Bullion

Volume 30 | Number 1 Article 7

3-2006

Nigeria's external trade and the new perspectives for its enhancement

G. K. Sanni
Central Bank of Nigeria, Nigeria.

NIGERIA'S EXTERNAL TRADE AND THE NEW PERSPECTIVES FOR ITS ENHANCEMENT

BY
GANIYU KAYODE SANNI
Principal Economist Research and Statistics Department

GANIYU KAYODE SANNI

1.0 INTRODUCTION

Trade has been universally acknowledged as indispensable tool to rapid economic growth and development. This is because increased participation in trade is associated with higher inflows of foreign investment and new technologies which can be adopted to transform the economy through appropriate policy. This view is corroborated by the recent development in China, the fastest growing economy in the world, where trade potentials have been effectively harnessed to achieve higher growth rate of gross domestic product (GDP) as well as increase the general welfare of the populace. However, most developing economies such as Nigeria have not benefited much from trade owing partly to policy inconsistency and lack of access to global markets occasioned largely by inadequate and low quality of exportable.

The Import Substitution Industrialization policy (ISI) policy was embraced by developing countries during the 1960's and 1970's following the influential thought of Prebisch and Singer in the 1950;s, which propagated protection as a means to industrial development. However, ISI was criticized on the ground that excessive protection of local industries stifled productivity growth, encouraged inefficient industrialization at the expense of agriculture and exports (Ndulu and Ndungu 1997). In the early 1970's for instance, Nigeria adopted ISI policy in line with the global trend with the belief that, in due course, imports would be substantially reduced as they were expected to metamorphose to exports through the positive impact of the attendant technology associated with the ISI policy. Thus, many companies, both foreign and indigenous, sprang up. However, due partly to harsh macroeconomic environment, most of the companies went under, perpetuating the dependence of the Nigerian economy on imports. This situation culminated in huge trade deficit as well as chronic balance of payments problem. Consequently, the Structural Adjustment Programme (SAP) was introduced in July, 1986 to correct structural distortions in the economy and ensure rapid growth and development through trade. It was also aimed at diversifying the export base of the economy and reduce the over dependence on crude oil. To date, this objective has not been achieved

Trade liberalization policy was embarked upon as an integral component of SAP, and was aimed at encouraging exports and liberalizes imports. The SAP was also intended to achieve the realistic value of naira exchange rate through liberalization of foreign exchange market. It was hoped that this will enhance the competitiveness of exports and facilitate the diversification of the economic base away from oil exports the largest foreign exchange earner for the Nigerian economy. In spite of the adoption of trade liberalization policy as canvassed by the Bretton Wood Institutions and the World Trade Organization (WTO), the problem of unsatisfactory performance of non-oil exports in the global market still persists, thus exports of crude-oil continued to be dominant. This implies that Nigeria will not be able to avail itself of the opportunities provided by trade unless a refocus of Nigeria's trade policy is carried out. The issues therefore are what can be done to arrest this trend and optimize gains from global trade.

The objective of this paper is therefore, to analyze Nigeria's foreign trade with a view to examining the composition and direction as well as the impediments to the growth of trade, and to proffer suggestions for enhancing Nigeria's foreign trade. The paper is divided into five sections. Following the introduction are the theoretical issues. This is followed by the analysis in section three of the trend, composition, and direction of Nigeria's foreign trade. Section four

The views expressed in this paper do not represent the views of the Management of the Central Bank of Nigeria (CBN). The authour wish to acknowledge the immense contributions of Messers A.S. F Atoloye and O.O.Ogunlana of the Research and Statistics Department of CBN, Abuja

examines the problems confronting external trade, while section five discusses the policy issues for strengthening Nigeria's foreign trade. Section six is on recommendations and it concludes the paper.

2.0 Conceptual and Theoretical issues

Conceptually, international trade can be defined as exchange of goods and services between the residents of one economy and another. Trade has been recognized by both the classical and neo-classical economists as an “engine of growth”. This is because trade promotes growth and development through technology and foreign investment flows and other benefits associated with global capital movements. Trade can be divided into visible trade and invisible trade. The visible trade is trade in tangible items such as capital gods, manufactures, machinery and equipment and raw materials. The invisible trade relates to trade in intangible items such as communication services, financial services, postal services, transportation services, insurance services and other business services that enhance the production and exchange of physical goods. Krugman and Obsfeld (1999) posit that countries engage in trade for two basic reasons, each of which determines the extent to which a country gains from trade. First, countries trade because they have different resource endowment and can benefit from trade by making an arrangement in which each country specializes in those activities it does relatively well. Second, countries trade to achieve economies of scale of production. That is each country can produce more efficiently if it specializes in the production of those goods it has relative advantage, rather than producing all the products it needs.

The theoretical basis of trade dates back to the time of Adam Smith (1776) and David Ricardo (1817), when they propounded the principles of absolute and comparative advantages that a country stands to gain from trade if it specializes in the production of goods and services in which they have an economic advantage. Economic advantage/disadvantage may arise from differences in greater and quality of resource endowments such as labor, capital, technology or entrepreneurship. Thus, subsequent classical trade theories expanded these theories to justify need for trade.

The neo-classical trade theory represented by the works of Heckster Ohlin (1933) and Paul Samuelson gave reasons for the varying comparative advantages among countries. To them, the differences in competitive advantage among countries are due to differences in factor endowment and factor returns in the domestic economy, but factor mobility among countries will in the long-run cause the varying factor returns among trading countries to equalize. They argue that a country stands to gain from trade if it specializes in the production of goods that use more intensely, a cheaper factor relative to other factors of production and import from other countries those goods that can be produced more cheaply by another country. However, in the long-run the return to all factors will equalize and both countries would gain from trade. This theory has been used by modern trade theorists to lend credence to trade liberalization as a means of increasing market share in the global trade.

