile Importation Ban: the Socio-Economic Implications of the Cotonou Episode

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Abstract

The recent Federal Government ban on land boarder importation of automobiles attracted a plethora of public outcry and agitations. While some members of the Nigerian public argue that it sent many family breadwinners out of jobs with its attendant socio- economic implications, others viewed it from the perspective of the implications for the much pampered regional economic integration. This paper examined the socio-economic consequences of this policy measure as well as the implications for the fragile regional economic integration. The methodology follows the content analytic approach while data was sourced from secondary materials which include – books, journals, periodicals, magazines, the internet etc. The paper is developed in parts which range from the introduction, problem statement, literature review, and theoretical framework, gaps in literature, methodology, findings, recommendations and conclusion. The study revealed that the said ban constitutes a negation of the basic principles of regional economic integration (ECOWAS) and had an adverse consequence on the socio-economic welfare of the citizens of both Nigeria and the Cotonou Republics. The "Vent-for-Surplus" theory"(Myint,1958) was adopted as the theoretical framework of the study.

Keywords: *FGN Ban, Land border, Importation of automobiles, Regional economic integration, Socio-economic implications, Theory of customs union.*

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Background to the Study

Economics gradually emerged as an independent academic discipline over two hundred and thirty years ago. Since then, the overwhelming majority of its practitioners have kept faith with the virtues of free trade as the pathway to a nation's economic prosperity. Unfortunately, these economists have not been particularly successful in convincing non-economists that governments should not intervene in the voluntary exchange of commodities and services among countries. The typical layman is rather skeptical if not frankly opposed to the idea of free trade with foreign countries. As a result, trade policy has become one of those issues where recommendations of professional economists are at variance with strong public popular opinion. Consequent upon this lack of support outside the economic profession, the free trade case has failed to gain much attraction in the real world of international policies for the most part of the twentieth century. However, free trade has started to make progress in the real world within the last few decades. As would be expected, the development has led to the launching, negotiation and eventual signing of a reasonable amount of free trade agreements and initiatives across the globe. This has triggered the emergence of powerful regional trading blocs as well as influential international organizations like the world Trade Organization (WTO)- with the purpose of advancing the true trade agenda among its member states. Many governments are currently engaged in several multilateral and bilateral free trade negotiations.

By definition, free trade involves greater interdependence among nations which is currently linked to the phenomenon of globalization. There is the consensus that "developing countries have a great deal to gain from free trade" (Krueger, Srinivasan, 1999; Stiglitz, 2000; Tangermann and Josling, 1999; Huff, 2000). Economics literature supports the contention that development requires economic growth to alleviate poverty, and greater access to world markets is perceived as a necessary condition for accelerated rapid growth. It is therefore, believed that, "poor countries have more to gain from a freely functioning global market or that poor countries have the most to loose from a failure of the multilateral World Trade Organization" (The Economist, 2000). However, following the failed ministerial conference of the World Trade Organization (WTO) in November 1999, global multilateralism has faced an increasing number of vocal and active opposition from around the world. The Seattle conference has failed because by expanding to 130 members, it became more difficult for the WTO to reach consensus on different issues. Secondly, developing countries grew in membership and became more active participants in voicing their concerns than they had done under the General Agreement on Trade and Tariffs (GATT). The cry is that "free trade and globalization are not in the interest of poor countries and that it will cost already poor people dearly" (McCalla, 2001). Therefore, as the push for freer trade at the multilateral level has become more and more contentions, governments have been focusing on negotiating regional pacts as a means to enhancing policy credibility and accelerating trade and investment liberalization in the hopes of spurring production and export growth.

Africa is faced with the challenge in announcing the creation of the African Union. The guidelines for the Union are provided by the Abuja Treaty of 1991, which is articulated around the concepts of solidarity and collective self reliance; a self-sustained and endogenous development strategy; and a policy of self-sufficiency in basic needs. "Its major goals include the integration of African productive capacities and infrastructure facilities; the eradication of poverty and ignorance; the building of genuine African-centered institutions; and the establishment of new relationships between Africa and the rest of the world" (African Development Report, 2000). The Abuja model of integration provides a marked departure from previous models in that it is no longer a narrow trade agreement; it conceives of a long-term development strategy, aims to integrate economic and non-economic sectors, builds new institutions consistent with self-reliant development process, upholds democratic principles, and fosters new social and cultural values.

