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The implications of full European integration in 1992 for the Nigerian economy.

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THE IMPLICATIONS OF FULL EUROPEAN INTEGRATION IN 1992 FOR THE NIGERIAN ECONOMY [1]

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The European Community's programme of further integration of their economies has raised considerable apprehension in other countries. The article focuses on the implications of the proposed integration and the consequences for the Nigerian economy, with particular emphasis on merchandise trade and the general flow of resources. As a starting point, the theoretical issues involved in economic integration are discussed and it is pointed out that the Community represents the most successful example of economic integration since the Second World War. The paper then deals with the economic relationship that has existed between Nigeria and the Community on both bilateral and multilateral levels, especially when Nigeria signed the Lome convention in 1975 along with other African-Caribbean - Pacific countries.

Developing further, the paper discusses the Single European Act since it is the main prop on which the proposed integration is based. In particular, the various ramifications of the Act, including trade and free movement of goods, technical barriers, free movement of capital and financial services as well as freedom of establishment are analysed.

The expected implications of the programme on the various aspects of the Nigerian economy are elucidated with the stress that in the shortrun, there might be no adverse consequences in view of the existing structure and composition of Nigerian trade with the Community which is based on crude oil, the price of which is influenced directly by the directives of the Organisation of Petroleum Exporting Countries. Even in the area of investment, aid and grants in which so much concern has been expressed, there might also be no immediate and dramatic changes. The paper ends with some recommendations and policy options.

Introduction

The year 1992, has now assumed a symbolic significance in the economic, political and social fields as a result of the European Community's (EC) programme of further integration of its component economies. This would mean considerable internal deregulation and economic liberalisation leading to free movement of labour, goods, services and capital. It is also expected to lead to significant development in monetary management and full participation of all member countries in the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS), with permanently fixed exchange rates administered by a European Central Bank as the intended goal. The proposed integration has raised considerable misgiving

1 The paper was first presented at an in-house seminar in the Research Department of the Central Bank of Nigeria, and relied on various sources which have been quoted in the body of the paper and in the references given at the end.

2 The author is an Assistant Director of Research in the Central Bank of Nigeria. The views expressed are, however, personal and do not necessarily reflect those of the Central Bank. The author acknowledges the encouragement of Messrs B.N. Iloabachie and S.E.Omoruyi Chief Research Officers in the Bank (Mr. Iloabachie is now with N.I.D.B.)The author is also grateful for the helpful editorial of Dr. G.E. Ukpong and the useful comments of all his other colleagues in the department, especially Messrs E.U.Olisadebe, F.C.O.Analogbei, A.S.F. Atoloye, P.J. Obaseki, F.O. Odoko and O.M. Fakiyesi (Mrs).

outside the EC in view of the importance of the community in world trade. The outside world fears that such integration might usher in an era of difficult economic relations with the Community in which trade transactions might have to be conducted over high tariff wall. There is also a general concern that the developing countries, especially those in Africa, will suffer most. It is assumed.

(i) that an integrated EC might be more inward-looking resulting in considerable neglect of its traditional African trading partners;

(ii) that the weak industrial base of African countries, vis-a-vis Asia and Latin America, would put them at a competitive disadvantage in terms of retention of market shares in the EC, and

(iii) that the EC is most likely to increase its economic relations and activities with Eastern Europe to the detriment of a country like Nigeria with a monocultural economy that relies heavily on the Community for its exports, imports and flow of foreign investment.

Although the expected impact of a unified EC may be difficult to evaluate because of the dramatic changes that have taken and are continuing to take place in the political, economic and social orderings in Eastern Europe, this paper attempts to analyse the likely implications for the Nigerian economy of the proposed integration with respect to merchandise trade (imports, exports), investments, services and the general flow of resources.

The essay, which is largely analytical and descriptive, is divided into five parts. Part 1 discusses some theoretical aspects of integration, as the idea behind the creation of the European Community has been projected as a practical demonstration of the relevance of the concept. Part II, reviews and analyses the formation of the EC as well as the current area of economic association of Nigeria with the Community. As analysis of the Single European Act which came into existence in 1986 is covered in part III. Part IV deals with the expected impact of the Community's integration on the Nigerian economy, while part V contains some recommendations, summary and conclusion.

PART I
SOME THEORETICAL ASPECTS OF ECONOMIC INTEGRATION

Economic integration may be defined as the removal of discriminating practices in economic relations among countries and the harmonization of monetary, fiscal, social and countercyclical policies, the level of which depends on the type of integration envisaged (Balassa, 1961). Integration can take the form of a free trade area in which case several countries agree to abolish tariffs and trade controls among themselves, but do not apply a common tariff against non-members. It can also take the form of a customs union where a common tariff is applied against others. A common market entalls the abolition of restrictions on the movement of factors of production within the area. Indeed, the EC represents the most successful example of economic integration since the Second World War, in spite of the existence of other efforts, such as the Economic Community of West African States (ECOWAS).

The existing theory on economic integration is based on customs union and has been motivated largely by the integration in Europe. Some leading contributors to the subject include Jacob Viner (1950), Meade (1956), and Lipsey (1960).

