Economic and Financial Review

Volume 33 | Number 2 Article 2

6-1995

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CBN ECONOMIC & FINANCIAL REVIEW, VOL. 33, NO. 2 111-130

STRUCTURAL ADJUSTMENT PROGRAMMES AND EXTERNAL TRADE IN DEVELOPING COUNTRIES: LESSONS FOR NIGERIA

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The failure of trade liberalization in developing countries is attributed to the economic dependency relationships initiated during the colonization period when the developed countries exploited their colonies as a source of cheap raw materials. After independence, and especially in the 1970s and 1980s, most sub-Saharan African countries experienced stagnation and decline in their share of world trade. The introduction of the structural adjustment programmes with its attendant trade liberalization prescriptions has further worsened the terms of trade in developing countries. Neither complete trade liberalization nor complete protectionism can be of benefit to developing countries. These countries need to reduce the competitive disadvantage against their manufactures in international markets, explore both regional and multilateral channels of trade and develop their common interests through mutually beneficial regionalism, rather than relying completely on the World Trade Organization.

1. The modern economic history of developing countries is replete with attempts to introduce structural economic policy reforms, a major aspect of which involves trade liberalization. Many of these experiments have not been very successful. In most cases, the failure has not been that of trade reform *per se*, but of inconsistent macroeconomic policies, as most of the countries have embarked on trade liberalization in the wake of economic crises associated with unsustainable fiscal and balance of payments deficits, as well as high rates of inflation. The main thrust of this paper is to highlight some of the arguments for protectionism, review alternative trade strategies and assess the types of trade policy measures included in structural adjustment programmes, with particular reference to the Nigerian experience.

The paper begins with a brief review of some of the theoretical arguments on the importance of external trade to developing economies. Focus then shifts to external trade policies as they relate to the structural adjustment programme, which basically promotes trade liberalization. The paper then reviews the Nigerian experience between 1986 and 1993. Some of the controversies associated with trade liberalization are highlighted in order to drive home the point that free trade policy should not be taken dogmatically, however, the major issues which have informed the adoption of alternative trade policies, such as trade protection, need to be taken into account within the development needs of a particular country.

The paper has been divided into five parts, including the introductory remarks as part one. Part two looks at the main theoretical issues related to external trade policies; part three assesses the Nigerian experience with trade policy reforms between 1986 and 1993; part four presents some of the controversial issues associated with trade liberalization; and part five contains the major findings and conclusions.

2. SOME THEORETICAL ISSUES ON EXTERNAL TRADE POLICIES

2.1 Theory of trade and growth

2.1.1. *Gains from trade*

The relationship between growth and trade has remained a subject of controversy in development literature (Krueger, 1984; Findlay, 1984). The central proposition from normative trade theory is that there are gains from trade and that free trade is, *pareto*, superior to autarky, under certain assumptions and is also superior to all forms of trade restrictions (Corden, 1984). The gains-from-trade proposition rests on very simple arguments. Under autarky, a country's consumption possibilities are limited by its production possibility frontier. The consumption possibilities are increased by net trade with the rest of the world. Thus, with the trade, the consumption-possibility frontier lies outside the country's production-possibility frontier and touches the latter only where the marginal rates of transformation (MRT) in domestic production equal those attainable with trade. For the small country, the marginal rates of transformation are given by world prices. For the large country, where the country has monopoly power in trade, the marginal rates of transformation no longer equal the price ratio, except by applying the optimal tariff at the chosen point. Consequently, feasible consumption under autarky can be dominated by combinations of trade and domestic production. Recent works (Ohyama, 1972; Smith, 1979; Dixit and Norman, 1980) have indeed relaxed from their previous restrictive assumptions, such as, the absence of increasing returns, absence of distorting domestic taxes and externalities, feasibility of lump sum transfers and flexible factor prices that base full employment factors upon proofs of the potential gains from trade.

2.1.2 *Development and trade*

Although theoretical literature on the subject suggests that some trade is better than no trade and that free trade might, pareto, dominate both under given circumstances.

