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Trade Barriers and the Growth of Local Industries in Nigeria

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Abstract: *Nigeria's membership of the World Trade Organisation (WTO) dates to 18th of November 1960 when the body was known as General Agreement on Tariff and Trade (GATT) through to the 1st of January 1995 on the reorganisation to the current body, WTO. The primary purpose of the WTO is to enhance and or promote free trade for the benefit of all its members across the globe. Through the mechanisms provided by this international body, governments of member states negotiate trade agreements and settle disputes which may occur in course of trade. It is evident that many nations, including the less economically developed countries, have benefited significantly from the trade agreements provided by this body as seen in their increased exports and, hence, foreign exchange earnings. Nigeria is yet to make the most of the programmes provided by the WTO in developing the export potential of its local industries or small and medium scale enterprises. This study examines Nigeria's trade policies as it concerns the trade barriers adopted in developing in-house industry competence and recommends greater emphasis on export promotion to build a vibrant and competitive SMEs.*

Key words: *World Trade Organisation, Nigeria Trade Policies, Non-Tariff Barriers*

INTRODUCTION

Nigeria became a member of the General Agreement on Tariff and Trade (GATT) on the 18th November 1960 and a member of the ensuing body, World Trade Organisation (WTO), following the reorganisation of GATT, on the 1st of January 1995. Following the importance of these trade bodies in the promotion of sustainable growth of nations through trade and investment, one may be forced to ponder on the gains Nigeria has garnered from its membership of these organisation taking a critical look at the state of its industries in comparison with other member countries of WTO, like China, India, Brazil, South Africa etc.

According to a research carried out by Chete, Adeoti, Adeyinka and Ogundele (n.d.), the Nigerian economy has left little to be desired of with a large part of its gross domestic product (GDP) being accounted for by the primary economic sector, and agriculture playing a very significant role. Over 90% of the export earnings of the country is derived from the sale of crude oil and natural gas. The industrial sector, which is comprised primarily of manufacturing, mining, and utilities in a contrasting view has added very minimally to the GDP in the recent years. According to the National Bureau of Statistics (2017), about 6% of the nation's GDP is got from the industrial-, 4% of which is from the manufacturing sector. These figures depict the gross underdevelopment of the industrial sector in Nigeria.

A critical look at the industrial/economic development from the time of independence in October 1st, 1960 shows that the level of participation of Nigerians in the industry was very minimal as there was a very high degree of technological dependence on foreign knowhow. This dependence on foreign technology was so glaring, and is still the case today, to the point that even the little advancement in technology by the locals were neglected. For instance, research and history has it that during the Nigeria-Biafra civil war most of the weapons used were locally designed and fabricated, which made the war to last longer than expected (Ezeani, 2012; Ojukwu, 1996). The ultimate result of this neglect is what appears to be a balance of trade that is skewed towards the importation of almost everything needed in the country, down to toothpicks (Aka-Wolugbom, 2016).

Further, the first national economic plan of Nigeria from the period 1962 to the second national economic plan, 1970 – 1974 emphasized more on industrialisation led by the public sector citing the limitation of private individuals in handling the level of industrial development needed in the country. Poor finance capabilities, technical as well as managerial capabilities were the limitations highlighted on private individuals in handling the level of industrial development needs (Chete et al., n.d.). Again, with the oil boom of the period of 1975-1980 and upwards, there was little seriousness given to the continued development of the industrial sector; much emphasis was on the windfalls from the export of oil, which gave much foreign exchange earnings to the federal government. No investment, substantial enough, has been made in an attempt to develop in-house technological capabilities of our rich human capital, the industrial sector still led by the public sector. The picture being painted became very clear that Nigeria had launched an industrial development plan with a lot less concern for the very important aspect of development: the development of in-house capability in technological acquisition (Chete et al., n.d.) with a vibrant and prosperous oil sector, the Nigerian economy is opened to further importation, particularly industrial equipment and other sophisticated items, leaving a very stunted industrial development to the present.