Basically argues Grubel (1981), the theory of Customs union is a branch of the theory of tariffs. Its central postulate as indicated by Viner is that it is not necessarily a movement towards free trade since it combines element of free trade and protection. Thus, a custom union can result in either trade creation or trade diversion. Trade creation entails a shift from high-cost domestic production to lower-cost production in a partner country; trade diversion involves a shift from the lowest-cost external producer to a higher-cost partner. Trade creation raises a country's welfare and trade diversion lowers it. If the formation of a custom union leads to a common external tariff that is not higher than the averages of the individual countries before the union, it could be argued that its formation is a step towards trade liberalisation, which might raise the welfare of the member countries and the rest of the world. This is so because tariffs between member countries have moved towards zero and this should be beneficial to all concerned. But this conclusion is not necessarily justified and this has led to the development of the theory of the "Second Best" by Lipsey and Lancaster (1956).

The first best of any situation is to remove all the obstacles to free trade and competition and thereby eliminate all market failures and imperfections. But since this is not achievable, the removal of one or some of the distortions such as in the customs union, offers a second best solution. In the real world, however, it is difficult to measure welfare derived from second best situations. In the opinion of David Lomax (1976), the theory of the second best shows that in the world full of distortions in international and domestic policies, free trade and the benefits supposedly derivable from it may not necessarily be the best. Each situation has to be considered on its merits and policies adopted to suit the circumstances of the time. Thus, under 19th century conditions of international and external economic relations, free market policies may have been appropriate but in the circumstances of today, a new approach such as customs unions, might be called for.

These conclusions are different from those of the free trade theorist. According to Krause (1972), such a theorist defines economic welfare in terms of private consumption of goods and services. Such definition leads to a policy recommendation based on free trade or modified free trade. Thus, to such orthodox theorist, countries that recognize the gains of international trade do not protect their industries by imposing tariff, except in exceptional cases. Even when they unavoidably impose tariff, they do not demand reciprocity if they have to reduce or cancel such tariff, because they recognize the unambiguous benefit derivable from such a removal. And they will not form customs union if they have the benefit of unilateral tariff reduction.

PARTII
THE FORMATION OF EC AND CURRENT AREAS OF ECONOMIC ASSOCIATION OF NIGERIA WITH THE COMMUNITY

THE FORMATION OF EC

The European Economic Community (Common Market) was established in January 1, 1958, following the Treaty of Rome signed in 1957 by Belgium, Federal Republic of Germany, France, Italy, Luxemburg and the Netherlands. It was an offshoot of the European Coal and

Steel Community formed in 1953 by the six countries for the exploitation of coal and steel in their various countries. Over the years, the word "Economic" has been dropped from its nomenclature to emphasize the fact that cooperation within the community is intended to encompass economic, political and social-fields.

The creation of the Community was necessitated by both economic and political consideration. Economically, it was an attempt to restructure the economies of Europe after the devastation of the Second World War. Politically, it represented the need to contain any further German threat in Europe as well as the desire to arm comprehensively against possible military incursion from the East. The treaty of Rome, according to Scharer (1987) "reflected both the liberal economic philosophy and the political ambitions and constraints of the 1950s". From which ever angle it is viewed, the Treaty represented a movement away from the liberalisation of trade on global basis, towards a sectional one. It was the unconscious application of the second best theory and the Cooper-Massel (1965) dictum that two can do together what one cannot.

The Community has developed so successfully since its inception that it is currently composed of twelve members following the accession of Britain, Ireland, Denmark, Greece, Spain and Portugal. Indeed, several other countries and organizations both within and outside Europe have negotiated some form of association with the Community. But the relationship of the African-Caribbean-Pacific (ACP) countries, (of which Nigeria is a member) with the EC is traceable to the Treaty of Rome itself which made provision for the "non-European countries and territories which have special relations with Belgium, France, Italy and the Netherlands".

EC-ACP ASSOCIATION

The principal link between the EC and the ACP has been the Lome Convention, the first of which was signed in 1975, followed by the second, third and fourth versions in 1980, 1985 and 1990. The convention offers a framework of co-operation in trade, aid and investments, but with trade as the most important aspect of the relationship. The trade provisions within the convention, according to Hewitt (1984) allow the ACP countries some preferential access to the EC markets, devoid of formal tariff or non-tariff reciprocity, but with important exclusions and some quota arrangements protected by safeguard clause. The convention does not permit duty free access for all ACP products. Other provisions within the convention aim to facilitate the development of ACP economies, especially exports, although there has been no marked achievement in this regard. Infact, the ACP collective share of the EC market trended downwards from an average of about 7 per cent in the 1970's to about 5 per cent in the 1980's due partly to the inability of these countries to compete with the other developing countries from Asia and Latin America

NIGERIA'S ASSOCIATION WITH THE EC BILATERAL ASSOCIATION

Nigeria's association with the EC started when the country was still a colony. Bilateral relationship encompassed economic, political and social fields. But co-operation in the areas of trade, investment and finance has always been regarded on both sides as paramount. Indeed, the Community, defined to include the United Kingdom, has been Nigeria's main export market and source of imports and foreign investment since independence.

From the beginning, trade with the Community consisted mainly of exports of primary commodities such as cocoa, groundnuts, palm oil and kernels etc. reflecting largely the low level of sophistication of the economy. Unfortunately, this pattern has persisted and trade still consists of primary commodities with minimal level of value-added in exchange for manufactured goods. Even so, trading activities with the Community has remained resilient over the past three decades, contributing substantially to the country's gross national product. Infact, by 1973, when Britain acceded to the Treaty of Rome, Nigeria's transactions with the enlarged Community had reached 53 per cent of exports and 61 per cent of imports. However, as shown in tables 1 and 2, trade remained generally high in the 1980's until a significant downward trend in exports became visible in 1987-89, when the United States became important by taking a substantial part of the country's crude oil.

