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An Assessment of Commercial Policies and Economic Development in Nigeria

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Abstract

A commercial policy may be defined as one that enhances the rate of economic development particularly for the less developed countries (LDCs) by enabling such countries have a larger share from trade and augmenting the rate of capital formation. It also promotes industrialization. This paper examined the extent to which a nation's commercial policy could enhance the process of economic development using Nigeria as a case of study. Its main objective was to ascertain how much the commercial policy of a developing country like Nigeria has enhanced her share of the gains from international trade and promote industrialization. Data was obtained from secondary sources such as books, journals, periodicals, magazines, newspapers, the internet, the Central Bank of Nigeria (CBN) statistical bulletin, etc. The Modern theory of international trade (1933) was adopted as the theoretical framework while the methodology involved the use of content analysis. The paper was developed in segments in the order of introduction, problem statement, objectives, research questions, literature review, the gap, theoretical framework, methodology, findings, recommendations and conclusion. The paper came to the conclusion that robust commercial policy has what it takes to enhance the economic development of a less developed country by increasing the savings ratio.

Keywords: *Robust commercial policy, Economic development, Capital formation, Savings ratio, Less Developed Countries (LDCs).*

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Background to the Study

Debate has widened in the last decades, precisely in the direction of the dynamic effects of international trade. The theoretical development afforded by the models of endogenous economic growth (especially after the works of Pomer (1986) and Lucas (1988), which stimulated the creation of empirical studies, moved toward an integrated analysis of the economic growth and international trade theories. Thus, the classical tradition, apparently interrupted by the neoclassical separation of the two sections of the theory, seems to have been recovered, assigning, as a result, a decisive role to international trade on the countries' rate of economic growth. The realization of this importance has even led to the ceaseless appearance of proposals from international organizations, such as the World Bank (WB), and the United Nations (UN). As a result, many countries began to reduce commercial barriers and other controls of economic activity and obtained a significant (and lasting) increase in the rate of economic growth which suggests that extroversion , has a dynamic effect on the economy, helping to speed up the rate of economic growth.

It must be recalled that, the positive effects of international trade (IT) on economic growth (EG), was first associated with Smith (1776). This idea prevailed until the World War II (WWII), although with relative hibernation in the era of the 'marginalist revolution'. At the end of World War II, the introverted and protectionist experiments on economic growth had some significance especially in Latin America. However, from the sixties, following the failure of those experiments, and the association of quick EG with the opening of IT and the consequent international specialization in several countries, as well as the result of many studies based on the neoclassical theories of economic growth and international trade, a new decisive role was assigned to IT as a driving force of EG. The above notwithstanding, although the dominant theoretical position tended, from the beginning (with the classics), to indicate a positive relation between international trade and economic growth, many studies have linked the gains of international trade with static effects. However, Baldwin (1984), for instance, in a survey of empirical studies, came to the conclusion that, "the static effects were of little significance". This further stimulates studies on the possible effects of commercial/ trade policies on the economic growth / development of any nation.

Statement of the Research Problem

Charting the path to economic development constitutes the leading issue of the contemporary world. It is interesting to observe that substantial changes have taken place in economic policies as regards trade in both the developed and developing countries. The most substantial of such changes reveal the universal desire towards market economy and economic liberalization. This has facilitated growth through expansion of exports. The pattern was proposed in the early sixties (60s), transformed to the most important pattern of development in the 1970s and the most ideal for most of the developing countries in which raises the hope to cope with poverty and lack of development. It may be observed that such hopes become possible only by means of the commercial/ trade policies that are put in place in these developing countries. Hence, the necessity to assess the extent to which such policies have accentuated the economic development of these countries.

Objectives of the Study

The broad objective of this study, is to assess the extent to which commercial policy of Nigeria as a developing country has facilitated the economic development of the country. Specifically, the study seeks to ascertain if;

a) The commercial/ trade policy in existence in Nigeria have led to a measure of economic development of the country.
b) The extent of such economic development.

Research Questions
Two questions will guide the current study. They include;
a) Has existing commercial/trade policy recorded any measure of impact on the process of economic development in Nigeria?
b) What is the extent of the impact of such policy on the nation's economic development?