Development economists have, nevertheless, remained divided over the issue of trade liberalization. Major arguments often used to justify departures from free trade include export pessimism, strategic interests and infant-industry cases; for instance, pessimism concerning the ability of developing countries to get their exports into the markets of developed countries underlies some of the demands for import substitution. At one extreme is a claim associated with Raul Prebisch and Hans Singers, that the terms of trade must inevitably move against primary products in favour of manufactures. The global demand for primary products is such that developing countries generally cannot expand the supply of primary products without suffering terms-of-trade losses. The underdevelopment and unequal exchange schools argue that, because of the skewed nature of the international system, free trade tends to promote the exploitation of poor nations and the development of the centre at the expense of the periphery, possibly because of unequal exchange and economic dependence.

2.2 External trade policies in developing countries prior to SAP

The *laissez faire* approach of the former colonial governments to economic policy during the colonial period has been blamed for turning most of the developing countries into a market for manufactured goods from the colonial countries and a source of cheap raw materials. This, coupled with experience of wartime controls, led most developing countries at independence to redirect their trading policies and strategies to achieve three basic objective:

a. to regulate and stabilize world markets for raw materials and primary commodities and set up remunerative and equitable principles of pricing for commodities.

b. to ensure improved access to markets in developed countries and expand markets for their primary products

c. to improve the terms of trade for commodities exported by developing countries in order to establish a just and equitable relationship between prices of raw materials and manufactured goods exported by developing countries and those imported by them.

These objectives could not have been achieved at that point in time through trade liberalization, but under some forms of trade protection, including tariffs, quotas, bans and the use of import licenses.

2.2.1 *Rate of protection*

The rate of protection is the proportion by which final domestic tradeables for an activity, measured in domestic price, differs from the value that would be realized in that activity under world prices. This rate can be measured in three ways-norminal, effective and net. Nominal rates of protection measure the proportion by which domestic prices diverge from world parity prices (i.e., world prices adjusted to reflect shipping and handling costs). This implicitly establishes a 'free trade' basis against which to measure the impact of price distortions; but is not necessarily meant to imply that free trade would be an optimal policy. Effective rates of protection on the other hand reflect the proportion by which value-added for a particular activity may exceed the value-added that would be realized in the absence of distortions. Net effective rate of protection takes the analysis a step further and attempts to reflect the impact of an over-valued exchange rate. Thus, net effective rate of protection is defined as the proportionate difference between value-added at domestic prices and value-added at world prices at the exchange rate which would prevail under free trade.

Trade restrictions, generally in the form of tariffs, import and export quotas, licensing requirements and excise taxes, drive a wedge between the domestic prices and the CIF prices or world prices of competing imports. The proportionate difference between the domestic price and the world price of a final good is referred to as the nominal rate of protection'. The nominal rate of protection can be represented by,

$$i\,[Pi^{*}\,(1+di)] = Pi$$

which may be expressed more directly as:

$$\frac{di - Pi}{Pi^{*}} \;—\; \frac{Pi^{*}}{Pi^{*}} \;=\; Pi - I$$

where di is the nominal rate of protection.

If the only form of trade intervention is the imposition of an ad valorem tariff rate (ti) and if this tariff is not prohibitive (i.e., the good continues to be imported with this tariff), the nominal rate of protection will then be equal to the tariff rate. In practice however, the nominal rate of protection will also depend upon a number of factors such as excise taxes and quantitative restrictions (i.e., import quotas, import bans and import licensing arrangements). When intermediate goods are traded and are subject to restrictions, the nominal rate of protection provides only one aspect of the effect of intervention on producers. It is difficult to assess with any precision the relative incentives given to economic activities based on nominal rates of protection alone. Where a country has little or no control over her exchange policy or the tariff on her imported inputs, the best method for ensuring protection of the domestic economy, from the vagaries of the rest of the world, is through various forms of tariff and non-tariff measures.

2.2.3 *Import substitution and the infant industry argument.*

This policy seeks to learn from the rich, industrialized countries, while protecting the domestic economy so that the society can find its own way, create its own form of development and manage its economy in order to function on equal terms in the community of nations (Bruton, 1989). The policy was to allow imports of raw materials and other intermediate goods for domestic industries set up to manufacture goods, which were hitherto imported, while tightening control of such imports through high tariffs, import quotas and even outright ban of certain imports. While tariffs are an instrument of commercial policy that guide the pattern of domestic investment allocation, it is known that customs duties are convenient tax handles and that revenue from international trade is easier to collect than general sales taxes or taxes on income (Tanzi, 1987).