Indeed, Nigeria has always appreciated the importance of the EC market and has over the years, taken steps to protect its interest whenever these were felt to be threatened by sudden changes in the Community. Thus, in 1966, Nigeria entered into a bilateral agreement with the EC to forestall the possibility of trade diversion to competitors in the overseas territories of France and elsewhere, even though the agreement was never ratified. And also in 1975, when it signed the first Lome Convention following the British accession to the Treaty of Rome in 1973.

Association in Multilateral Setting

Under the convention, Nigeria's share of ACP's total trade with the EC has averaged about 40 per cent during the period due principally to the importance of crude petroleum in the composition of total ACP exports. On the other hand, Nigeria does not seem to have benefitted to a great extent from the existence of the EC generalized system of preferences (GSP) since crude oil is duty-free and the Lome provision has no stimulating effect on the commodity. In addition, the protections and interventionism of the EC has not been helpful, more so as these restrictions are normally directed at products in which the country has some comparative advantages (processed cocoa, etc). It would appear, that preferences are normally offered by EC so long as countries have no significant supply capacity and are withdrawn immediately such capacities are developed and the concession could be fully utilised (EL-shagi EL-shagi, 1987). However, it has been indicated by Borman (1986) that in spite of the existence of such preferences to ACP countries, the rate of utilisation has been low, rising from 41 per cent in 1976 to about 50 per cent in the 1980s.

Investment

An important area of co-operation between Nigeria and the Community has been in the field of investment. Indeed, the principal source of foreign investment in Nigeria has always been the United Kingdom, and by 1987, the cumulative EC investment in the country was around ₦8 billion (Table 4). Of this, about ₦6 billion or 75 per cent emanated from British companies and their associates, even though the source of funds was due to the greater indebtedness of the Nigerian companies to their UK-based partners, rather than greater direct equity investment. Thus, the pattern of investment in Nigeria has tended to confirm the impression highlighted by the International Finance Corporation that most foreign investment in third world countries are financed out of retained earnings rather than the importation of new money. It, must however, be observed that since the restructuring of the economy got under way in 1986, followed by the introduction of the Second-tier Foreign Exchange Market (SFEM) and the resultant devaluation of the naira, the worth of fresh equity, has been rather low whether in the form of capitalization or retained earnings.

Be that as it may, the dominance of EC investment in the Nigerian economy has continued to persist, even though the sums involved have not been substantial. Thus, between April-December 1989, the Industrial Development Co-ordinating Committee (IDCC) granted some approvals to 48 companies. Of the estimated ₦409 million expected investment, N218 million emanated from mainly EC sources. In 1990 (January-September) the same pattern occurred when about 185 applications were received out of which approvals were granted to 116 companies with the estimated investment value of ₦1 billion.

Flow of Other Financial Resources

Under the Lome convention, the flow ó f resources into the ACP countries is managed by the European Development Fund (EDF), set up by the EC specifically for the purpose, and funded not as part of the community budget, but through direct contribution by the member countries. It is supported by the European Invested Bank (E.I.B) which lends primarily in Europe, but is allowed to operate in ACP countries under the terms of the convention. Right from the beginning, the flow of aid and grant into Nigeria under the Lome Convention has been limited. Whereas most countries of the ACP regard this aspect of their relationship with the Community as the most important one, largely due to the fact that trade plays only a minor role in their economic activities and contribute only marginally to their GNP, Nigeria's original focus was different. However, with the downturn in the economy, financial and technical cooperation between the two areas grew appreciably, particularly under Lome III, making the Community Nigeria's single source of development finance on concessionary terms. But the initial lack of interest is shown in the fact that under Lome I only 9 million ECUs under EDF, plus 59 million ECUS from EIB, adding to 68 million ECUS were made available to Nigeria in a total financial package to ACP of some 3 billion ECU. This rose in absolute terms to 95 million in Lome II and 200 million in Lome III when the total aid packages were 5.7 and 8.5 billion ECU respectively. The total funds available to Nigeria in Lome IV is 365 million ECU, out of a total package of 12 billion ECU (Table 5).

Stabex and Sysmin

Nigeria has not benefitted from special schemes such as the stabilisation of exports (STABEX) and the system for mineral products (SYSMIN), largely because Nigeria was not initially interested in these schemes.

Stabex makes financial transfers to the producers of agricultural products when export earnings drop and this works only on a "posteriori" basis. Sysmin, on the other hand, is meant for states dependant on mining and the facility is designed to help them contend with the vagaries of this sector.

PART III
THE SINGLE EUROPEAN ACT OF 1986 AND THE LIKELY IMPLICATION FOR EC ASSOCIATES

The analysis sketched so far indicate both historical and current operation of the EC and some of its associates. The question to be answered then is how the integration in 1992 will affect and modify this relationship. In order to assess the situation, it is necessary to analyse the Single European Act since it is the crux on which the proposed integration is hinged. For ease of exposition, we have grouped the act into three headings, namely, trade and free movement of goods, free movement of capital and financial services and freedom of establishment.