Literature Review
Marshall (1980:225) noted that "the causes which determine economic progress of nations belong to the study of international trade". In effect, the expansion of the market that is represented led to the increase of global production and originated the increase of internal and external economies, which resulted in increasing income for the economy. One of his successors Young (1928), dwelt on economic growth when he considered like Smith, that the dimension of the market limited the labour division (and therefore, the productivity). Schumpeter (1912, 1942 and 1952), repeated the old points of view concerning the tendency of the profit to reach a minimum and the dependency of the rate of economic growth on capital accumulation.

Conceptual Literature
Commercial Policy: Herbaler (n.d) defines commercial or trade policy as "all measures regulating the external economic relations of a country, which is measures taken by a territorial government which has the power of assisting or hindering the exports or imports of goods and services".

Concept of Economic Development
The earliest concept of development was interpreted in terms of growth of output overtime and later in terms of per capita output. The terms growth and development were used interchangeably. Literally, economic development can be defined as "passage from lower to higher stage which implies change". However, Kindleberger and Herrick (1958), view economic development as " generally defined to include improvements in material welfare especially for persons with the lowest incomes, the eradication of mass poverty with its correlates of illiteracy, disease and early death, changes in the composition inputs and output that generally include shifts in the underlying structure of the production away from agricultural towards industrial activities, the organization of the economy in such a way that productive employment is general among working age population rather than the situation of a privileged minority, and the correspondingly, greater participation of broad based groups in making decision about the direction, economic and otherwise, in which they should move their welfare".

In an attempt to distinguish between economic growth and economic development argues that "Economic development implies both more output and changes in the technical and institutional arrangement by which it is produced and distributed". In the words of Meier (1964), "economic development is a process whereby an economy's real national income increases over a long period of time".

Capital Formation
This is a term used to describe the net capital accumulation during an accounting period for a particular country; the term refers to additions of capital stock, such as equipment, tools, transportation assets, and electricity. Lequiller and Blades (2006), view capital formation as "a measure of the net additions to the (physical) capital stock of a country (or an economic sector) in an accounting interval, or a measure of the amount by which the total physical capital stock increased during an accounting period". It is used in economic theory as " a modern general term for capital accumulation referring to the total "stock of capital" that has been formed, or to the growth of this total capital stock", Yanovsky (1965).

Savings Ratio**:** Savings is the residual item in the income and outlay accounts where it is obtained by subtracting current disbursements from current receipts. National savings ratios are sometimes calculated with Gross Domestic Product (GDP) at market pricesor Gross National Product (GNP) as the denominator. The economically more meaningful approach of using Gross National Disposable income is preferred. Saving is income not spent, or deferred consumption. "methods of saving include putting money aside, for example, a deposit account, a pension account, an investment fund, or as cash" (Random House, 2006). Scholars have shied away from attempting a precise definition of savings ratio.

Less Developed Countries
A country is classified among the least developed countries if it meets three criteria - the concept of least developed countries originated In the late 1960s. the three criteria include; poverty, human resource weakness and economic development as being about " expanding the choices people have to lead lives that they value".

Theoretical Framework
Modern Theory of International Trade Ohlin(1933), developed the modern theory of international trade. According to the theory, the relative availability of factor supplies mainly determines the pattern of production, specialization and trade among the regions. Some countries are abundant in capital and some have much labour. The theory says that countries which are rich in capital will export capital intensive goods while those with labour will export labour intensive goods. The theory is based on the following assumptions:

1. The model is tied up in two countries, two commodities and two factors of production – labour and capital.
2. In commodity and factor markets, there exists the perfect competition.
3. The production functions are different for different commodities.
4. Each commodity is produced by the constant return to scale.
5. Transport and insurance costs are free.
6. There is an immobility in the factors of production between the countries but freely mobile within the countries. Etc.

Other Theories of International Trade
The Kravis theory of Availability: Kravis(1956), an American economist, questioned the assumptions of the classical theory that technology was the same in all trading countries. While testing the H.O theory, he wanted to find out whether labour intensive exports were produced by cheap labour. But he found in almost every country, the exporting industries paid very high wages to the labourers. According to him, "a country produces and exports those goods which it had available". Thus he propounded the theory that the composition of

commodity trade is determined primarily by 'availability' which means electric supply. Trade only takes place in those commodities which are "not available at home".