The neo-classical trade theory was based on the assumption of factor intensity non-reversal, but the issue is whether factor intensity is irreversible. Empirical studies have shown that factor intensity can be reversed through the criss-crossing effect of trade such that imports of a country can through application of modern technology and development of human capital become an export. The experience of newly industrializing countries such as China, Malaysia, Taiwan and South Korea has supported this assertion and shown that trade can be beneficial to a country.

The factor proportion theory for instance, provides explanation for differences in competitive advantages exhibited by trading countries. According to this theory, countries will tend to generate and export goods and services that harness large amounts of abundant production factors that they possess, while they import goods and services that require large amount of factors which may be relatively scarce. The product Life Cycle theory explains how a product (intermediate product) may emerge as a country's import and work through the life cycle to become an export (Ukeje 2000). The essence of this theory is that technological innovation and market expansion are critical issues in explaining patterns of international trade. That is, technology is a key factor in creating and developing new products, while market size and structure are influential in determining the extent and type of international trade.

The benefits derivable from trade are well documented in the literature and these benefits can be static, or dynamic. Static gains are benefits arising mainly from international specialization or the effect of comparative advantage in which a country expands its export due to the comparative minimum cost of production (Robert and David 1999, Oputa 2000). On the other hand, dynamic benefits are benefits associated with trade flows among countries such as the acquisition of raw materials for industrial development, acquisition of new skills and technology and the attraction of foreign direct and portfolio investments. These benefits usually have a lasting effect on the economy.

Trade among countries enhances the welfare gains thereby increasing the standard of living of the citizenry. This is because trade makes it possible for countries to access new technologies that increase the overall productivity. However, the benefit of trade is being constrained in developing countries due to lack of openness to trade. Sachs and Warner (1995) observed that lack of openness to trade among African countries constrained them to exploring opportunities to trade, and stifles efficiency and technological progress associated with engaging in trade openness. Trade liberalization is thus seen by many trade theorists and international organizations as means to encourage developing nations to participate and increase gains from global trade.

3.0 Analysis of Nigeria's Foreign Trade (1981-2004)

Trade comprising imports and exports, ensures that a country secures the required goods and services for increased domestic output, as well as for consumption, while earning income from the rest of the world in the form of export receipts.

Nigeria's foreign trade is dominated by oil export for which she is the 6th largest exporter in the world. However, other products in her export list include cocoa, cotton, rubber, fish shrimps, timber etc. In contrast she imports both capital and consumer goods. These include machinery and transport equipment, beverages, chemicals, drugs, laboratory equipment among others.

Available data showed that the ratio of the foreign trade (Visible items) to the gross domestic product (GDP), which described the extent to which Nigerian economy is open or integrated to the global economy, depicted an irregular pattern from 1981 through 2004. The ratio of trade to GDP which was 44.0 per cent of GDP in 1981 declined to 38.3, 26.4, and 24.7 per cent, respectively, in 1981, 1982, 1983, and 1984. The declining trend was traceable to the harsh domestic economic environment as well as global economic crisis occasioned by the oil glut of early 1980's. However, the ratio rose from 25.3 per cent of GDP in 1985 to 27.7, 42.0, 53.2 and 60.3 per cent in 1986, 1987, 1990 and 1991, respectively owing to the adoption of the SAP in 1986 which ensured the liberalization of both the current account and the foreign exchange market. Consequently, the naira depreciated against the major trading currencies. Trade however, nosedived to 17.6, 18.6, 14.3 and 7.1 per cent in 1996, 1997, 1998 and 2001, respectively. Although the ratio of trade to GDP increased to 55.3 per cent from the level in 2001, it declined further to 52.7 per cent in 2004.

The total value of trade was highest at US$37.36 million in 1981, but declined to US$22.7, US$10.3, US$11.7 and US$11.6 million in 1983, 1986, 1987, and 1989, respectively. This was due to the crash in oil prices which adversely affected earnings from oil exports as well as the slow growth in the non-oil sector occasioned largely by high cost of production resulting from decaying infrastructure and high cost of funds. Trade however increased to US$20.0, US$27.9, US$32.4, and US$33.7 million in 1991, 2000, 2003 and 2004, respectively (see table 1).

Analysis of imports from 1981 through 2004 showed that Nigeria incurred the highest import bills of US$19.2 billion in 1981 and the lowest of US$3.9 billion in 1986. From 1986, total imports depicted upward trend. For instance, it increased from US$3.9 billion in 1986 to US$7.76, US$8.85, US$9.21 and US$11.05 billion, respectively in 1991, 1993, 1998 and 2004. The upward trend in total imports particularly from 1999 to 2004 was influenced largely by the deregulation of the communication and downstream oil sub-sectors as well as the current efforts of the three tiers of government to tackle the decaying infrastructure. Although, total import is dominated by the non-oil sector component owing to surge in aggregate demand, the increasing activities in both the upstream and the downstream oil sector have made oil sector imports significant

Further analysis showed that foreign trade recorded trade surpluses for most part of the period under review with the exception of 1981, 1982, 1983 and 1998 when the surpluses were reversed to deficits of US$1.2, US$4.0, US$1.7 and US$0.2 million, respectively. The weak performance of crude oil export as reflected in its average realized price dropping from US$19.4 in 1997 to a low of US$12.9 per barrel in 1998, coupled with sustained high level of imports, were responsible for the deficit recorded in 1998 (Table 1).

Conversely, the international trade in services, which include transportation, communication, postal and courier, construction, as well as computer and information, operational leasing and technical services, had continued to record deficits during the period under review. Available data showed that Nigeria has continued to record deficits in her services account though declining. For instance, She recorded deficits of US$4,094.3 US$3,925.3 US$2,496.2 and US$2,968.5 million, respectively, in 1996, 1997, 1999, and 2001. It further declined to US$2,390.12 U S$2,239.19 and US$1,625.19 million in 2002, 2003 and 2004 respectively (see table 2). These deficits reflected in most cases huge out-payments in respect of travels and freight charges. The continued deficits in trade in services were largely traceable to low participation of Nigerians in international services.