The Single European Act

The Treaty of Rome was merely a process by which member countries set out on a long road of economic and political unification. It was, therefore, not the final word in economic union. According to its preambles the members were "determined to lay the foundation of an even closer union among the peoples of Europe" and "ensure the economic and social progress of their countries by common action to eliminate the barriers which divide Europe". The Single European Act signed in 1986 amended the Treaty of Rome and carried the European integration even farther. It reaffirms that the internal market in 1992 "shall comprise an area without international frontiers in which free movement of goods, persons, services and capital is ensured".

In the course of three decades, a good deal of economic integration has already been achieved particularly in the decade of 1958-1968 when tariffs and quotas were removed on EC-wide trade, and economic cooperation gradually took hold. Nevertheless, many barriers to trade still remained to be eliminated, some of them introduced by member countries themselves as a result of the depression witnessed in the mid-1969s. Such barriers included VAT and other indirect taxes as well as different national standards and technical regulations in the production of manufactured goods.

And although intra-European trade expanded tremendously in the 1970s and 1980s, the rate of such expansion, relative to trade with non-member countries was low during the period. In addition, the considerable internationalization and intensification of the world economy pushed the United States and Japan to the very top, and ensured that the countries of Western Europe could compete on equal footing only by unifying their resources. The EC argued Dolan (1990), could have approached the situation by the adoption of informal macro-economic policy co-ordination. Instead, it opted for institutional change through the Single European Act. The completion of the European internal market might then be expected to remove obstacles to market forces and competition within the Community, and thereby create large manufacturing and business enterprises that can withstand international competition that was so pronounced in the 1980s and may intensify in the 1990s and beyond.

Gigantic Programme

But this gigantic programme has already elicited howls of protest across the globe. Many feel that it will lead to an inward looking Europe – a fortress Europe – in which the interest of other countries especially those of developing countries in Africa will be marginalized, bearing in mind that the community with a population of 320 million and a per capital of close to $16,000, account for 20 per cent of world trade, generating 15 per cent of its Gross National Product (GNP) through exports of goods and services. The proportion of its trade with the developing countries is estimated at 30 per cent of total trade. The argument here is not that the EC policies will overlook world trade. It is that some of those policies might be injurious to non-member countries.

It is expected that the Single European Act will turn some 279 measures concerned with the liberation of the international capital movement, abolition of cross-border restrictions of financial services, and the removal of obstruction to free movement of goods and services into law. Generally, the Act may be categorized into three broad areas – the elimination of physical barriers, the harmonization and mutual recognition of existing barriers, and a miscellany of social and economic issues including monetary union as well as ultimate full European union. But the most immediate and relevant aspect of these to Nigeria refer to the issue of barrier removal particularly in trade.

(i) Trade and Free Movement of Goods

Currently, intra-community trade accounts for 58 per cent of the total trade of the member countries. In 1958, the proportion was 33 per cent. But technical and fiscal barriers which have constrained free exchange of intra-community goods have prevented the EC from competing globally against the United States, Japan and other trading blocks on equal terms. There has been a determined attempt to scrutinize standards and other technical requirements to ensure uniformity of application and fair competition between companies located in the community - wide market. Goods are imported from one country to another free of duty and further integration is expected in 1992. Indeed, to ensure absolute free movement of goods other factors and consideration apart from those already-mentioned have to be tackled by 1992. These include fiscal and technical barriers.

Fiscal barriers refer mainly to the value-added tax (VAT) operating in EC countries. The procedure currently in use is that taxes are collected in the country of destination, and border controls are used to make tax adjustments and to combat tax evasion and fraud. The act proposes the adoption of a system based on an origin principle in which goods are taxed in the country of origin. Besides, the existence of differential VAT and excise rates results in price differences across the Community. Hence it is proposed that indirect taxes should be harmonized.

Technical barriers which still exist among member countries will also have to be eliminated to remove the in-built advantages for the home country since it is the outside importers that have to comply with such regulations. Technical barriers include different kinds of practices such as food laws, standardization, professional qualifications, etc. Public procurement also comes under this heading and it is important in the EC since it represents some 8.9 per cent of its gross domestic products (GDP). This has to be opened to fair competition from all states. At the same time, goods from third world countries will be subjected to identical treatment in all the member countries. The current practice in which goods from third world countries in one state could be re-exported to another member states free of duties and quantitative restrictions allows for exceptions. These exceptions will be reduced or eliminated by 1992.

(ii) Free Movement of Capital and Financial Services

Free movement of capital and financial services have been unconditional since the 1960 for trade and production, i.e. direct investment, commercial credits and guarantees, personal transfers of capital and purchase of stocks. The process of liberalization, however, slowed down in the 1970s. In 1988, a new set of regulations were adopted which provided for the complete and irrevocable capital movement by 1990. And beginning from 1992, there will also be free competition in the field of financial services, made possible by the substantial changes intended in the legal and regulatory framework of financial markets in Europe. The aim is to design institutions and instruments of monetary policy which will approximate market realities. The implication will be the limitation on the independence of European countries to conduct monetary policy. The policy objectives, include, among other things the prosecution of the macro-economic goals of price and exchange rate stability, as well as the stability of financial systems as a whole. But it is doubtful, that after the implementation of 1992 programme, EC will move nearer optimum "currency area", in one fell swoop.