With the establishment of the Economic Community of West African States (ECOWAS) in 1975, governments in West Africa recognized regional integration and cooperation as an important tool for the region's economic development. In its over forty years of existence, the sub-regional body has identified trade facilitation, both with regional and global partners as an essential priority, particularly as West Africa experiences increasing trade volumes and economic growth. Presently, ECOWAS consists of 15-member countries which continue to work closely towards economic integration, including a plan for macroeconomic policy convergence through the introduction of a common West African Currency. Despite their geographic and cultural connections, the countries that comprise ECOWAS are a fairly economically heterogeneous group. Nigeria is the region's economic hub; hence, reforms in her trade/commercial policies have serious consequences for countries in the sub-region. This justifies an empirical enquiry on the implications of the recent ban on automobiles through its land borders by the federal government.

Research Problem

Cross-country capital flows are growing rapidly and domestic systems are consequently increasingly exposed to shocks emanating from abroad. Since cross-border financial flows tend to be more volatile than domestic flows especially equity flows, "such flows heighten the risk of financial crisis in many developing economies" (Earnest, 2004). Dos Santos as cited in Suleiman (2004) observes that, "unequal exchange led to the development of dependency relationship where the third world has her economies conditioned by the growth and expansion of other economies. Nigeria as an example experiences dependent economy which is considered among the factors responsible for economic slow rate of growth. Globalization imposed a dependent capitalist social system and western values in the form of industrialism, market principle and institutions on Nigeria.

The recent ban by the federal Government of Nigeria in December 2016 came into effect(Vanguard Newspapers,29 January,2017) in January 2017. Since the pronouncement, there have been divergent views with the House of Representatives urging a stay of action on the ban. As Nigeria is yet to join the league of car manufacturing countries, the rationale behind the policy on land boarder automobile importation remains unclear to observers. Many people on both sides of the divide have been thrown out of job, just as the basic principles of the regional economic integration have been threatened. Against this backdrop, a curious observer is forced to question the rationale of this ban which certainly has its socio-economic implications. This paper seeks to examine these implications.

Objectives of the Study

The major objective of this study is to examine the socioeconomic implications of the FGN Ban on Land Boarder automobile importation into Nigeria.

Specifically, the paper seeks to:

a) Determine the effect of the ban of the job situation in Nigeria.
b) Ascertain the effect of the ban on the general welfare of Nigerians.
c) Assess the implications of the FGN car ban on the regional economic integration in West Africa.

Research Questions

The paper will attempt to provide answers to the following research questions:

a) What is the implication of the FGN car ban on the job situation in Nigeria?
b) How does the ban affect the welfare of Nigerians?
c) Would the auto ban have any effect on the fragile economic integration in West Africa?

Literature Review

Conceptual Review

Free trade: A free trade policy refers to one in which there are no tariffs, quantitative restrictions and other devices obstructing the movement of goods between countries. For Lipsey cited in Jhingan (1956), "A world of free trade would be one with no tariffs and no restrictions of any kind on imports and exports. In such a world, a country would import all those commodities that it could buy from abroad at a delivered price lower than the cost of producing them at home".

International trade: Trade between regions within a country is referred to as inter-regional trade. Ohlin refers to it as inter-local trade. Thus, inter-regional trade is domestic or internal. On the other hands, trade between two countries or nations is referred to as international trade.

International Economic Integration: This refers to a decision or process whereby two or more countries combine into a larger economic region by removing discontinuities and discriminations existing along national frontiers, and by establishing certain elements of co-operation and co-ordination between them. Tinbergen (1965), defines the terms as "the creation of most desirable structure of international economy, removing artificial hindrances to the optimum operation and introducing deliberately, all desirable elements of co-ordination or unification". Balassa (1969), defines it simply "as a process and a state of affairs", while Salvatore (1990), views it as a commercial policy of discriminatively reducing or eliminating trade barriers only among the nations joining together".

Tariffs and quoatas (Trade Restrictions): These are duties levied on goods as they enter or leave national frontiers. They are usually for the purposes of revenue generation or protection of local industries; sometimes they could be in retaliation. Kindlerberger (1986) in Jhingan, believes they could have eight (8) effects – consumption, revenue, redistributive, production, competitive, terms of trade, income, and balance of payments. An example of trade restriction is the recent land boarder importation by the Federal Government of Nigeria.

Theoretical Framework

Vent for Surplus Theory

Myint (1958), a Burmese economist, introduced the concept of "Vent-for-surplus" to explain the rapid expansion of exports in certain sparsely populated developing countries during the later half of the 19th and early 20th centuries. The essential feature of this model was that these countries possessed "surplus productive capacity" left unexploited because of a poor state of internal economic organization and inelastic domestic demand. The functions of trade were not so much to reallocate resources but to provide new effective demand for the output of the surplus resources.