Traditionally, non-oil exports compromised mainly of agricultural products, namely cocoa, cocoa products, palm produce, rubber, wood products, hides and skin, coffee and cotton as well as some slid minerals such as cassiterite (tin ore), coal and precious stones The performance of the non-oil exports from 1980 to 2004 is shown in table 3

Analysis of exports statistics as shown in table 3 showed that the value of oil exports in total exports have maintained an upward trend while the value of non-oil exports in total exports depicted irregular pattern from 1980 to 2004. The value of oil exports increased from US$ 7,448.7 million in 1980 to US$8,003.2 and US$10,031.7 million, respectively in 1982 and 1985 but fell to US$5,977.4 million in 1986. It however, increased from the level in 1986 to US$7,469.8 US$13,265.6 US$15,829.8 US$18897.2 US$21,869.5 and US$22,697.1 million, respectively in 1987, 1990, 1996, 2000, 2003 and 2004 owing to positive of terms of trade shock. Conversely, the value of nonoil exports which stood at US$302.9 million in 1980 declined to US$209.1, US$203.2 and US$189.2 million in 1981, 1982 and 1984, respectively. The value of non-oil exports however rose from US$189.2 million in 1984 US$444.3, US$538.0, and US$612.7 million, respectively in 1985, 1987, and 1988. This trend was reversed as the value fell below the level in 1987 to US$227.8, US$285.7, US$211.2 US$244.2 million in 1993, 1995, 1999, and 2000. From 2001, the value of non-oil exports has maintained upward trend.

However, in terms of contributions to total exports, oil exports have contributed over 96.0 per cent of foreign exchange earnings for most part of the period under review while the non-oil exports contributed less than 4.0 per cent. The relative poor performance of non-oil exports to oil exports was attributable to a number of factors which included the high cost of production occasioned by weak infrastructure, high inflation and interest rates, fuel price hike and power outages as well as the slow pace of diversifying non-oil export base from commodities to manufactures and low international demand for primary products. It is however pertinent to note that in recent times some commodities especially cassava have started making in-road into the global market
On regional basis, imports from industrial countries constituted more than 60.0 per cent of total imports with the United Kingdom accounting for the bulk of total imports to Nigeria. This was followed by imports from United States of America. The Americas has been the major buyer of Nigeria's oil with United States of America accounting for the highest share. Withn Africa, exports to ECOWAS as a group dominated the region's share arising mainly from bilateral agreements aimed at promoting trade within the sub-region. Imports from industrialized countries such as China, USA, Germany, and Malaysia constituted the highest share of imports. Imports from African countries have remained low over the years.

3.1 A Brief Review of Nigeria's Trade Policy

In order to enhance the performance of exports and earn higher foreign exchange from the global market, the government regularly reviewed the country's trade policies. These policies could be discussed under two broad regimes. These are the period before the introduction of Structural Adjustment Programme (SAP), and the period after the SAP. Generally, the major objectives of Nigeria's trade policies included among others: increase in domestic production through the use of local raw materials, protection of local industries against stiff competition, promotion of exports through formulation and implementation of sound export policies, attraction of foreign investment as well as enhancing the competitiveness of domestic products through the creation of conducive macroeconomic environment.

The Pre-SAP policies were aimed at accelerating development of the economy through expansion in the nation's industrial base. The idea was to make the country self sufficient in the production of consumables and in effect reduce dependence on external sources for the supply of such items. A major objective then was to protect the local industries against foreign competition. This prompted adoption of discriminatory tariff structure and stringent exchange control measures were put in place while foreign exchange budgeting was introduced to regulate aggregate foreign exchange expenditure (Analogbe 2000).

However, the introduction of SAP in i986 commenced the liberalization of external trade and the deregulation of the foreign exchange market. The liberalization of trade and exchange procedures effectively commenced with the abolition of import licensing and the introduction of foreign currency domiciliary account in which exporters could retain their export proceeds and use them to finance eligible imports.

The Second- tier - Foreign Exchange Market (SFEM) was introduced in September 1986 for managing the exchange rate and allocating foreign exchange resources under a market-based system. The commodity boards were also abolished and exporters were free to market their products directly. The list of banned imports was reduced from 25 to 13 items as at the end of 1995. In the same period, only 4 items of exports were banned. The tariff structure was streamlined and other restrictions on imports were dismantled. The Nigerian Export Promotion Council (NEPC) and Nigerian Export and Import Bank (NEXIM) were established in 1987 and 1990, respectively, to encourage production for export and ensure effective administration of export incentives. The export free zones (EPZ) were established to encourage production for exports. It was hope the establishment of EPZ would attract inflows of foreign capital into the export sub-sector, Other measures introduced included provision of the Export Adjustment Scheme Fund, meant to serve as supplementary export subsidy to offset the high cost of production arising mainly from infrastructural deficiencies, the Duty Drawback Scheme, and the Manufacture -in -Bond Scheme and Export Expansion Scheme. The Duty Drawback Scheme provides for refunds of duties/surcharges on raw materials including packing and packaging materials used for the manufacture of products upon effective exportation of the final product. The Duty Draw Back Scheme ensures automatic refunds of 60.0 per cent on screening by the Duty Drawback Committee and upon the presentation of a Bond from a recognized bank, Insurance Company or any other financial institution. The Export Expansion Grant Scheme was meant to stimulate exporters to expand the volume of their exports and diversify export product and market coverage. Exporters of duly processed products are entitled to 4.0 per cent grant on their total annual export turnover subject to the receipt of confirmation of repatriation of export proceeds from the Central Bank of Nigeria and subject to a performance Bond from any of the recognized Banks Insurance Company, NEXIM or financial institution.