2.2.4 *Export promotion*

Over the years, it became obvious that high levels of tariff protection coupled with pervasive quantitative restrictions were also restricting exports by directing resources away from the export sector and raising the cost of imported inputs to potential exporters. Exporters of commodities were also discouraged by export taxes and the administratively determined exchange rate, which resulted in currency overvaluation. Export promotion measures were, therefore, introduced and designed to compensate for the bias against exports. These measures include duty draw-back schemes, rebates for export market development, and import replenishment schemes. Unfortunately, these rebate schemes are complex and liable to abuse and rent-seeking activities.

2.3 Rationale for introducing trade liberalization

From the beginning of the 1970s and particularly since the 1980s, most sub-Saharan African (SSA) countries have experienced stagnation and even declines in their shares of world trade (Lyakurwa, 1991). From a share of 2.4 per cent of total world export in 1970, SSA exports declined sharply to only 1.1 per cent in 1987, but have since risen to about 2.8 per cent in 1993. Similarly, their share of world imports fell from 2.2 per cent in 1970 to 1.2 per cent in 1987 and stagnated at about 2.2 per cent between 1990 and 1993 (Table 1), SSA countries' exports also faced very slow growth in the world markets for traditional primary commodities, as well as for semi-processed and manufactured exports. An analysis of export /GDP and import/ GDP ratio is relevant here. As a percentage of GDP, exports declined in 7 of the 10SSA countries surveyed in 1981 vis-a-vis 1980, while imports as a percentage of GDP increased in 5 of the 10 countries. Three of these countries recorded increases in export/GDP ratios in 1982 compared with 1980; so the policy of import-substitution, and their industrial strategies on the whole, have not been very successful. Balassa (1975) argues that discrimination in favour of import substitution and against exports did not permit the development of manufactured exports in countries engaging in import substitution. A number of factors were responsible for this. First, there was the problem of high marketing margin of state-owned marketing institutions, which led to reductions in the ratio of producer to border prices of export commodities. This led to serious price disincentives for increased production. Overvaluation of the real exchange rates of the local currencies also contributed to a deterioration in the barter terms of trade for affected SSA countries.

Table 1. Changing Shares of SSA Countries in World Exports and Imports

Year	1970	1975	1980	1982	1984	1987	1990	1993
SSA exports/world exports	2.4	2.3	2.5	1.8	1.7	1.1	2.3	28
SSA imports/world imports	2.2	2.2	2.1	2.0	1.4	1.2.	2.5	2.4

Source: *Computed from UNCTAD documents*

Attendant economic crises associated with oil shocks and the resultant world economic recession engendered a general slow-down in the growth rate of external trade in the SSA countries, which further constrained domestic production, particularly in import intensive, non-agricultural exports.

2.4 Trade policies under SAP

The goal of economic reform programmes includes the elimination of anti-trade biases from the trade policy and the maintenance of low, non-discriminating and transparent protection levels. The aim of all these is to bring about conditions that will engender economic growth concomitant with a viable balance of payments over the medium to long term period. In this regard, emphasis is placed on coordinating trade reforms with reforms on other areas such as tax and exchange rate policies. Below we summarize some of the trade policy issues usually addressed in a typical structural adjustment programme.

2.4.1 *Reduction of Impediments to Exports*

Typical impediments to exports, particularly in the content of developing countries include the following:

a. *Quantitative restrictions on exports.* Reforms in this respect would involve significant reduction in the number of prohibited, or restricted exports. Further, list of such exports would be published by the authorities and subject to annual review.

b. *Restrictions on imported inputs.* Under trade control, goods needed for the production of exports would also require licenses. With reform, allocations of the required foreign exchange would be automatic.

c. *Export taxes.* Although such taxes may be required for revenue purposes, they have the undesired effect of discouraging exports. Under reform, export taxes should over time be reduced and replaced with alternative, less discriminatory, tax measures.