Linder's Theory of the Volume of Trade

The Swedish economist, S.B Linder has propounded a theory which explains the volume of trade in manufactures as proportion of national income between different pairs of trading countries. Linder discussed the possible resolution to the Leontief Paradox. According to this proponent, there was a distinction made between the trade exports can be explained in terms of relative natural resource endowments, whereas the manufactures exports cannot be explained like that. For the manufacturers, there are many complex factors such as technological superiority, managerial skills and economics of scale which are considered to be imprecise and unpredictable. Therefore, he does not explain the precise composition of manufactures in trade. Instead, he (Linder), proposed a theory concerning the volume of manufactures trade in proportion of natural income between pairs of trading partners. Thus, Linder analytically described in his theory that the pre-condition for trade in manufacture as an export is the presence of home demand and this is because of some basic reasons.

a) Foreign trade is only the extension of domestic trade.
b) Existing industries are fully equipped with innovating centers'.
c) He also admitted that the foreign market is risky and the domestic market is safe in a number of ways. Thus, producers do not wish to depend upon the foreign market alone.

Empirical Literature

Shuab (2011) examined the impact of Foreign Direct Investment and trade on the economic growth of Nigeria. Taking into account, the possible existence of endogeneity of Foreign Direct Investment modeling, and employed the Ordinary Leas Square (OLS) techniques Gretl packages in exploring the possible links between FDI, trade and economic growth in Nigeria. The results revealed that Foreign Direct Investment and trade have significant impact on the economic growth in Nigeria. Though the overall impact of Foreign Direct Investment and trade on economic growth may not be significant, the components of Foreign Direct Investment and trade have a direct impact on the growth of the economy during the period under review.

Chang, Berdiev and Lee (2013), in a study addressed the impact of exports of energy and globalization on economic growth in the five areas of the South Caucasians (Azerbaijan, Armenia, Georgia, Russia, and Turkey). Using panel data, they studied the impact of export on economic growth during the period (1990- 2013). The results of the study indicate that increasingly, exports lead to increasing economic growth in the studied countries. On the other hand, increasing energy export, besides globalization leads to increasing the economic growth.

Jimenezy & Razmiz (2013) examined the relationship between export, industrial export and economic growth in Asian countries. They addressed/investigated different types of exports on economic growth in Asian countries in the form of one of the data panel pattern. The results from the study show the that among the different types of exports, the industrial export affects the economic growth in Asian countries the most.

Pistoresi & Rinaldi (2012) in a study entitled "export, import and development", looked at the relationship between export, import and economic growth across Italy. They employed co-integration analysis and causality testing covering 1963 – 2004. The results showed that the long-term causality between industrial exports and economic growth exists, but causality changes over the years.

Zang and Baimbridge (2011), examined the relationship between export, import and economic growth in Southern Korea and Japan countries using the Vector Autoregressive Models. The results indicate that there exists a long-term relationship between variables studied in a long-term in both states. Further, there exist evidences from the two-way causality between import and economic development. Furthermore, it seemed that Japan has experienced Export-led growth hypothesis while, South Korea's GDP growth has a negative effect on the growth of exports. Finally, Omisakin (2009), studied export-led growth hypothesis in Nigeria. In the study, the relationship between economic growth and export in 1970-2006 using Annual data is examined. The results from Toda-Yamamoto non-causality test indicated that there exist a two-way causality between production and export. Further still the results from autoregressive distributed lag bounds testing indicated that there exists a long-term relationship between variables exactly while the variables vector normalize in terms of variable of production.

Studies in the literature reviewed have assessed various aspects/types of trade and the impact of growth and development of various economies including Nigeria. Unfortunately, none of these studies have drawn the policy variable into their analyses. The gap is obvious - one that this study is already on the verge of bridging.

Methodology
Our methodology follows content analysis. Thus, data obtained from secondary sources are analyzed in the following sequence.

Research Question One (1): Have the existing commercial/trade policies recorded any measure of impact on the process of Nigeria's economic development?
International trade has been a major driver of global growth and prosperity over the past decades. In fact, trade is widely acknowledged as a major engine of economic growth since global incomes grow with expansion in trade. Adewuyi (2000) in Afaha and Oluwatobi (2012) asserts that trade enables nations to sell their locally produced goods to other countries of the world. However, international trade does not exist with the economic openness of the countries involved. Open economies have been able to harness the power of trade to boost competitiveness and productivity which helps improve living standards and sustain economic growth.