In the 1990's, the Nigeria's economy was deregulated, new incentives were provided to enhance the earnings from exports. The Dutch Auction System was introduced to achieve stable exchange rate for the naira and enhance the competitiveness of exports. In spite of all these measures, the export policies and the institutional arrangements for administering the policies have failed to achieve the goal of diversification given that the oil sector still accounts for the bulk of foreign exchange earnings. The share of non-oil exports in total export has remained insignificant. The non-diversification of the economy is a serious impediment to the growth of the non-oil exports sub-sector.

As a member of WTO, Nigeria is expected to embrace measures that would promote free trade among nations using tariffs only when necessary to check domestic consumption of goods that could be competitively produced locally. Specifically, the tariff regimes that were in place between 1995 and 2001 were amended and simplified to make them conform to the international best practices. Thus, the new tariff regime reduced average nominal protection rate from 33.0 per cent in 1994 to 24.3 per cent, while the tariff peak dropped from 300.0 per cent in 1994 to 150.0 per cent in 1995/1996 and further to 100.0 per cent thereafter.

Customs and excise tariffs system has remained an instrument for promoting economic growth and development. For instance in 2001, the duty rates were reduced on major raw material inputs for the manufacturing, agricultural production and animal husbandry imposed while higher duty rates were imposed on some finished goods. Also, zero duty rates applied to essential machinery and spare parts for the productive sectors of the economy.

From 1999, trade and investment policies were geared towards enhancing the de-regulation of the major sectors of the economy. Thus, the current and capital accounts were further liberalized and inefficient government parastatals were privatized. The tariff structure was reviewed to encourage domestic production of some banned items. On March 10, 2004 the federal government announced the list of banned items and a grace period of 90 days was allowed to enable all importers who must have entered into irrevocable trade agreements before the release of banned items to allow them process and clear the goods at the prevailing duty rates. Such banned items included textiles fabrics of all types but excluding nylon tyre, mattress tickings, fishing nets etc., soap and detergents, fresh fruits, tooth pastes, pork and pork products as well as vegetable oils, corrugated boards, and live or dead birds. Other measures introduced included destination policy and pre-shipment inspection. The pre-shipment inspection was introduced following cases of importation of banned goods and malpractices in the declaration of the value of imports, because of rent-seeking activities. The exporters were allowed to open a domiciliary account and to be paid in the same currency in which the deposit was made. This policy ensures easy access to foreign exchange. The Pre-shipment Inspection policy with the main objective of controlling the influx of banned products is also aimed at increasing government revenue from exports and imports. Consequently, the Nigerian Custom Service (NCS) was reorganized to meet the challenges of the new policy.

To further increase the gains of several trade and investment policy reforms, the government introduced a broad reform agenda under the aegis of the National Economic Empowerment and Development Strategy (NEEDS). The strategy is a holistic home grown economic programme which touches every aspect of the economy including the trade and investment sub-sector. In this regard, the Nigerian Customs Service (NCS) and the Nigerian Ports Authorities (NPA) were reorganized to meet the challenges of NEEDS. Some other measures were undertaken under NEEDS and directed at enhancing Nigeria's foreign trade. Specifically, the ports were privatized.

4.0 PROBLEMS OF NIGERIA'S EXTERNAL TRADE

The problems confronting Nigeria's external trade can be traced to internal and external factors. The internal factors are those factors that are peculiar to the Nigerian economy, which include structural rigidity, weak infrastructure, inconsistent policies, poor implementation of incentives, high cost of production, and weak industrial base, etc. The external factors determine the extent to which the Nigerian economy is susceptible to external shocks. Some of these factors include Nigeria's membership of Organization of Oil Producing Countries (OPEC) and World Trade Organization (WTO), adverse terms of trade, stiff competition from industrialized countries and globalization.

The first and major constrain to the growth of Nigeria's foreign trade is the nature of the Nigerian economy. The Nigerian economy is dominated by the activities in the oil sector. The oil export contributes the highest share of total trade. The neglect of the non-oil export sub-sector has contributed to the lower share of Nigeria's trade in global trade. The narrow productive base of the economy and the slow pace of diversification of the economy away from oil have resulted in low productivity and exports. Consequently, Nigeria could not maximize enough gains from trade which impedes trade expansion to the other countries.

Nigeria is endowed with many solid minerals, which are scattered across the country but only crude-oil and gas are being developed thereby limiting the number of tradable products that can be traded in the global market. Consequently, the share of Nigerian exports in the global market, which is determined by the number of tradeables, remained low compared with the varieties of products from her trading partners. This implies that Nigeria is not optimizing the full potentials of trade. There is no doubt that Nigeria can gain competitive advantage in the world market if resources and foreign direct investments are mobilized towards the development of a few of them. The recent in road made by cassava traders is a commendable one. More of these products if developed can penetrate several overseas markets if an aggressive market strategy is embarked upon by individuals and agencies responsible for managing foreign trade and investment. Nigeria can also use the advantage of its size to create more trade in Africa and the West Africa sub-region

The macroeconomic conditions are unfavorable to domestic production in view of the high level of inflation and interest rates, while access to finance by investors from the banking sector has been very difficult and costly. Where funds are available, they are given at high rates of interest. All these have tended to undermine the competitiveness of domestic exports in global market.

In addition, Nigeria's exports are subjected to the vagaries of external market conditions because the demand and prices of export commodities are exogenously determined. This means that Nigeria does not have any control over the prices of its export commodities, but accepts whatever price that was dictated by foreign consumers. This implies that Nigeria is basically a price taker for both her exports and imports. More so the value received per unit of her agricultural exports such as cocoa and cotton were lower than the value paid per unit of imports of finished goods owing to worsening terms of trade. Consequently, the foreign exchange earnings from foreign trade have continued to fluctuate, with the resultant significant impact on government finances for developmental programmes as well as the resources going to local producers. The instability of earnings from foreign trade is partly responsible for low participation of Nigerians in international trade.