(iii) Freedom of Establishment

This concerns mainly the capacity of nationals of the EC to establish and practice their profession on EC-wide basis without let or hindrance. Such freedom is still hampered by bureaucratic considerations even though the free movement of person has long been established in Europe. This is being tackled by the mutual recognition of diplomas and approximation of universities curriculae, etc. In addition, the free movement of other services are also implicated such as the liberalization of air travels and other aspects of transport generally.

PART FOUR
SOME ECONOMIC IMPLICATIONS FOR AN INTEGRATED EC FOR NIGERIA

Given the scenario sketched in the preceding pages, the question may now be posed as to the likely implications of the Single European Act on the economic advancement of Nigeria. The impending integration has elicited various reactions from observers ranging from outright alarm to total indifference. However, in view of the importance of the community markets to Nigeria which we have indicated in part one of this paper, it would appear that the question is not really whether there are likely to be implications, as these will certainly occur. The more relevant questions would seem to be the degree and the extent of the impact of the proposed arrangement on important areas such as trade, investment, aid/grants, immigration, etc. One of the main areas of concern to the country is that of trade flows. The fear has been expressed that in an inward-looking Europe, there is the likelihood of trade being diverted from non-member countries with comparative advantages in certain respects, to high-cost partner-countries within the community. However, the existing structure and composition of Nigerian trade with the EC suggest that no significant repercussion, adverse or otherwise, may be expected to follow immediately from the proposed integration. Nigeria's main export to the Community is crude petroleum the price of which is influenced more directly by the directives of the Organisation of Petroleum Exporting Countries (OPEC), than by what happens in the Community. It enters the EC market zero-rated. Of course, it has been indicated that an

EC-wide policy on the utilization and conservation of energy will be introduced after 1992. Until such a policy is effected and the intended result realized the Community will remain a net importer of petroleum.

Apart from oil, cocoa represents the only non-oil commodity that Nigeria exports in appreciable quantity to the EC, mainly to the United Kingdom. Together with palm kernel, the two commodities are given preferential access to the EC market on non-reciprocal basis as guaranteed by the Lome Convention. The latest convention, Lome IV, signed in early 1990, is expected to last for ten years. Nigeria derives some benefit from this preferential treatment. Thus, it has been estimated[3] that between 1981-85, the benefit accruing to the country from this source amounted to an average of 8 million ECU ($10 million approx) annually, although this compares poorly with that of Cote d'Ivoire put at some $100 million annually over the same period. These products do not conflict with the common agricultural policy (CAP) and the position here is expected to remain relatively unchanged. It should, however,be remembered that even though cocoa enters the community under preference, some member countries still put high internal taxes on the commodity. If, as a result of integration, taxes are harmonized in the Community and these taxes are finally eliminated because of the agreement arrived at the Uruguay Round of GATT negotiations, then larger tropical products including cocoa might be allowed into the EC from ACP and elsewhere. Thus, the successful completion of the Uruguay Round could lead to the elimination of preferences on cocoa and other products and Nigeria and other ACP producers of cocoa might be faced with stiffer competition from other suppliers. Indeed, the single market will result in the erosion of effective level of preferences currently enjoyed by ACP exporters under the Lome convention.

According to prevailing estimates,[4] the integration of Europe might lead to the expansion of the EC Gross National Product by 7 per cent. If so, this could have a spill-over effect and stimulate the demand for commodities and other products emanating from ACP and other developing countries. It should, however, not be forgotten that Nigeria's trade, and those of other ACP countries generally with the EC has not only stagnated over the years, but has actually been falling as a proportion of the Community's imports from developing countries. Nigeria's main export to the Community, being crude oil might not respond immediately to increase in income. Even if such economic prosperity eventually occurs, chances are that it might be concentrated largely within the union. This says El-shagi, is because the south-ward enlargement of the Community and the corresponding removal of some barriers have tended to modify the terms of competition and access to the Euromarket, to the detriment of countries exporting similar goods and in favour of countries in Southern Europe. Besides, maintained Henderson (1989), growth in the EC does not necessarily guarantee that other sectors of the world economy will grow as well, bearing in mind that a momentum in a particular sector of the world economy is only one among many influences on national economic development.

3 In a document of the EC Commission's Directorate-General for Development quoted in the Courier, No. 109, May-June, 1988.

4 "European Community After 1992: Consequences for Africa" by Mr. A. J. Fairclough. Paper presented at a Seminar in Lagos, June, 1990.

If the establishment of the single market leads to higher tariffs and other constraints on trade, this might prevent Nigeria not only from developing the capacity to supply primary products but also to develop, extend, and vary the product coverage especially manufactures. Market outlet could also be denied in a situation in which the restrictive "rules of origin" are implemented, and the quality of goods allowed to circulate in the EC markets are higher than what Nigeria can immediately produce. As we have already indicated, Nigeria has not been able to take advantage of the concessions under Lome Convention as they relate to manufactured goods because of the underdeveloped state of her industries, the lack of capacity, the poor quality and the uncompetitive prices of the goods. The situation might be even more critical for the country if the integration not only eliminates existing barriers to trade but leads to improvement in efficiency and competition within the system, to levels which Nigeria cannot hope to match easily.