2.4.2. *Reduction of Anti-trade Regime*

a. *Import-substitution/export subsidies*

As previously indicated, attempts to promote import substitution have often led to a substantial bias against exports. Elimination of this bias, and particularly the adoption of an appropriate exchange rate, often represents a crucial part of the adjustment programme. Similarly, reductions in import restrictions will help promote exports. Reduction of these restriction will need to be coordinated with the adoption of a realistic exchange rate.

Export subsidies may have been used to compensate for biases in the trade regime. Such subsidies are, however, discriminatory and inferior to other measures aimed at correcting the exchange rate and the underlying bias.

2.4.3. *Liberalization of Imports*

a. *Simplification of quantitative restrictions*

Quantitative restrictions on imports should be eliminated over time. Elimination may take place in the following steps:

i. In case of absolute prohibition, positive lists of goods that can be imported may be replaced by negative lists of restricted imports.

ii. Negative lists could be gradually converted from absolute prohibitions to import quotas. The transfer of items from the negative to the quota list may represent a programme goal.

iii. At a later period, general licenses should replace the quota system.

Administration of the import system by state monopolies may exacerbate inefficiencies. Early introduction of competition into the import trade may be an important step in the reform process. For example, in the context of a Fund-supported programme, Guinea, in 1984, started to dismantle a perversive system of state import monopolies.

b. ***Removal of quantitative restrictions on non-competitive imports***

Quantitative restrictions on non-competitive imports are for balance of payments purposes and not for protection. Their removal needs to be accompanied by use of other instruments to prevent a flood of imports. An appropriate exchange rate can substitute for quantitative restrictions. Sufficiently restrictive monetary and fiscal policies complement the expenditure - reducing effect of devaluation. When no exchange rate adjustment is feasible for institutional reasons (e.g. in the CFA countries of Africa), the IMF has suggested that quantitative restrictions on non-competitive imports could be replaced by indirect taxes, tariffs, and tight monetary policies.

c. ***Lowering effective protection on import substitutes***

The major long-term benefits from liberalization derive from opening up the tradeable goods sector to foreign competition. This is especially true for developing countries, where domestic production is usually concentrated in monopolistic or oligopolistic structures. Consequently, fund-supported economic reform programmes have always given special importance to this area. The speed of implementation may depend on the economic and political influence of the affected sub-sectors. Agriculture, for example, has succeeded in retaining protection long after most manufacturing was opened up to foreign competition in high income and newly industrialized countries. For most developing countries, trade liberalization has most relevance for the manufacturing sector. In most cases, it would be desirable to prepare pre-announced time schedules, specifying the tariff ceiling, the items on which tariffs would be lowered and the new levels. A useful system is to lower higher tariffs initially. This has been done in many Fund-supported adjustment programmes.

2.5 Impact of trade liberalization on the economies of developing countries.

The major policy objectives of most developing countries undergoing economic reform have been to improve the balance of payments outlook through export promotion, through increased production in import substitution industries and through restructuring of debts. The rationale behind these objectives was to reduce the external debt and boost external gross reserves, while providing for an expansion in import volume consistent with growth objectives. The resumption of sustained fuller utilization of installed capacity in industry and improved agricultural production was expected. Unfortunately, the balance of payments accounts of most SSA economies implementing SAP have continued to deteriorate. The major causes are identified as deteriorating terms of trade and mounting external debt obligations. Indeed, the terms of trade of most SSA exports cannot realistically be expected to make any significant recovery in the foreseeable future. For many of the export commodities, world price elasticities are so low that larger export volumes actually mean lower earnings - a fact usually played down by the Bretton Woods institutions. An analysis of the current account in such countries reveals a persistent deficit with little or no improvement in the real value of export earnings, rising import expenditures in the trade account, coupled with deficits in the services account, largely as a result of interest payments on external debt. Net positive inflows are observed in transfers, reflecting heavy reliance on external aid to finance imports as current account gaps widened following persistent deficits in the trade balance.

Real export values have not improved, despite the introduction of competitive exchange rates and the adoption of trade liberalization policies. This was due largely to falling commodity prices and low export growth rates which have averaged less than 7 per cent per annum over the period of economic reform implementation. This contrasted with the rising value of imports over the same period. Attempts to increase production in the import substitution industries have been hindered by lack of large domestic markets, low human capital formation and the absence of appropriate technology, leading to low capacity utilization. The analysis of debt indicators reveals that amortization and interest payments consume a substantial portion of resources.