The nature of bilateral and multilateral trade agreements between Nigeria and trading partners and the extent to which these agreements have been implemented combine to hinder the growth of Nigeria's foreign trade. Multilateral trading arrangements have tended to create environments in which the most competitive countries gain the benefits of openness and globalization. Thus, without technical and financial supports to upgrade the productive capacities and strengthen the competitiveness of Nigeria's exports, access to foreign markets would continue to be a problem.

Related to the above is the issue of trade negotiating capacity. This relates to say whether Nigeria's trade negotiators have the requisite capacity to negotiate and achieve favorable and workable trade agreements for the country. These include capacity for interpreting and implementing WTO rules and regulations. Capacity building in these areas would enhance the quality of trade policy reforms and the impact on the economy.

External trade is also undermined by the fiscal policy regimes of successive governments in the country. In most instances, fiscal policy concerns are frequently cited for delay in trade reforms in Nigeria. There is often a conflict between using the fiscal policy to achieve balanced growth on one hand, and higher revenue on the other hand. The choice has always tilted towards increased tarrification at the expense of overall growth of the real sector. This is because some category of imports which should have been banned to encourage domestic production of such products for exports were allowed into the country through payment of high tariffs. In addition, the tariff systems are also not well structured to achieve the objectives of encouraging domestic production, raising revenue and discouraging imports. Sharer (1997) noted that the fiscal impact of liberalizing the trade system could be positive, negative, or neutral, depending on the reforms introduced and the specific circumstances of the country concerned. Scholars have also argued that excessive tariffication and protection have been the major factors limiting the growth of exports from developing countries. They canvassed for more trade openness. Therefore, inappropriate fiscal policy could be counter productive to trade expansion for countries that have liberalized their capital and current accounts.

The Nigerian capital market has not been fully integrated into the international financial market. Although, the capital market was recently internationalized, its impact has not been felt. For instance, how many foreign companies are quoted on the Nigerian Stock exchange? How many Nigerian companies are listed on overseas financial markets? This implies that the number of financial instruments tradable on the stock exchange are limited, thus affecting the total volume of trade as well as gains that could accrue from globalization of capital market. In most developed and emerging markets, trading on financial instruments and financial derivatives account for a substantial proportion of their trade and gross domestic product. Nigerian capital market is not fully internationalized to allow trading in such financial instruments, which means the benefit of greater capital and trade flows associated with such internalization of financial markets would continue to elude the country.

External debt service payments have also contributed to the slow growth of the Nigeria external trade sub-sector. It is a well known fact that most of these debts are private-sector debts contracted through trading activities in the 1970's and early1980's. Moreover, the subsequent repayments of these debts created undue pressure on the available financial resources and crowded out resources meant for building productive capacity as well as development of infrastructure in the economy. Thus output growth both for domestic use and exports were greatly impaired.

The low participation of Nigerians in the international trade in services affected the volume of trade. Such services include shipping, telecommunication, air transportation, computing and financial services. Experience from emerging economies such as China and India has shown that the services sub-sector possesses the potential for growth. India for instance has made an impressive landmark in software development and the foreign exchange earned from it has been utilized to transform Indian economy. China has also used the e-commerce facility to make more inroads into many economies.

The emergence of globalization with the attendant hi-technology has revolutionized all facets of economic activities including foreign trade. The emergence of e-commerce for instance, has rapidly changed the economic fortunes of Japan, China, Malaysia, and Taiwan. Nigerian traders are yet to change in line with the global trend. They have not appreciated need to move away from orthodox trading pattern to the use of e-commerce, which is the trend worldwide. They have also not devised strategy to partake in the e-commerce warfare that has been on in the last decade.

Nigeria has consistently maintained trading relationship with some countries such as Britain and United States of America but these age-long relationships have not transformed into growth in her market share as well as domestic productivity. In this respect, there is the need to strengthen bilateral relationship with the fast growing emerging markets such as China, learn from them, and adapt those technologies that are suitable to our environment. This will impact positively on tradeables and in turn enhance gains from trade.

In addition, the activities of some industrialized countries contravene the agreements and rules of World Trade Organisation (WTO) and these activities impact negatively on the performance of both primary and manufactured exports of developing countries. Some of the anti-WTO activities of include the scrapping of subsidies to farmers, dumping and media campaign against exports from the developing countries

Another problem confronting the growth of non-oil exports is inadequate funding. Due to long gestation of agricultural produce, deposit money banks have been reluctant to lend to the real sector. This is because banks by their nature are interested in the areas where they can easily recoup their invested capital. Access to funding is also compounded by the documentation requirements which could not be met by most prospective exporters.

Effective marketing strategies have been recognized as indispensable to increased productivity. The abolition of commodity boards in 1980's has created a vacuum which is yet to be filled in the marketing arrangement for exports. The absence of appropriate marketing institutions has resulted in under pricing of Nigerian products in the international market (CBN/NEXIM 2003).

There is also lack of data to enable researchers assess the impact of the various policies on foreign trade. Exporters of all categories require accurate and timely information on markets, prices, quality standards and export procedures in making investment decisions. This information is often not readily available to most exporters in Nigeria. Other problems include policy inconsistencies, bad weather conditions, political instability and decaying social values.

5.0 Policy Issues for Strengthening Nigeria's Foreign Trade

It is universally acknowledged that trade is an important instrument for achieving rapid growth and development. However, in order to benefit adequately from trade there is the need to address factors constraining output growth and increased domestic supply of exports. With a positive supply effect that enhances the competitiveness of exports, Nigeria will experience an increase in demand for its exports that will fully offset increase in demand for imports thus trade will be able to meaningfully contribute to growth and development of the Nigerian economy. This is because the supply factors emanating largely from weak infrastructure and low technology are the bane of real sector development in Nigeria. Given the current conditions, Nigeria cannot realistically expect rapid economic growth unless there is high productivity of domestic factors. This implies that factors like qualitative technological education, good infrastructures, and credible, reliable and secured legal and political institutions are factors that should be given equal priority as trade liberalization. These issues are clearly addressed by the endogenous growth theories.