Investment

It is perhaps in the area of investment that a situation approaching panic has arisen. The view has been widely expressed that because vast opportunities are opening up in Eastern Europe the Community would prefer to invest in that part of the world to the detriment of countries like Nigeria. The fear appears to be genuine. After all, the Community as epitomized by West Germany, together with Japan is the leading net exporter of capital, and because of profit motive and security of investment might find Eastern Europe more attractive than elsewhere. Recent developments have confirmed the attraction of Eastern Europe to potential investors, and the EC has signified its intentions by signing a flurry of agreements with Eastern European countries, especially Hungary and Poland. Indeed, in spite of its shortage of foreign exchange, inconvertibility of domestic currencies and mounting debt, Eastern European countries have been concluding joint ventures with western countries at short intervals. In addition, it has also been suggested that some 0.25 per cent of the Community GDP be set aside for investment in Eastern European Countries. Specifically, it has been estimated that about $15 billion a year is required to transform Eastern European economies within 5-10 years to approximate those of the poorer countries of the Community, viz. Spain, Portugal, Greece and Ireland. If, therefore, the Community were to invest so massively in Eastern Europe which offers more attraction in terms of facilities, then Nigeria and indeed Africa would be acutely affected.

However, it does not appear to us that the Community investment in Nigeria will decline noticeably in the short-term. This view is strengthened by the fact that by far the greater part of the investment indicated to the IDCC between January-May, 1990, emanated from the countries of the EC in spite of the attractions of Eastern Europe. Besides, most of these are intended for agro-allied sector, and it would appear that if conditions and environment generally are right, these investors would still prefer to put their money in this area rather than elsewhere. The biggest constraint on investment in Nigeria is not, perhaps, the current event in Eastern Europe, but the absence of attractive investment conditions. It is generally accepted that private investors prefer countries with strong political stability, solid industrial foundation, credit network and services and very high standard of education before plunging into investment especially in an era of high cost of money.

Aid and Grants

Another area of interest to Nigeria as to the possible effect of the 1992 programme, is that of aid and grants, or more appropriately, concessional resource transfers. To some ACP countries,the aid component represents the most attractive feature of Lome Conventions. Which is why in successive negotiations the issue had whipped up so much emotions with the ACP arguing for substantial inflation of the amount to be made available and the EC resisting under one pretext or the other. For instance, the aid made available in Lome IV is only a small percentage of the EC gross national product and far short of the 0.7 per cent recommended by the United Nations or, indeed what the ACP countries themselves requested. It is also a fact that disbursement of aid and grants have generally proved so difficult that most EDF-EIB projects under Lome II (1980-85) were still under-financed as at the end of 1989. As at the end of that year,the EC is estimated to have disbursed only 19 per cent of Lome III (1985-89) funds.

As we have already indicated, aid has played a relatively minor part in the Nigeria - EC relationship. Significant resources under this programme was made available to Nigeria under Lome III, when the total amount reached 200 million ECU. This was raise to 365 million ECU in Lome IV. The main concern now is that as a result of the recent development in Eastern Europe, Nigeria, also with other ACP countries might be denied further additional resources that might have been expected to flow into their economies. In support of this contention, economists point to the spate of agreements and successive announcements of heavy amounts made to Poland and Hungary, either as grant or soft loan.

However, the EC has announced that it will increase the number of projects it will co-finance with non-governments organisations (NGOS). It has also contended that the enlargement of the Community will result in increased prosperity for the twelve, and this will also increase their capacity and willingness to make more funds on concessionary terms available to the ACP and other regional members. However, Fajana (1990) has observed that the higher rate of economic growth "may not necessarily lead to an increase in the level of community's aid to African and other ACP countries if it is not matched by a rise in political commitment to African development".

Indeed, such commitment is the kind currently displayed by the Community, Japan and the United States towards Eastern Europe. Of course, it has been contended that between 1980-1988 some $83 billion worth of aid flowed from the West to Sub-Saharan Africa, and instead of prospering by the huge amount, the standard of living in the area actually fell by 1.2 per cent a year throughout the period, with the magnitude of decline being even greater in Nigeria, because of the additional collapse in oil prices. As such, aid to African countries have failed to energize economic growth. Accordingly, foreign private investment should now be encouraged to supplement official aid and grant and there should be more co-ordination among donors to ensure optimum utilization of resources made available. While the waste of resources in certain respect might not be an exaggeration, it must be emphasized again, that Nigeria was not a major recipient of official aid, grant or other concessionary finance during this period, although the circumstances of the economy now could make this desirable.

Removal of Barriers on Movement of Persons

One of the areas in which the completion of the Single European market might be expected to make a profound impression on EC nationals and other residing within the confines of the Union is the prospective removal of barriers on the general movement of persons. ACP nationals, including Nigerians who have settled across the twelve-member countries will be affected. However, the extent of the consequences can not yet be foreseen until the integration has been effected. The ideal scenario would be a situation in which non-nationals who are legally settled in the Community are allowed to compete for jobs and search for opportunities in all areas of the economy without artificial barriers or restraint intended to place them at a disadvantage vis-a-vis their competitors. And given the prospect of a prosperous expansion of the economy, benefits would then have accrued in such environment to all concerned.

It is, however, doubtful whether such as ideal situation would arise. Infact Gakunu (1990) has observed that in the past decade or so, there has been mounting evidence of xenophobic tendencies in some of the EC countries and this has continued to intensify rather than lesson. If nothing is done to reduce the trend, then non-EC nationals might face intense xenophopic pressure in the integrated market especially with the advent of the Southern Europeans who can provide a pool of cheap labour.