Furthermore, infrastructures such as electricity, transportation network etcetera, are fundamental for the development of a nation’s economy (Peter, 2015). Many researches have attributed the underdevelopment of the Nigerian industrial sector to the poor infrastructural development in the country (Ibrahim, Egbetunde & Oligbi, 2016). The flight of many manufacturing firms in the country to neighbouring African countries like Ghana, Benin, Cameroun, etc., has been attributed to the poor state of the infrastructure like stable electric power, good road network, efficient air transport and rail transport, volatile security situation in virtually all parts of the country exacerbated by the recent killings by the herdsmen in the North and the militant attacks on the oil facilities in the Niger Delta (Oluwaseun, 2018; Owualah & Obokoh, 2008). Others are poor educational system with little or no connection with the industries, leading to low level of manpower development; financial institutions not able, or rather unwilling, to support medium and large-scale projects etcetera. Perhaps, this underscores the fact that a vibrant services sector, which is the third sector in a tripartite sector arrangement, as in all national economy, breeds a viable industrial sector and not the other way around (Klaus, 2012).

On the other hand, the Asian Tigers: Hong Kong; Singapore; South Korea; Taiwan; and other Asian nations, like India, Malaysia, have undergone a consistent and sustained high economic growth rate since the 1960s through a rapid industrialisation and prolific trade policies. For instance, Singapore is one of the world's financial centres and with the largest GDP among the four Asian Tigers. South Korea has taken Japan's place, in GDP terms, in 2015 and is second to China in financial feasibility terms. India, in its right, is a leading country in information and communication technology as well as in medicine and is an emerging new destination in manufacturing (Winkler, 2017). Other Asian nations are on the same trajectory of industrial development and sustained economic growth. A closer observation of the growth of these nations here mentioned reveal a pattern of control on the economic and trade policies, which Nigeria has not been able to replicate, even in the recent times.

Beside the argument of poor infrastructural development leading to Nigeria's poor state of industrialisation and economic growth, perhaps is the challenge of the incapacitation of infant local industries by the inflow of imported goods into the country. Examples of such countries are India, China, Vietnam, South Korea and others. Most times these goods are imported at a very low predatory price at which the local firms find no ground for competition (Okwandu & Jaja, 2000; Shenkar & Luo, 2008). The succeeding sections of this work will examine the economic and trade policies of Nigeria with particular focus on Nigeria's tariff and non-tariff measures and recommendations on way forward, benefits of WTO membership.

THE WORLD TRADE ORGANISATION (WTO) AND NIGERIA'S MEMBERSHIP

The primary purpose of the WTO is to enhance and or promote free trade for the benefit of all its members across the globe. Through the mechanisms provided by this international body, governments of member states negotiate trade agreements and settle disputes which may occur in course of trade (WTO, 2017). Founded in the year 1995, the WTO, as an offspring of General Agreement on Tariff and Trade (GATT) has contributed to an unparalleled global economic growth through a formidable and prosperous trading arrangement. There are 164-member countries, of which 47 are developed countries and 117 are under the 'developing countries' category where Nigeria falls; and 23 observer governments (WTO, 2017).

Run by the member government the WTO major decisions are put together made by all the members through their various representatives or ambassadors or delegates at regular meetings in Geneva, Switzerland. Notable among the functions of this body are: trade negotiations; implementation and monitoring of its policies among member countries; trade dispute resolution; building trade capacities for developing nations; and regular outreaches and or awareness campaign of its activities with non-governmental organisations, parliaments, the media and the general public.

Nigeria's membership of this organisation WTO dates to 18th November 1960 (then GATT) and to 1st January 1995 when the organisation was transformed to World Trade Organisation. However, the dwindling balance of trade depicted by large import volumes and very minimal export, aside from petroleum product, shows that Nigeria is yet to tap into the benefits provided by its membership of WTO. How could Nigeria reap of the values and benefits that are offered by the WTO? What aspect of the free trade mechanism should Nigeria latch unto in order to unlock her potential in manufacturing and the development of the small and medium scale enterprises into export-oriented firm? The overall goal of the WTO is to seek and pursue open borders, the assurance of most favoured-nation principle and the principle of non-discriminatory treatment amongst its members and general transparency in inter-country trading activities. These objectives it achieves through its effort in the reduction of trade barriers imposed by member countries particularly tariff barriers, which it has greater control and discipline on (Okwandu & Jaja, 2000).