Endogenous growth theory predicts positive externalities and spill-over effects from development of a high valued-added knowledge based economy which is able to develop and maintain a competitive advantage in growth industries in the global economy. The theory further emphasizes that private investment in research and development (R&D) and human capital development are the key issues in the transformation of any economy.

Rodrick (2001) also argued that no country has developed simply by opening itself up to foreign trade and investment but the trick has been to combine the opportunities offered by the world markets with a domestic investment and institution building strategy to stimulate local entrepreneurship. What is required to achieve sustainable growth and development and higher share in global trade include support for research and development, international marketing assistance and most importantly improving educational system. In the long-run productivity of labor and human capital will increase and this will translate to increased output and higher exports.

The participation of Nigerians in international trade in services sub-sector is very low, whereas these are the means by which a country can increase its market share from the trading system (Owolabi 2004). The world trade statistics showed that international trade in services constitute more than 70.0 per cent of the gross domestic product (GDP) of developed countries, 50.0 per cent of middle-income countries and it is less than 35.0 per cent for developing countries. For Nigerians to actively involve in the international trade in services there is the need to invest in human capital and research and development (R&D).

Nigeria has abundant resources. She should be able to identify her potentialities and attract foreign investment for their development. This will increase productivity, encourage specialization and facilitate the diversification of the export base away from oil.

Government should urgently address the problem of supply bottlenecks. This will involve fast tracking the rehabilitation of the weak infrastructure, and ensuring access to export financing. It is in this regard that the on-going consolidation in the banking sector should be commended. The consolidation exercise should be extended to other segments of the financial system such as insurance, and offshore financial centres to enable them effectively carry out their functions in the economy. The consolidation exercise would help to reduce the cost of funds- a development that would encourage many entrepreneurs to go into productive ventures.

Empirical studies have shown that foreign trade cannot grow under a serious external debt crisis as resources meant for development would be use to service debt. It is in this regard that the recent debt forgiveness of US$18.0 billion by the Paris Club of creditors is a welcome development. Government should therefore ensure that the expected savings from the debt forgiveness is channeled to the development of infrastructure in the country as these would in turn positively impact on productivity.

Investment in infrastructure (both physical and human) is important in reducing barriers to trade and the high costs of marketing, especially for small producers such as Nigerian farmers. Some of the most critical investments necessary to achieve effective trade policy reform include trade-related infrastructure and institutions. Development of real sectors particularly the agricultural and industrial sectors and effective marketing infrastructure are essential for trade expansion to the rest of the world. It is also important to consider the imperativeness of adding value to primary exports by converting the primary products to semi-manufactures. This will enable such products to gain access into other markets thereby increasing gains from trade. Tariff reduction is needed to improve market access for products.

In the same vein huge investments are needed to build networks of trade support institutions that are capable of providing key services to both exporters and importers in the areas of trade policy formulation and commercial intelligence, export promotion and marketing, product development and financial services, and training. These should also include developing national institutional capacity for international negotiation through adequate funding of such institutions as well as encouraging public private sector dialogue. There is the need for collaboration between the public and the private sectors for the development of the educational sector to enhance the productivity of human capital.

It has been identified from the preceding section that the existence of trade capacity gap hinders trade policy reforms as well as the ultimate benefit of such reforms. In this regard, it is essential to identify the various capacity gaps required for sound policy and fill these gaps through appropriate training. Besides, trade officers should be allowed to participate in both local and international seminars to acquaint them on contemporary trade and issues. This would enable them to offer useful policy advice to the Government.. In addition government can mobilize financial resources from local and international donor agencies for the funding of skill acquisition programmes.

The tariff on imports should be well structured to prevent trade diversion to other countries in the sub-region. This has the advantage of enhancing revenue from tariff on imports as more goods will come into the Nigerian ports. Moreover, a good tariff system will impact positively on the foreign exchange market as importers are likely to conduct their businesses through the official window. It is therefore essential that the tariff should be in line with international best practices. Soludo (1997) noted that the emerging consensus on trade reform favors a more graduated approach to liberalization, which usually starts with a tarrification of all trade restrictions, and then followed by simplification of tariffs. He argues that the speed of liberalization should be consistent with the learning and adjustment cost that are required, and tariffication should be determined by the speed of response of the export sub-sector to the existing conditions in the economy.

There is also the need to take a closer look at the factors inhibiting the full integration of Nigerian capital market into the global financial market, and appropriate steps should be taken to address these factors, otherwise the benefits of global capital market will continue to elude the country. Integration into the global financial market will provide opportunity to raise medium and long term funds for the financing of rehabilitation of decaying economic and social infrastructures. Consequently, domestic productivity will be enhanced and this will in turn increase the number of goods available for exports.

Nigeria can use the advantage of its biggest market size in the West African sub-region to create more trade for those products which are not being tapped, such as extractive solid minerals. There are tremendous opportunities in this area. Outstanding among them are coal, gypsum, barites, kaolin and talc. Nigeria has one of the best quality coal deposits in the world. There is therefore the need for public-private sectors collaborations for the development of these solid minerals as well as attracting more foreign investors into the sectors. In order to achieve this government should continue to guarantee conducive macroeconomic environment to attract more foreign capital inflows into the economy. However, there is the need to prioritize projects and ensure foreign capital is attracted to areas where the country has competitive advantage.

Trade statistics is an important instrument for monitoring trade flows and also serves as a guide to formulation of trade policy. There is the need therefore for adequate funding of all agencies responsible for the collection of trade data. In the same vein, there is the need for regular collaboration among these agencies to ensure harmonious and reliable data.