Empirical Literature
There are empirical investigations on the benefits of regional economic integration in Africa. For instance, Meoqui (2016), conducted a study on classical free Trade: A policy Towards Economic Growth and Development. The central aim of the dissertation was to make an unambiguous international trade policy recommendation for developing countries grounded on rigorous economic theory. The study contends that a widespread policy change towards free trade should always be implemented gradually, in order to take care of those groups who might be affected in the short-run by the increased level of international competition and technological progress. The main conclusion of the study is that free trade as conceived by classical political economy – is the most suitable international trade policy for developed as well as developing countries for achieving sustainable economic growth and development.

Manone (2008), carried out a study on the importance of regional economic integration in Africa. The study analyzed the progress, pace, approach, sequence of regional economic integration in Africa by looking at different variables. Africa's regional integration blueprint and institutional framework were compared with those of EU while selected areas were identified as essentials for Africa. It found progress on regional economic integration to be slow and came to the conclusion that such integration should be viewed as one aspect of the strategy towards Africa's growth and development.

Butu (2008), analyzed the impact of the ECOWAS protocols and programmes on political and economic integration of West African sub-region. The desk review method was adopted, while the information was obtained from relevant literatures. The paper evaluated the implementation of the various protocols and programmes that constitute the main integrative instruments of ECOWAS from 1975 – 2007. It observed that although the necessary structures have been put in place, ECOWAS is yet to achieve complete implementation in some of the main integrative instruments. The paper is of the view that ECOWAS has made some remarkable progress in its drive towards regional integration.

Calo-Blanco and Naya (2005), conducted an investigation on economic integration, non-tariff barriers and social welfare. The paper examined the extent to which preferential trade agreements can lead to the substitution of non-tariff barriers for tariffs, and the effects of non-tariff barriers on welfare and other parameters. Its main results are that non-tariff barriers reduce aggregate welfare, and that the governments of economically integrated countries replace tariffs by non-tariff barriers if and only if their priority is protection of their nations firms.

Omolade, Morakinyo and Ifeacho (2013), conducted a study on globalization and Economic Development in Nigeria. The study investigated the nexus between globalization and economic development of Nigeria by employing both co-integration and causality tests. The result showed that foreign direct investment is a component of globalization and an important factor influencing the economic development of Nigeria. Trade openness shows a negative relationship. The causality test indicates that unidirectional causality exists between economic development and globalization which implies that causality flows from economic development to globalization in other words. Again, the study revealed that trade partners of Nigeria appear to be gaining more than the country especially the developed trade partners.

Studies have earlier been conducted on the effects of globalization on economic growth. Most of these studies employed various approaches to the benefits of international trade emanating from international economic integration in relation to the developed and developing economies of the west. Apparently, very few such studies have had focus on Africa and its sub-regions. Of particular note is the study by Omole et al (2013), which examined the effect of globalization on Nigeria's economic development using the methodology of co-integration and causality tests. To the best of the knowledge of the researchers, none of the studies has dwelt on the benefit of regional economic integration (ie the formation of ECOWAS and its operations), on the economic development of Nigeria. This is an obvious gap which the current study intends to bridge.

Methodology
This study employs the tool of content analysis to assess the economic implications of the recent FGN land border ban on automobile importation in Nigeria.

Research Question One (1): How does the FGN car border ban affect the general welfare of Nigerians?
This Day (December 2006) writing on Automobile Import ban through land Borders: Threats or Trophy, quotes Adeniyi (2016), as saying that "the restriction on importation of vehicles follows that of Rice, whose imports through land borders had been banned since April 2016. Importers of vehicles through the land borders are requested to utilize the grace period up till December 31, 2016 to clear their vehicle imports landed in neighboring ports". Aromolaran who is the Managing Director of VON Automobiles Limited, said if the government wants to encourage the auto sector, then there should be preferential policies to ensure that people, who are getting Nigerians employed and assisting to put food on the table of millions of homes, should be encouraged to grow and grow faster. When they get past that threshold, then they can compete with anybody. Now, we are not able to compete and that is why it is easier to import. For those who prefer to import, it is easy business. Nigerians are suffering; we are seeing people working in other countries while our own people are working in the streets" furthermore, he explained that if not that VON was strong enough; they would have been down-sizing by now because, "there is no business. But we have taken a stance that we will keep our workers because we have spent millions straining them and it does not make sense to invest in people and let them go".