While its terms of agreement have not been viewed as friendly to developing nations, member states are free to explore the organisation's mechanism of trade policy reviews and other barriers to trade less monitored by the body. Again, Nigeria and other less developed countries could avail themselves of the elaborate export incentive and schemes of the organisation most of which are aimed at helping small and medium scale industries to upend and diversify their total output and non-petroleum export.

NIGERIA TARIFF MEASURES

A tariff could be a tax or duties in the form of custom duties levied by a trading country on goods and services imported into its shores (Okwandu & Jaja, 2000; Shenkar & Luo, 2008; Investopedia, 2017). Imposition of tariff on imported goods and services increases the price of such goods and services and ultimately makes them less attractive to buyers in that country. The motive behind imposition of tariff by government could be to raise the revenue generated or to protect small scale local industries in its shores from foreign competitors until such a time when they are fit to compete favourable in the international market. Protection of the small companies could also translate to job protection and the advancement of local expertise, particularly in the development of in-house technological base and confidence.

Tariffs are mostly employed as a trade barrier by nations in the form of import duties. They could be classified as specific tariff, ad-valorem tariff or compound tariff. In specific tariff, a fixed fee is levied on a type of item or service imported into a country, for instance $2,500 on drilling equipment. When a tariff s levied on a good or service based on its value, for instance 2% of the drilling equipment value, then it is termed an ad-valorem tariff (Okwandu & Jaja, 2000; Shenkar & Luo, 2008; Investopedia, 2017). According to Okwandu and Jaja (2000), a third type of tariff called compound tariff is a combination of specific and ad-valorem tariff.

Researchers have found that the imposition of tariff with the intension of protecting infant industries could have an unintended consequence of making the local industries a lot inefficient as competition is reduced. This could be hurting to consumers as they are left with no choice for their purchase. The local producers are enriched for 'doing nothing' (Robert & Robert, 1987, Investopedia, 2017; Economics Online, n.d.; Ayenagbo et al., 2010). Further, it can lead to rounds of retaliation from the rival country.

The study carried out by the Chete et al. (n.d.) identifies that Nigeria's trade policies are centred on tariffs in the form of import licensing, custom tariffs and bans on certain imported goods. Because these measures used by Nigeria as a means of import controls are short-term in nature and are subjected to regular reviews by the WTO, the goal of protecting and developing infant industries has never been achieved. Applied tariffs are high by WTO standards and when compared to other countries' tariff, leading to retaliation (Sandrey et al., 1999).

NIGERIA NON-TARIFF MEASURES

The use of trade restrictions in ways other than tariff is regarded as non-tariff barriers. These include sanctions, quotas, embargoes etcetera (Investopedia, n.d.). Other forms as used in Nigeria are buy-Nigeria-made-goods, government participation and subsidies, administrative procedures, foreign exchange controls in the form of currency devaluation (Okwandu & Jaja, 2000). Shenkar and Luo (2008) define a non-tariff barrier as a non-transparent form of trade restriction that are not anchored in official regulations and laws. This form of trade restrictions is very difficult to tackle by participating nations as they do not officially exist and thus cannot be removed by any form of negotiation. Further examples are technical standards, corruption, foreign sales corporations.

Most developed nations apply this form of barrier on exports from less developed countries. For instance, Nigeria food exports to European Union and the United States most times face stiff restriction based on labelling, packaging and analysis of nutritional content. These restricting countries knowing full well that the local industries in less developed countries are still less sophisticated to provide such expert analysis and packaging requirements maintains such controls as a way of trade barrier (Shenkar & Luo, 2008). While such restrictions may be very reasonable at the face value, it adds additional burden to small and medium scale exporters from a developing nation. Having to meet these administrative requirements adds to the production cost and ultimately reduces the competitiveness of these infant firms.