The prospect for Nigerians, who are to be found in large number in almost all the twelve countries of the EC appear, therefore, to be difficult. With the domestic economy in difficulties many Nigerians have been searching for opportunities abroad on short term basis. These group of participants in the world economy will perhaps not be affected by measures intended to limit migration. It is, perhaps, those who want long-term settlements, that would be mostly affected.

RECOMMENDATIONS

The single European Act may be expected to affect individual countries in different ways, and it is left for each country to examine the provisions of the draft legislation and analyse the extent of the expected impact in its economy and take corrective measures. For Nigeria, we suggest that the following policy options should be actively pursued.

(i) Intensification of export diversification measures in both agricultural and industrial spheres so as to move the economy out of the current over-dependence on one or a few products. The essence of diversification is that price falls in some commodities can be compensated by price increases in others.

(ii) The current restructuring of the economy under Structural Adjustment Programme (SAP) should proceed apace so that resources may continued to be freed for maximum utilization in an unregulated environment.

(iii) There should be a continuous effort to simplify investment regulations in addition to providing a general attractive environment for foreign and domestic investors in an era noted for strong competition for the limited world investible funds.

(iv) The private sector should be encouraged to attend and exhibit at EC and other foreign trade fairs so as to popularize Nigerian products and get acquainted with the current technological developments.

(v) Nigerian industrialists should also be encouraged to enter into joint venture schemes with their EC counterparts as this may provide an indirect way of breaking into EC markets.

(vi) On a broader front, Nigeria should continue to prod ECOWAS to be a more successful regional organization. In this regard, major obstacles limiting trade such as the non-convertibility of the currencies of the region, and inadequate communication system should be addressed.

(vii) Investigation of the existing and potential regional groupings in other parts of Africa outside the sub-region such as the SADCC and the proposed Arab Maghreb Union (AMU) of Algeria, Tunisia, Morocco, Egypt and Mauritania with the aim of braking into their markets must be actively pursued.

(viii) At the ACP level, Nigeria should impress on the members on the need to co-operate among themselves by exploiting the South - South relationship more extensively.

PART V
SUMMARY , CONCLUSION, AND RECOMMENDATION

SUMMARY AND CONCLUSION

The paper has attempted to analyse the implications for Nigeria of the proposed integration of the European Community into a single market in 1992. It has pointed out that international economic integration involves the removal of discriminating practices in economic relations among countries and the harmonization of monetary, fiscal, social and countercyclical policies, with the level of harmonization depending on the type of integration envisaged. The European Community represents the most successful economic integration since the Second World War.

The single European Act is meant to advance the process of European integration further, by eliminating the existing internal barriers and ensuring economic and social progress as well as the harmonization of the Community approach to monetary, fiscal, and counter cyclical policies. By 1992, there will be free flow of trade and goods, freedom of establishment for professional in the Community, and free movement of capital and financial services.

Viewed from outside the Community, the proposed integration will lead to an inward-looking or "fortress Europe" with its market insulted from outside competition and protected by high tariff wall. Viewed from the EC perspective, the Community is the largest trading block in the world with a considerable proportion of its Gross National Product derived from foreign trade, and cannot therefore, afford to be unduly protective.

Nigeria's economic relationship with the EC dates back to colonial period with trade consisting largely of exchange of primary commodities for manufactured goods. This pattern has persisted throughout the last three decades, but with crude petroleum as the most important product. Trade was conducted initially on bilateral basis, but became multilateral from mid-1970 when Nigeria joined the ACP and signed the first Lome Convention in 1975. The EC now accounts for some 60 per cent of Nigeria's trade transactions, most of the foreign private investments and a significant portion of her aid and grants.

The implementation of the Single Act in a market of 320 million people might be expected to affect Nigeria in various ways. In the short run, current pattern of trading relationship might not be significantly disrupted since Nigeria's exports consist mainly of crude petroleum. No immediate reduction in investment and aid pattern also seem likely. In the long run, competition in the EC market might be rendered more difficult for Nigeria if existing preferences are reduced or if the Uruguay Round of Trade Negotiations reduces or cancels the preferences accorded to ACP countries and, if the quality of products allowed to circulate in the Community are raised far above the level that Nigeria may conveniently be expected to attain. It might, therefore, be advisable for Nigerians to explore alternative avenues, such as partnerships and joint ventures with their European counterparts. Serious attempts should also be made in the area of diversification, processing and general industrialisation.

It appears that the flow of resources in the form of investment, aid and grants to Eastern Europe on a large scale might limit the overall amount available to be disbursed to Nigeria and other ACP states. Also, foreign private investment might find the Eastern European environment more attractive in terms of expected profits, skilled labour, large markets, political stability, advanced infrastructure and other necessary components compared to Nigeria. Therefore, in order to attract significant investment flow, Nigeria must offer conducive investment environment and attractive conditions above what is currently available.

On a multilateral level, Nigeria should work cooperatively with the countries of ECOWAS, other African States and the ACP group to ensure that European markets are not made more difficult to penetrate or even closed to them. To strengthen the subregional cooperation, the difficulties posed by the non-convertibility of currencies of the area to the expansion of trade which has been recognized should continued to be addressed with a view to a satisfactory solution.