The existence of free trade zone within the West African sub-region has continued to expose member countries to different crimes such as smuggling, robbery, arson etc. In this regard, there is an urgent need to embark on massive disarmament of warring groups within the continent to limit the risks associated with trading in free zones.

Regional initiatives can be an effective additional instrument to accelerate economic growth and facilitate the integration of Nigerian economy into the world economy. But to play this role, regional arrangements must emphasis broad liberalization of domestic policies, promote the transmission of good policies through peer pressures, and nurture efficient domestic and regional institutions. Francois and Subermanian (1997) enumerated the following danger paths that must be surmounted to effectively utilize regional integration to achieve faster trade growth and development. These are overambitious goals, over bureaucratization, multiplicity of overlapping initiatives, and weak political will and vision. These problems have been the hiccups to the realization of the objectives of West African Monetary Zone (WAMZ) since its conceptualization in 2000. Thus, a sound and coherent regional trade policy and the reforming of trade impeding zone wide distributional/ allocation arrangements are sine qua non to trade expansion by WAMZ member countries. The experience of Association South East Asian Nations (ASEAN) deserved mentioning. The ASEAN, which was not deliberately designed to create trade, increased trade in its region by 98.0 per cent between 1980 and 1984 owing to consistent and coordinated exchange rate policy. In addition, the ASEAN members have established strong internal networks for business consultation and software cooperation without surrendering national sovereignty with respect to major economic policies. Given the experiences of the ASEAN countries, Nigeria should take a lead to ensure the realization of a formidable integration in the sub-region and Africa.

African countries have been confronted with incessant conflicts. Economic integration would not be achieved under this situation. Tackling governance and conflicts issues through good governance, transparency, democracy and rule of law should precede economic integration. In this respect, there is the need for sound legal framework that would promote good neighborliness and unity among member states. Such rules and regulation must evolve through democratic process by involving member countries.
African countries should be cautious in opening their economies to the outside world because they did not possess competitive advantage that would make them to benefit from globalization. They should think of trading among themselves before exporting to other countries. If they are able to capture the markets within the sub-region, they would have succeeded in increasing their market share of global trade. Nigerian exporters should therefore explore the opportunities of the markets within the sub-region before expanding to other regions.

Trade issues have gone beyond mere physical exports and imports of goods and services to include business practices, transparency, creativity and international politicking. Nigeria should therefore use its long standing relationship with major economic blocs to strengthen her trade relationship. She should also court new friends especially with the new emerging markets from whom new techniques in international trade warfare can be learnt. There is increasing evidence that those countries that have been most successful in achieving and sustaining high growth are the ones that avail themselves the opportunities provided by trade. There is therefore the need to refocus Nigeria trade strategy towards increasing its global share of the world trade.

Summary and Concluding Remarks

The paper x-rays the importance of trade to growth and development, review Nigeria's trade policy during the period of study and highlights major problems confronting the growth of trade as well as providing some policy measures for tackling them.

In conclusion, the ability of Nigeria to enhance and optimize gains from foreign trade depends on the extent to which she is able to increase her level of production of goods and services. In this respect, efforts should be directed towards harnessing and greater utilization of the vast human and material resources in order to derive greater benefits from them. In addition, the current efforts to rehabilitate socio-economic infrastructure in the country should be sustained for enhanced productivity and competitiveness of Nigeria products in the global market.

Table 1
NIGERIA'S FOREIGN TRADE 1981 - 2004 ($MILLION)

YEAR	EXPORT	IMPORT	TOT. TRADE	TRADE BAL.	EXPORT/ IMPORT	GDP	EXPORT/ GDP	IMPORT/ GDP	T. TRADE/ GDP
1981	18,070.98	19,224.26	37,295.24	-1,153.28	94.00	84806.2	21.31	22.67	43.98
1982	12,962.55	16,993.02	29,955.57	-4,030.47	76.28	78256.7	16.56	21.71	38.28
1983	10,512.77	12,218.62	22,731.39	-1,705.85	86.04	80048.8	13.13	15.26	28.40
1984	11,881.29	8,874.62	20,755.91	3,006.67	133.88	84097.7	14.13	10.55	24.68
1985	12,547.33	8,266.84	20,814.17	4,280.49	151.78	82280.2	15.25	10.05	25.30
1986	6,371.80	3,911.90	10,283.70	2,459.90	162.88	37071.3	17.19	10.55	27.74
1987	7,590.10	4,098.10	11,688.20	3,492.00	185.21	27853.6	27.25	14.71	41.96
1988	7,364.00	5,064.60	12,428.60	2,299.40	145.40	32609.9	22.58	15.53	38.11
1989	7,870.90	3,693.10	11,564.00	4,177.80	213.12	30636.3	25.69	12.05	37.75
1990	13,671.10	4,948.00	18,619.10	8,723.10	276.30	35028.3	39.03	14.13	53.15
1991	12,264.30	7,755.70	20,020.00	4,508.60	158.13	33207.6	36.93	23.36	60.29
1992	11,886.10	7,203.70	19,089.80	4,682.40	165.00	32109.6	37.02	22.43	59.45
1993	9,924.40	6,655.90	16,580.30	3,268.50	149.11	32435.7	30.60	20.52	51.12
1994	9,415.10	6,612.60	16,027.70	2,802.50	142.38	43203.5	21.79	15.31	37.10
1995	11,734.40	8,221.50	19,955.90	3,512.90	142.73	91408.0	12.84	8.99	21.83
1996	16,116.90	6,438.40	22,555.30	9,678.50	250.32	127891.0	12.60	5.03	17.64
1997	15,207.30	9,501.30	24,708.60	5,706.00	160.05	132806.9	11.45	7.15	18.60
1998	8,971.20	9,211.40	18,182.60	-240.20	97.39	128684.7	6.97	7.16	14.13
1999	12,876.00	8,587.80	21,463.80	4,288.20	149.93	35733.3	36.03	24.03	60.07
2000	19,141.40	8,721.30	27,862.70	10,420.10	219.48	46200.7	41.43	18.88	60.31
2001	17,884.10	11,030.10	28,914.20	6,854.00	162.14	407217.3	4.39	2.71	7.10
2002	14,777.40	10,840.56	25,617.96	3,936.84	136.32	46313.6	31.91	23.41	55.31
2003	21,869.53	10,487.64	32,357.17	11,381.89	208.53	55590.9	39.34	18.87	58.21
2004	22,697.12	11,045.08	33,742.20	11,652.04	205.50	64067.7	35.43	17.24	52.67