Further, corruption and corrupt practices could be a form of non-tariff barrier to trade (Shenkar & Luo, 2008). Nigeria's ranking on the corruption perception index of the World Bank in 2017 is 145 out of 175 countries surveyed and with the ease of doing business at a grading of 145 out of 190 economies (Trading Economics, 2017; Transparency International, 2017). All these have led to under investment in the Nigeria economy by foreign firms and with many investors already in the country at the verge of leaving. Ultimately, the technological transfer that ordinarily would have been witnessed due to the presence of foreign investors are lacking, thus the poor development of industries in the country. Most firms from developed countries particularly those that have legislations against bribery and corruption, example the United States, may not advance trade ties with or in countries where bribery and other forms of corruption is prevalent. Countries where copyright laws and intellectual property rights are not upheld may witness less trade ties with exporters who value such rights and may not want their trade secrets compromised. Because of the relatively weak technological development of Nigerian industries, the use of non-tariff measures as trade restriction instrument could trigger retaliatory actions from trading partners, which could further worsen the competitive position of the country in the international trading arena.

NON-TARIFF MEASURES IN ASEAN COUNTRIES

Emphasizing the ills of non-tariff measures imposed on imported ad exported goods, the ten ASEAN countries, Cambodia, Singapore, Malaysia, Brunei Darussalam, Lao PDR, Philippines, Indonesia, Myanmar, Thailand, Vietnam, have resolve to work together to eliminate the existing non-tariff measures within their regional trade ties. According to Lili, Santiago and Olivier (2016), the non-tariff barriers within the ASEAN regional bloc increased from 1,634 measures to 5,975 measures within the period of 2000 to 2015 whilst the average tariff rate decreased from over 8% down to 4.5% within the same period. Most of these measures were complex technical specification, sanitary and phytosanitary measures. The challenge of non-tariff measures as imposed by these nations is complicated because they are poorly designed. For instance, stringent rules on pharmaceutical importation have not yielded the fruit of curbing the spread of fake drugs but, have complicated or slowed the importation of legal drugs that will help in attainment of good health of the proposing country (Lily, Santiago & Olivier, 2016).

The reason for this failure as highlighted above, is that most developing countries end up confusing effective non-tariff measure with complicated ones. The enforcement of the non-tariff measures are most times done in retributive ways, showcasing the unfriendly business culture of the government and the competency level of those who design such measures. From the foregoing, it is very clear that the imposition of non-tariff measures is not at all the way to go in protecting the public or infant industries as has always been cited as the reason for their imposition. The drawbacks it generates at the long run outweighs the benefits gained, if any, in the near term (Shenkar & Luo, 2008; WTO, 2016)

QUANTITATIVE RESTRICTIONS

Quantitative restrictions are prohibited by the WTO because they are considered to have a more protective impact that the duly recognized tariff and have a distorting effect on free trade. The use of tariff as barrier to trade by any country though limits the free flow of trade but can still be overcome as the products produced and exported by the foreign trading partner becomes more competitive in the market. On the other hand, a foreign partner cannot export in excess of the quota imposed by the trading partner irrespective of how price competitive that product may be.

This makes quantitative restrictions have more distortionary effect on free trade than the tariff measures, which warrants its prohibition by the WTO (WTO, 2017).

The WTO, however, has made provision as exception to this principle. With these exception countries can impose quantitative restrictions of goods imported or exported under limited conditions in line with the trade policies which could be justified under trade agreement of WTO. For instance, the importation of rice into Nigeria has been banned or witnessed a lot of administrative controls more than in the past with trade policy reason of developing self-sufficiency in food production, particularly in rice and other staple food crops. The Nigerian president's New Year broadcast emphasized the outright ban on rice in the year 2018 and beyond as a way of sustaining self-sufficiency in food production (Ogundipe, 2018).