TABLE 1
TOTAL EXPORTS FROM NIGERIA BY COUNTRY OF DESTINATION: 1980-1989
(PER CENT)

PERIOD	EC	U.S.A	JAPAN	ECOWAS	OTHERS	TOTAL
1980	50.4	33.2	–	1.7	14.7	100.0
1981	50.5	29.3	1.5	4.4	14.3	100.0
1982	41.8	34.8	0.1	2.4	20.9	100.0
1983	59.0	21.6	0.1	2.8	16.5	100.0
1984	63.0	13.0	0.1	4.5	19.4	100.0
1985	66.2	18.1	0.1	3.5	12.1	100.0
1986	47.8	35.0	0.1	3.9	13.2	100.0
1987	41.9	47.0	0.1	6.2	4.8	100.0
1988	36.3	49.8	0.2	7.0	6.7	100.0
1989	36.5	51.1	2.7	7.0	0.7	100.0

SOURCE: FOS: ECONOMIC AND SOCIAL STATISTICS, JAN., 1984
FOS DIGEST OF STATISTIC JUNE,1987
FOS NIGERIA TRADE SUMMARY: VARIOUS ISSUES.

–: INSIGNIFICANT

TABLE 2

TOTAL IMPORTS INTO NIGERIA BY COUNTRY OF ORIGIN: 1980-1989

(PER CENT)

PERIOD	EC	U.S.A	JAPAN	ECOWAS	OTHERS	TOTAL
1980	57.9	9.2	10.2	0.7	22.0	100.0
1981	62.1	10.7	13.3	0.4	13.5	100.0
1982	56.3	9.5	11.6	N.A	22.6	100.0
1983	51.1	11.2	9.2	0.5	28.0	100.0
1984	54.0	12.5	8.1	1.2	24.2	100.0
1985	58.9	13.4	7.4	0.7	19.6	100.0
1986	55.0	11.8	5.1	0.9	27.2	100.0
1987	62.7	8.3	9.0	1.3	18.7	100.0
1988	46.4	8.7	8.3	1.8	34.8	100.0
1989	61.1	15.9	6.6	0.9	15.5	100.0

SOURCE: FOS: ECONOMIC AND SOCIAL STATISTICS JAN. 1984

FOS: DIGEST OF STATISTICS, JUNE, 1987

FOS: NIGERIA TRADE SUMMARY:VARIOUS ISSUES

N.A . . = NOT AVAILABLE

TABLE 3

TRENDS IN DIRECTION OF NON-OIL EXPORTS 1987-1989
(PER CENT)

PERIOD	EEC	U.S.A	JAPAN	ECOWAS	OTHERS	TOTAL
1987	70.3	1.6	0.8	14.2	13.1	100.0
1988	71.9	3.6	1.5	10.2	12.8	100.0
1989	61.4	0.9	0.9	12.6	24.2	100.0

SOURCE: CENTRAL BANK OF NIGERIA, IMF ESTIMATES

TABLE 4

CUMULATIVE FOREIGN PRIVATE INVESTMENT IN NIGERIA BY COUNTRY/REGION OF ORIGIN, 1983-88

(₦' MILLION)

COUNTRY/ REGION OF ORIGIN	YEAR	PAID UP CAPITAL PLUS RESERVES (1)	OTHER LIABILI TIES (2)	TOTAL (1) & (2) (3)	PERCENTAGE DISTRIBUTION OF TOTAL (4)
	1983	1,572.2	1,034.6	2008.8	43.9
	1984	1,766.0	1,343.4	3109.4	47.9
UNITED KINDOM	1985	1,976.5	1,616.7	3694.2	52.7
	1986	2,119.6	2,954.3	5073.9	54.5
	1987	2,454.7	3,953.4	5508.1	55.1
	1988	2,605.2	2,119.7	4724.9	41.7
	1983	370.1	600.9	971.0	16.3
	1984	431.0	533.9	964.9	14.9
UNITED STATES	1985	471.1	399.1	870.2	12.8
	1986	523.6	857.9	1381.5	14.8
	1987	623.2	575.3	1198.5	12.0
	1988	927.3	1,807.5	2734.8	24.1
	1983	711.9	972.3	1684.2	28.3
	1984	767.3	891.8	1559.1	25.6
WESTERN EUROPE	1985	859.2	741.9	1601.1	23.5
(EXCLUDING UK)	1986	985.0	843.9	1828.9	19.6
	1987	1,063.3	990.1	2053.4	20.6
	1988	1,208.2	1,304.6	2512.8	22.2
	1983	415.4	270.1	685.5	11.5
	1984	490.6	260.3	750.9	11.6
OTHERS	1985	523.9	224.6	748.5	11.6
(UNSPECIFIED)	1986	602.7	426.6	1029.3	11.1
	1987	670.1	563.5	1233.6	12.3
	1988	754.5	612.2	1366.7	12.0
	1983	3,071.6	2,877.9	5949.5	100.0
	1984	4,454.9	3,029.4	6484.3	100.0
TOTAL	1985	3,830.7	2,983.3	6814.0	100.0
	1986	4,230.9	5,082.7	9313.6	100.0
	1987	4,811.3	5,182.3	9993.6	100.0
	1988	5,495.2	5,844.0	11339.2	100.0

SOURCE: CENTRAL BANK OF NIGERIA'S ECONOMIC AND FINANCIAL REVIEW, VOLUME 27 NO. 3 SEPTEMBER, 1989, AND OTHER CBN SOURCES.

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