3. STRUCTURAL ADJUSTMENT PROGRAMME AND EXTERNAL TRADE: THE NIGERIAN EXPERIENCE

3.1 Nigeria's trade practices prior to SAP

Prior to the adoption of SAP , Nigeria's trade policies sought to strike a balance between promoting domestic production, countering the effects of domestic shortages of certain essential commodities, especially food items, and generating revenue for government expenditure. Thus, the policy consisted of quantitative import controls administered through a comprehensive import licensing system and relatively high tariffs which were frequently reviewed on the basis of the perceived needs of the economy. There was also the imposition of quantitative restrictions on imports by way of quotas and the outright ban of certain items. For instance, between the late 1970s and early 1980s tariff rates on virtually all imports soared. Duties on agricultural commodities with local substitutes ranged between 50 and 100 per cent, while those on luxuries were between 150 and 200 per cent. Capital goods, however, attracted low duties of between 5 to 10 per cent, and basic raw materials ranged from 15 to 20 per cent. In addition, the exchange rate was administratively determined to ensure cheap imports, especially of raw materials, for local manufacturing industries producing import substitutes. Consequently, the local currency was generally over-valued by as much as 30-45 per cent in real terms between 1978-1983. On the export side, trade was controlled by government owned marketing companies which hardly paid compensating prices for the primary produce they controlled. In addition, government introduced export taxes and registration requirements. The high tariff as well as the over-valued exchange rate of the local currency exacerbated the disincentives to agricultural protection and seriously distorted industrial incentives. Such distortions stemmed from differential rate of protection of traded goods which by 1982 was nominally as high as 245 per cent for maize and about 60 per cent for rice. Although these distortions were widely perceived throughout the economy and manifested in low wages and intense rural-urban migration, the 'oil boom' reduced the impact. Government did not give much thought to the issue of price competitiveness of non-oil export goods because oil revenue more than met the country's import bills.

However, following the oil shocks of the early and late 1970s and the early 1980s, the Nigerian economy was severely jolted. Thus in 1981, the values of both oil and non-oil exports fell by about 35 per cent; while balance of payments deficits and domestic inflation accelerated. The initial response was to attempt to correct the severe internal and external distortions through stringent trade controls and sharp expenditure reductions by government within the framework of the annual budgets. Unfortunately, these measures did not produce sustained improvement. These developments provided the background against which the Nigerian structural adjustment programme was to be formulated and adopted.

3.2 Trade policies during the SAP era

The Nigerian version of the structural adjustment programme specifically aimed at altering and re-aligning aggregate domestic expenditure and production patterns so as to minimize dependence on imports, enhance the non-oil export base and bring the economy back onto the path of steady and balanced growth. The main elements of the programme included:

a. the strengthening of demand management policies

b. the adoption of measures to stimulate domestic production and broaden the supply base of the economy

c. the adoption of a realistic exchange rate policy

d. the further rationalization and restructuring of the tariffs in order to aid the promotion of industrial diversification

e. a movement towards improved trade and payment liberalization

f. the reduction of complex administrative controls including import licensing, simultaneously with greater reliance on market forces

g. the adoption of appropriate pricing policies

With the structural adjustment programme, Nigeria's trade practices have become more transparent. Attempt have been made to reduce discriminatory trade practices and observe the requirements concerning the most favoured nation preference. The current account is largely convertible and free of controls, while capital account transactions are being progressively liberalized; the exchange rate mechanism has further increased the competitiveness of the economy. The transparency in Nigeria's external trade practices and high degree of adherence to international standards were attested to in 1991 when Nigeria reviewed its trade policies with GATT, two years after the contracting parties approved GATT's Trade Policy Review Mechanism (TPRM). Nigeria thus became the second country in Africa and the first in black Africa to review its trade policies under GATT's TPRM. The country's efforts to open up the economy through the elimination of arbitrary restrictions and the extensive liberalization of external trade were commended, although she was reminded of the need to sustain her efforts in order not to derail the programme.