The following exceptions apply to quantitative restrictions. Import restrictions for the purpose of balance of payment; import restrictions through waiver of obligation; agreement on agriculture; import restrictions on any agricultural or fisheries product; necessary for the development of in-country capabilities; import restriction for the application of technical standards or regulations for the classifying or grading and marketing of goods in the international trade (WTO, 2017). Imposition of import restriction has short term benefits to the imposing countries. First, it protects infant domestic industries from foreign products which have very sophisticated competitiveness. The domestic companies increase their profit margins and help provide sustained employment opportunities for the citizens of the country. Further, foreign companies in response to this market distortion increase their presence in the import-restricting country through direct investment and thus establish sale channels. This further creates employment and increases the transfer of expertise in both technological and managerial spheres. The economy of the import -restricting country thus improves in the short run.

However, this measure distorts the allocation of trade benefits between the foreign country and the importing country, skewed towards the producers in the import-restricting country. Again, this may be met with reciprocal or retaliatory action by the foreign country. Furthermore, consumers and downstream industries suffer choice restriction consequences as they do not have access to competitive goods or raw materials (WTO, 2017; Economic & Monetary Development, 2009; Jose, 2016). On the long-term basis, quantitative restriction places costs on the import-restriction country that outweighs the short-term benefits of the infant industry protection. Local industries become 'local champions' because there is a guaranteed local market for their products irrespective of how not-so-good their products may be. The absence of competition makes them relax their effort in improving their product quality to compete with foreign players. They, therefore, cannot stand or survive a tough and challenging business environment (Shenkar & Luo, 2008; Okwandu & Jaja, 2000; WTO, 2017).

In order therefore, to earn the benefits of quantitative restriction as provided by the WTO through import prohibition exception rules, imposing countries should be clear as to how long such measures will be in place. Plans should be put in place and evaluated on regular schedules to ensure that domestic industries develop their competency and capability to compete in the foreign scene. Domestic industries should be encouraged to be export oriented, i.e., they should focus on earning foreign exchange; this is the only means of developing their competitiveness. Having to keep import restrictions on a perpetually long term brings about complacency and the ensuing negative economic effect on the imposing-country.

CONCLUSION: The case of Nigeria and the way forward

According to Bevan et al. (1999) very minimal use has been made of quantitative restrictions by the Nigerian government. Trade policies are more short-term oriented and are driven through customs tariff for import control and are frequently reviewed. Export prohibition lists are also revised at irregular intervals. This has a negative effect on the development of small and medium scale industries. Without a mid- to long-term development plan, the achievement of a robust competitive industrial sector cannot be achieved. Trade policies should emphasize on quantitative restrictions with limited tenure and robust plan for industry development within the set window and as well on export promotion.

Several incentives are available for Nigeria in the area of developing and increasing its export. Such incentives as non-reciprocal trade preferences as provided in the generalized system of preferences programmes of member countries, the European Union Agreement with Cotonou, and the United States-African Growth and Opportunity Act. In the present, these great opportunities are yet to be fully utilized, particularly in the non-oil sector of the Nigerian economy (Chete et al., n.d.; The World Bank, 2017; WTO, 2017). The emphasis on import prohibition rather than export promotion owes to the fact that local industries are dependent on imported raw materials and highly handicapped in the technological knowhow, thus making their production base weak in the face of foreign competition. This trend could be reversed with a better trade policy and the investment in real infrastructures such as good transportation system, stable electric power supply; credible financial institutions that will help reduce the frailties of the ailing local industries. Again, a genuine fight against corruption will entrench discipline in the manufacturers and the manufacturing process as touching the need to adhere to internationally recognized standards or even develop in-house standards that could be accepted on the world stage. Further, certain policies that hinders the ease of doing business and fruitful investment in the country should be reviewed, for instance the issue of multiple taxation. Overall, a greater emphasis should be placed on export promotion in order to build vibrant and competitive local industries.

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