On the introduction of SAP in July 1986, the main policy thrusts were:

1) Adoption of a realistic exchange rate
2) The deregulation and greater reliance on market forces.
3) Trade liberalization.
4) The removal of subsidies on public sector goods and services.
5) Privatization and rationalization of public enterprises and a general reduction of the government sector.
6) Strong demand management policies and credit policies.

Being fully integrated into the global economic system, Nigeria is a member and signatory to many multilateral and regional trade agreements. The policy response of such partnership agreements on trade policy has been to remove trade barriers, reduce tariffs and embark on outward oriented trade policies. Thus, in line with the spirit of openness, Nigeria has been liberalizing its economy; the trade and exchange rate policies of the country were conclusively reviewed at the close of 1986 and export duties were reduced and export prohibition was cancelled; import licensing for many imports were abolished. These measures resulted in uninhibited access of imported goods to the Nigerian market without obvious positive impact on the domestic production in the industrial sector since the real sectors have had to function under conditions of unstable macroeconomic management, inadequate technology and credit facilities. These have proved to be obstacles to strengthening the productive base, especially of agriculture and industry in order to make them export-oriented.

Some empirical investigations support the view that policies (production openness) in Nigeria have not been of any benefit to the country. For instance, Okere and Iheanacho (2016) examined the impact of Trade Protection Policy on economic growth in Nigeria. Using ARDL approach to co-integration over the period of 1990-2013, found an indirect link between protectionist policy and economic growth through industrial production and the unemployment rate. In a related development, Nigeri, Ajayi, Hameedat and Abina (2013), undertook an empirical study of growth through trade: Nigeria evidence. Secondary data was obtained from CBN statistical bulletins, National Bureau of statistics and UNCTAD covering periods from 1975-2012. The findings show that "trade contributes positively to economic growth. However, Nigerians trade policies and implementation is still not growth friendly". It recommended that trade policies in Nigeria should be revisited.

Research Question Two (2): What is the impact of such policy on the nation's economic development? In spite of trade openness of the economy and the implementation of trade liberalization measures, some macroeconomic indicators reveal poor performance of the economy generally. The extent of such performance is reflected in the fact that the economy is characterized by infrastructure inadequacy, widespread corruption, inefficiency in the public sector participation in economic activities, low degree of savings accompanied by liquidity trap, capacity under-utilization and low rate of capital formation. As earlier revealed, the empirical support for the extent of failure of existing trade/commercial policies are numerous. Particularly, Nageri, et al in their study, were emphatic of the various areas in which such policies have failed.

Findings

Against the backdrop of our analysis, the following revelations are recorded:

1) Nigeria at independence was a key player in global export trade. However, the advent of the era of oil boom witnessed the relegation of agricultural export commodities.
2) Several policies on trade and commerce were introduced to turn the situation around to no avail. Of particular note is the 1986 SAP policy which introduced some measures that failed to see the light of the day. Thus, both protectionist and openness were experimented. None of the policies have improved the trade situation.
3) There is every reason to believe that the problem stems from the policy implementation process as trade openness and some other policies experimented by the country had proved beneficial in some other economies.

Conclusion

Over the years, international trade in Nigeria has witnessed mixed results on growth and development. In this era, trade among nations has gained significant attention among developed and developing nations due to the effect of technology and globalization. Presently, there is virtually no country around the world that does not engage in trade with other countries. The classical theories of international trade supports the fact that trade openness is beneficial to countries. However, this view does not hold for Nigeria as policy reforms to boost openness have failed to benefit the country as revealed by empirical evidence. This study therefore, recommends that since these policies have worked for many nations, the problem may be located in the implementation process in the case of Nigeria. Hence, the paper suggests a revisit of these policies.

Recommendations

The paper makes the following suggestions on the basis of its findings-

1) The country must go back agricultural production since it enjoys a lot of comparative advantage in the products of this sector given its vast rich/fertile land mass.
2) Trade openness as a commercial policy should be revisited and fine-tuned to smoothen its rough edges.
3) Such commercial policies must ensure a conducive trading/business environment for both indigenous and foreign investors.

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