These reforms were based on the realization that a system of bureaucratic controls was not only cumbersome but also liable to corrupt practices and to unintended distortions in resource allocation. The short to medium-term policy objective was therefore to eliminate the existing administrative controls on trade gradually, in line with the decision to deregulate the foreign exchange market. Government was aware of the overvaluation of the naira and also recognized the fact that the closer the exchange rate was to a realistic level, the less the need for an import licensing system, the greater the efficiency in the use of foreign exchange, the higher the level of export earnings in the medium to long term and the smaller the leakage of foreign exchange through smuggling and the black market. These policies were expected to have a pervasive effect on domestic production, particularly the production of non-oil exports. Various other complementary measures were pursued to assist exports; simplifying the cumbersome process of obtaining documentation for exports, extending the facility of rediscounting short-term bills to non-oil exports, and ensuring that exporters readily obtain duty draw- backs and exemptions.

3 Impact of SAP on Nigeria's external trade

Nigeria's total merchandise exports (fob) increased from US $6.8 billion in 1986 to US $13.9 billion in 1990, then declined to US $11.9 billion in 1992 and to US $9.9 billion in 1993. This was largely the result of fluctuations in prices and volumes of oil exports, which account for about 90 per cent of merchandise exports. Up to 1987, cocoa and rubber accounted for the bulk of non-oil exports. However, since 1988, exports of manufactured and semi-manufactured goods have re-emerged, accounting for about 40 per cent of non-oil exports, largely in response to trade reform and exchange rate policies. But at the average level of about US$500 million, non-oil exports remained a far cry from the SAP projections of over $1.00 billion. With regard to imports, the trend showed a steady rise from US $6.4 billion in 1988 to US$9.7 billion in 1993. Thus, although by promoting import substitution, SAP allowed the economy to economize on foreign exchange usage, it did not succeed in altering the country's production and consumption pattern significantly, as consumer goods accounted for a large share of Nigeria's imports during the SAP year (Table 2).

Table 2. Nigeria's Exports and Imports - Values and Volumes 1986 - 19

	1986	1987	1988	1989	1990	1991	1992	19
OIL EXPORTS								
Value ($ billion)	6.4	7.0	6.5	9.4	13.3	11.8	11.6	9.7
Volume Change (%)	-0.4	-10.1	5.9	17.4	9.7	3.2	2.0	2.2
Price Change (%)	-47.5	21.9	-13.1	24.0	31.0	-16.5	-3.3	-2.8
NON-OIL EXPORTS								
Value ($ billion)	0.4	0.5	0.6	0.4	0.4	0.5	0.2	0.2
Volume Change (%)	66.9	41.1	45.9	-44.0	-9.3	15.4	-13.3	2.2
Price Change (%)	-34.1	-4.4	-21.9	16.9	11.5	0.9	16.6	1.4
IMPORTS								
Value ($ billion)	7.5	6.4	6.4	6.5	4.9	7.8	7.2	6.7
Volume Change (%)	-27.9	-23.6	-6.4	2.6	9.2	11.6	5.5	5.4
Price Change (%)	13.0	12.1	6.9	-0.2	9.5	0.1	5.6	2.2
Growth Rate of GDP (%)	1.7	-0.2	9.8	6.7	5.6	5.1	4.1	4.6
Value Change (%)	-27.9	-23.6	-6.4	2.6	11.6	5.5	5.4	5.4

Source: Central Bank of Nigeria

The Structural Adjustment Programme had a limited impact on Nigeria's external trade position. There was some degree of import substitution; however, the response of non-oil exports was relatively small, partly due to the fact that the world prices of the non-oil commodities that Nigeria exports dropped sharply after 1985. The potentially positive impact of policies to give incentive to foreign investment was also eroded by the unstable political environment as well as by inconsistent macroeconomic policies. Under SAP, devaluation and trade liberalization were expected to encourage domestic manufacturing enterprises with strong domestic comparative advantage, while discouraging those which were inefficient in terms of resource utilization. Unfortunately, little growth was recorded in the manufacturing sector, especially in the publicly-owned commercial enterprises. The policy uncertainty and reversals that characterized the post-adjustment years, coupled with generally inefficient infrastructures, undermined the long-term investment needed for manufacturing growth. Furthermore, in a world in which protectionism remained common even among highly developed industrialized countries and where foreign investors are wary of investing in Nigeria, many have seen trade liberalizations as an inappropriate policy (Olasore, 1991). It is believed that trade liberalization and tariff policies need to be married to the country's industrial policy. Policy should not expose the country to dumping, but should aim at developing appropriate industries. These should be developed in areas where the country has considerable comparative advantage and can establish industries with extensive backward and forward linkages within the domestic economy with a substantial capacity of export production.