Source: Central Bank of Nigeria Annual Report/Statistical Bulletin and National Bureau of Statistics

Table 2

Value of Trade in International Services (US$ Million)

Year	Services (net)	Services (credit)	Services (debit)
1996	-4,094.30	732.60	-4,826.90
1997	-3,925.30	786.50	-4,711.80
1998	-3,282.20	883.70	-4,165.90
1999	-2,496.20	979.60	-3,475.80
2000	-1,468.00	1,833.80	-3,301.80
2001	-2,968.50	1,643.40	-4,611.90
2002	-2,390.12	2,515.60	-4,905.72
2003	-2,239.19	3,469.42	-5,708.61
2004	-1,625.19	3,320.71	-4,945.90

Source: CBN Annual Report/Statistical Bulletin

Table 3

Performance of Non - Exports (1980 -2004)

(US$ Million)

Year	Oil exports	Non-Oil exports	Total exports	% of oil in total exports	% of non-oil in total exports
1980	7,448.7	302.9	7,751.6	96.09	3.91
1981	6,515.1	209.1	6,724.2	96.89	3.11
1982	8,003.2	203.2	8,206.4	97.52	2.48
1983	5,214.4	218.2	5,432.6	95.98	4.02
1984	6,762.2	189.2	6,951.4	97.28	2.72
1985	10,031.7	444.3	10,476.0	95.76	4.24
1986	5,977.4	394.4	6,371.8	93.81	6.19
1987	7,052.1	538.0	7,590.1	92.91	7.09
1988	6,319.0	612.7	6,931.7	91.16	8.84
1989	7,469.8	401.1	7,870.9	94.90	5.10
1990	13,265.6	405.5	13,671.1	97.03	2.97
1991	11,792.4	472.0	12,264.4	96.15	3.85
1992	11,641.7	244.4	11,886.1	97.94	2.06
1993	9,696.6	227.8	9,924.4	97.70	2.30
1994	9,170.7	244.4	9,415.1	97.40	2.60
1995	11,448.7	285.7	11,734.4	97.57	2.43
1996	15,829.8	287.2	16,117.0	98.22	1.78
1997	14,850.1	357.2	15,207.3	97.65	2.35
1998	8,564.7	406.5	8,971.2	95.47	4.53
1999	12,637.1	211.1	12,848.2	98.36	1.64
2000	18,897.2	244.2	19,141.4	98.72	1.28
2001	17,633.8	250.3	17,884.1	98.60	1.40
2002	14,777.4	785.7	15,563.1	94.95	5.05
2003	21,869.5	735.1	22,604.6	96.75	3.25
2004	22,697.1	852.0	23,549.1	96.38	3.62

Source:CBN Annual Report/Statistical Bulletin

REFERENCES

Adam Smith (1776): The Wealth of Nations: An Inquiry into the Nature and Causes.

Akinlo A. k and Odusola A.F (1995) Trade Growth and Causality in Nigeria: Paper presented at the Nigeria Economic Society conference

Central Bank of Nigeria/Nigeria Export and Import Bank (1995): A Diagnostic Study of Nigeria's Non-oil Export Sub sector

Central Bank of Nigeria (2000): The Changing Structure of the Nigerian Economy and Implications for Development.

David. Ricardo (1817). The Principles of Political Economy and Taxation

Eva Pans, Nola Reinhardt and Michael Robinson (2003):Trade liberalization and Productivity. Growth in Latin American Manufacturing (1970-1998)

Francois A. Christian and Sabramanian Arvind (1997): Beyond Trade: Regional Arrangements as a Window on Globalisation - Paper presented at the IMF African Economic Research Consortium on Trade Reform and Regional Integration in Africa December 1-3, 1997

Frankel J and D Pomer (1996): Trade and growth: An Empirical Investigation. NBER Working Paper. Series No 5476

Krugman P.R and Obstfeld M: International Economic theory and practice. Addson Wesley Longman Inc. 3rd Edition

Oputa N.C (2002): Trends in Nigeria's External trade: Problems and Prospects. Paper delivered at the seminar on Management of the Economy. April 22-25 2002

Owolabi E. A (2004): The World Trade Organisation: The Rationale for Nigeria's Membership

Rodrik A (2001): The Global Development of trade as if development really mattered. Background paper for United Development Programme (UNDP)

Rodrick D. (1999): “Where did all the Growth go? External Stocks, social conflict and Growth collapses” Journal of Economic Growth.

Samuelson Paul (1964): 'Theoretical notes on Trade Problems' A Review of Economics and Statistics

Sharer Robert (1997): Trade Liberalisation in Sub-Saharan Africa - Paper presented at the IMF African Economic Research Consortium on Trade Reform and Regional Integration in Africa December 1-3, 1997

Soludo Charles Chukwuma (1997): Africa: Industrialisation Strategy in the Context of Globalisation - . Paper presented at the IMF African Economic Research Consortium on Trade Reform and Regional Integration in Africa December 1-3, 1997

Ukeje E.I.U (2000): Comparative Advantage in Production and Trade in the Country - CBN Bullion July/September