On the other side of the debate are major car dealers on both new and used cars who knocked the policy on the grounds that it will have a devastating impact on ordinary Nigerians and the economy. They claimed that the policy will have the most impact on used cars, the segment of the market where most Nigerians operate. It will make it difficult for Nigerians to own cars. The car dealers admonish government over decisions based on advice from University professors who know nothing about the sector rather than consult the dealers in the business. Their argument is based on the fact that there are no automakers in Nigeria and no auto industry to protect. According to them, only INNOSON is doing auto manufacturing in Nigeria, others are far from doing so; they have no assembly lines. This paper is of the view that an organized sector that places food on the tables of millions of Nigerians is worth protecting. Apart from generating revenue for government, it also contributes to welfare of many Nigerians by providing the basic need of nutrition (food). There are empirical evidences to support the above stance on the impact of trade protection on economic growth in Nigeria. Okere and Iheanacho (2016), examined the impact of trade protection on the Economic growth of Nigeria. They study revealed that there is an indirect link between protectionist policy and economic growth; hence the study failed to confirm that protectionist trade policy is detrimental to growth.

Research Question Two (2): What effect would the auto land boarder ban by FNG have on the fragile regional economic integration?
The Land boarder ban by the FGN as reported in the vanguard Newspaper (29 January, 2017), revealed the knock on Benin Republic. According to the report, "of the 2,500 Lebanese dealers in Cotonon, 1,600 have packed up and left within six months, shutting down businesses that employed dozens of drivers and security staff. "Unemployed people used to come here to find work", said Vincent Gouton, who represents a group of car dealership managers in Cotonou. According to him, "Nigeria, an economic behermoth of 190 million people, gobbles up "99 percent of car exports in Benin", a tiny country with scarce natural resources which relies on its export business to survive. Since Nigerian economy crashed following the collapse of global oil prices, Benin has been suffering knock-on effects. It is to be underscored that Nigerian president Muhammadu Buhari's protectionist policies such as the Land Border auto ban, has aggravated the situation.

The trade restriction through the FGN ban is best analyzed from the perspective of Biswaro (2003), who points to the fact that "regional integration is characterized by the establishment of joint institution mechanisms and degree of shared sovereignty. Although this may be true in theory, it is difficult in practical terms, particularly in Africa, as it involves coding a percentage of the country's power to take decisions. Biswaro (2003), confirms the trend in his argument that "existing regional integration schemes in Africa function in a governmental rather than a supranational mode, and the actual sharing of sovereignty is minimal". A study by Manro (2000), on the impact of Economic integration FDI and exports – A gravity approach, reveals that "a complementary relationship exists on the aggregate, holds. Despite such empirical evidence, there is no such relation between the Nigerian and the Benenois economies. Benin Republic and its citizens are adversely affected by the FGN ban. This could trigger a retaliatory effect which would certainly affect the regional integration.

Against the backdrop of the analysis above, the following findings may be listed.

1 The FGN Land Border importation ban on automobiles will worsen the fragile regional economic integration in West Africa.
2 The policy is a total negation of the fundamental goal of the regional integration
3 More than the situation in Nigeria where there are a few automobile assembly plants, the unemployment situation in Benin Republic is exacerbated.
4 The overall revenue generation capacity of Benin is jeopardized.
5 The FGN policy is capable of attracting a countervailing/retaliatory effect from Benin
6 The adverse effect on Benin might spillover to the political/friendly ties with Nigeria weakening.

Conclusion

Global economic integration is widely believed to possess the potentials to usher in an improvement in the allocation of resources, promote technology transfer, and enhance living standards. However, at the same time, such integration has frequently been blamed for growing trade imbalance, increased financial market volatility, and less effective domestic macroeconomic policies. This brings into focus, the pertinent question as to the effectiveness of the recent ban of the Buhari led administration on land border automobile and rice importation into its territory. Despite the regional arrangement (economic integration), the Nigerian government has gone ahead to enunciate and implement the policy. This has created a number of multiplier effects particularly on the Benenois economy as against Nigeria where exists, a number of vehicle assembly plants which offer jobs to millions of Nigerians. While Nigeria may find it easy to cushion the effects of the policy bearing its natural resource endowment, Benin, a tiny economy which seemingly has not been equally endowed, is grappling with the realities of these effects. From all indications, the chances of the effects biting harder overtime are certainly there for everyone to see. The situation may trigger of retaliatory policies from the Benenois government that may spill into the diplomatic relationships and constitute a complete negation of the overall goal of the regional integration. This paper posits that increasing the tariff on imports like cars, rice, etc, would have been a better option.

Recommendations

The paper makes bold to recommend as follows:

1. The FGN should do a rethink on the Land border ban policy in the interest of the relationship and friendly ties between both countries.
2. Increased tariff wall would constitute a better option to total ban.
3. The displaced persons who lost their means of livelihood should be compensated and resettled to avoid their constituting menace to the country
4. The on-going effort at economic diversification must take special cognizance of solid minerals and technological innovations.
5. The Government in Nigeria must mount a vigorous campaign to enlighten its citizens on the rationale behind its land border ban.

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