On external debt, because of the sharp fall in oil prices, the amount required to service the debt in 1986 was equivalent to about 75 per cent of total export receipts. Consequently, periodically during the SAP era, Nigeria had to negotiate rescheduling agreements with its main creditor groups. Whenever this could not be done, Nigeria accumulated large arrears. Even so, net transfers from Nigeria to foreign creditors were negative (against Nigeria) during the SAP years, averaging 5 per cent of GDP from 1986 to 1994.

4. SOME CONTROVERSIES ABOUT TRADE LIBERALIZATION

A discussion of trade policy reforms would not be complete without some mention of the major controversies which have continued to undermine the efficacy of trade liberalization. This section reviews some of the arguments, if only to underscore the point that trade liberalization must not be seen as a dogma. Removal of trade controls should therefore not be discussed without first reviewing the relevance of protection to the development needs of the countries that resort to such controls. These range over the terms of trade question; the arguments as to what exports to promote/encourage; the issue of effective exchange rate policy to ensure external balance; the revenue implications of tariff reforms; the complications introduced by debt burden; and the issue of the credibility and sustainability of trade reforms. These issues are examined briefly below.

4.1 Declining terms of trade of developing economies

One of the problems which affects developing, primary producing countries is the long-term, continuing decline in the prices which they receive for their exports - staple food or cash crops, solid minerals or hydrocarbons and hydrocarbon products. It is paradoxical that, while technological progress in manufacturing countries translates into rises in incomes; technical progress in the production of food and raw materials in developing countries leads to oversupply in the world market, resulting in a fall in prices, incomes and real wages. This was what led economist like Prebisch to call for a development strategy premised on industrialization through tariffs and other measures for the protection of local industry and the substitution of locally produced items for imported ones. Unfortunately, this strategy aided the appearance of inappropriate industries, misallocation of scarce resources and intensification, rather than alleviation, of balance of payments disequilibria. It also unwittingly discouraged exports because of the high tariff wall and a deliberate overvaluation of the local currency to cheapen imports for the local industries. The natural follow-up question therefore is: What next? Unfortunately, most developing countries rarely give priority to those topics nationally, or in technical assistance requests. The way forward seems to lie in the direction of export promotion, which brings us to the next area of controversy.

4.2 Problem of identification and promotion of exports

The United Nations (UNCTAD)- sponsored Fash Report advocates greater priority to exports and export promotion and makes five major agenda proposals, namely:

a. the need for export diversification

b. greater participation in pre-export processing and manufacturing as well as post-export trading

c. import substitution, especially in food

d. aggressive promotion of higher export volume and value

e. expanded production of the present major export commodities.

Unfortunately, price elasticity, physical demand and growth potentials seem to be against the promotion of export of traditional primary products, but in favour of processed traditional products and selected manufactured products, based on the comparative advantage principle. Here too, developing countries have experienced problems of product identification and promotion as well as market access, often created by the developed industrialized countries.

4.3 Stabilization through exchange rate policy

The achievement of a realistic exchange rate through the interplay of market forces of supply and demand is expected to ensure greater efficiency in the use of scarce foreign exchange. Specifically, a realistic real exchange rate is expected, in the medium to long term, to result in a higher level of export earnings, and the curtailment of unessential imports, thereby ensuring balance in internal and external trade. However, for reasons already examined above, trade liberalization in the context of most developing countries has not resulted in significant improvement in exports and imports (Table 3).

4.4 Trade liberalization and fiscal balance

The high dependence of developing countries on trade taxes makes their fiscal balance vulnerable to changes in trade tax revenues induced by trade liberalization, particularly in countries where trade reform involves tariff rather than non-tariff reforms. The key policy issues here involve anticipating the effect of trade reform measures on the fiscal balance and developing alternative, more efficient revenue sources. The positive effect of devaluation has, in several cases, mitigated the revenue effect of tariff liberalization, especially where the government is not a net buyer of foreign exchange.

Table 3. Annual Average Growth Rates of GDP and Ratios of Exports and Imports to GDP of selected Sub-Saharan African Countries.

Country	GDP Growth Rate		Export/GDP		Import/GDP	
	1970-80	1980-87	1980	1987	1980	1987
1. Ethiopia	2.6	1.1	14	11	19.5	24
2. Zaire	-0.3	1.6	24	33	11	20
3. Tanzania	4.5	1.7	13	13	27	37
4. Zambia	1.1	0.0	41	47	29	37
5. Kenya	5.6	3.2	29	21	43	25
6. Nigeria	5.4	-1.9	26	31	17	32
7. Ghana	-0.1	1.4	8	20	25	17
8. Ivory Coast	6.7	1.3	34	34	36	28
9. Senegal	2.1	3.3	29	28	35	25
10. Cameroun	5.3	7.0	24	16	21	17

4.5 Complication of the debt burden

Complications often arises because of heavy debt overhang, where excessive debt servicing obligations have undermined capacity to undertake the domestic investment critical to trade reforms. In the 1980s, this and other related problems have been particularly acute not only in developing countries with high inflation rates but also in those with relatively low inflation. This underscores the merit in ensuring meaningful global debt relief packages to ensure effective trade liberalization.

4.6 Credibility, investment and sustainability

Trade policy reform works only to the extent that resources are able to be moved to sectors that have become more productive under the reform. The process of moving such resources involves costs that entrepreneurs will be willing to incur only if the new set of relative prices arising from the reform is expected to be sustained. In most developing economies, especially those with high inflation, policy credibility is often undermined.

5. SUMMARY OF FINDINGS AND CONCLUDING REMARKS

This paper has examined the essence and implications of trade reforms as they relate to structural adjustment in developing countries, especially Nigeria. The literature review suggests that while there are likely to be gains from trade liberalization backed by exchange rate deregulation, complete *laissez faire* is not a desirable policy option, and neither is trade protection. Most developing countries have embarked on trade liberalization in the wake of economic crises associated with unsustainable fiscal and balance of payments deficits, and inflation. Unfortunately, the balance of payments of most of these countries continue to show a deterioration, largely due to deteriorating terms of trade and mounting debt obligations. These arguments bring to the fore the issue of the proper sequencing of economic reforms, particularly trade liberalization. The most popular view is that trade liberalization should be preceded by fiscal discipline and realignment of real wages. Implicit in this sequence is the need for incentives to be provided and be predictable overtime, if the private sector is to invest in new sectors rather than hold tenaciously to previously protected ones. Thus, unless incentives for export promotion are greater than for import substitution, no firm would be willing to sell its products in the world market. There is also the problem that producers of primary commodities are perpetually at a disadvantage vis-a-vis producers of manufactured goods. While technological progress leads to increased prices and real incomes for producers of manufactured goods, technical progress in the case of producers of primary commodities often leads to a state of oversupply in the world markets, resulting in price declines and loss of income. There is also the problem of how to identify which commodities to promote, given the increasing difficulty of developing countries to access the markets of developed economies, particularly for export of manufactured goods. Developing countries, therefore, need to increase their efforts at improving the quality of manufactures in order to reduce the competitive disadvantage against them in international markets. Although the multilateral trading arrangement offers opportunities for improved world trade, the gains of developing countries are still slim, as mutually beneficial trade depends on the adherence of the developed countries to the fair trading rules embodied in the World Trade Organization (WTO) and their willingness to make the desired concessions to the countries of the South. Thus, the destiny of the developing countries seems to lie in their ability to develop internal cohesive trade mechanisms through contiguous regional blocs like ECOWAS. Opening up markets should be gradual through continuous adjustment of exchange rates, lowering of tariffs and lifting quantitative restrictions to narrow down the effective rate of protection as means of encouraging competitiveness and growth of non-traditional exports. Both regional and multilateral channels should be explored by developing countries in order to enhance their share of global trade.

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