Export Trade and Economic Development in Nigeria

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Abstract

Trade, domestic and international, has become critical aspects of global relations in the modern era. The history of the affluent states of the developed world shows that trade contributes to economic development. This paper examines the linkage between trade and economic development in Nigeria. Emphasis here rests on the contribution of exports to economic development in Nigeria. Much emphasis is placed on Nigeria’s situation within the global capitalist firmament as a peripheral enclave. The paper re-examined the existential reality of Nigeria being a state with a mono-cultural economy relying mainly on crude oil exploitation and exploration. Indeed, this is the major platform for foreign exchange earnings by the state. It is our considered view that Nigeria must clampdown on corruption and diversifies its economy to benefit more from free trade in both the domestic and external contexts.

Keywords: Economic development, Export, Import, Nigeria, Trade

Introduction

In the modern era trade has become one of the most important ways through which individuals and nation-states exchange ideas, products, technology, money and other means of preserving value. Trade began in the classical times in the form of barter, when material goods were exchanged for one another. In the specific context of Nigeria, monetary trade became popular during the colonial era, as it gradually replaced trade by barter (Nicks, 2008). This phenomenon had the effect of integrating the economy of the local people to the global economy. During the colonial era, the British colonial administration deepened this economic integration with the trade in cash crops like groundnuts, palm oil and cocoa. This trade gave the colonial government the resources with which it administered the territory that will eventually become Nigeria.

International trade constitute a large aspect of the trading which supports the economic development of the Nigerian state. The Nigerian economy in much of the post-colonial era has been driven by the exploration and exportation of crude oil, as it accounts for over 70% of foreign exchange earnings (Osaghae, 2002). This resource has been greatly exploited from the Niger Delta area of the country, an area which has often experienced crises due essentially to the debilitating effects of oil exploration. While these environmental cum socio-political challenges rages on, the nation has deepened international trade with oil sales and becoming a conspicuous member of the Organization of Petroleum Exporting Countries (OPEC). The rate at which an economy grows and prospers is not a function only of domestic economic realities but also of the international transactions the state involves in.

Indeed, the classical and neo-classical economists argued strongly in favour of...
international trade across borders (Jhingan, 2006). While Adam Smith emphasised the idea of absolute advantage, David Ricardo goes even further to suggest that in cases where one country has advantage over another in two ways, trading could still take place. He deployed his famous theory of comparative cost advantage to buttress this argument. International trade is therefore an important mechanism for the socio-economic development of countries all over the world, and this is especially true as the existential reality shows that western economies have transformed their societies through trading in the last five centuries (Samuelson, 1980).

Some of the crucial elements necessary to drive development in most countries, especially those in the developing world are often imported. For example, countries that are not endowed with petroleum resources must import them to drive industrial and manufacturing processes. These elements could be raw materials, capital goods and technology. Nigeria often imports those essentials that the domestic environment is unable to provide in sufficient quantity while the nation exports those resources that it has in abundance. Thus in the current global order, countries struggle to be competitive and to have a wide array of exports products. It is through these exchanges that nation-states within the global economy refine resources, creates wealth and pursue development. This discourse evaluates the contribution of export trade to economic development in Nigeria. It begins with some relevant conceptual themes, and then explores the impact of international trade on the Nigerian economy. It thereafter scrutinizes the contribution of exports commodities to the economic development of nation states and exits with some concluding remarks.

Trade

Domestic trade refers to the exchange of goods and services among the citizens of a particular state. It is often referred to as home trade or internal trade. The vast amount of trade that takes place across the various states in Nigeria is apt representation of domestic trade. For example, the buying and selling of cattle, goats, rice, yam etc within the territory of Nigeria constitute domestic trade. Indeed, domestic trading has to do with internal transactions between and among individuals, groups, institutions, and governments within a particular state. As Anyanwuocha (2013) has argued, different areas within a country are naturally adapted to the production of specific agricultural produce and as such there is need for trading among these different geographical areas.

International trade involves the exchange of goods and services between and among two or more countries. It is also known as foreign trade or external trade. The question of sovereignty often arises where countries are to engage in international trade because they must respect the laws of one another as they go about their businesses. International trade is often coordinated by certain global bodies to ensure that states and individuals are protected against the excesses of unhindered capitalism (Arrion 2017). These bodies exist on global and regional basis and some of them include the World Trade Organization (WTO), International Monetary Fund (IMF), North American Free Trade Area (NAFTA), General Agreement on Tariff and Trade(GATT), European Union (EU) and Economic Community of West African States (ECOWAS). In the modern era, international trade has become very vital for the survival of states as huge volume of tangible and intangible transactions are done across different countries on a daily basis.
Terms of Trade
This concept was first deployed by the great economist Alfred Marshall (Taussig, 1927). It means the prices at which countries exchange their products in international trade. Early writers like Marshall were concerned with the relative price of traded goods in the international arena. Terms of trade refers to the amount of imports an economy can attract when it exports a particular unit of product. For example, if Nigeria only exports crude oil and only imports cars then the terms of trade is simply the price of crude oil divide by the price of cars. Nigeria’s terms of trade will increase if the price of its export product (crude oil, in this case) increases in the international market. Consequently, terms of trade can be described as the relative price of imports in terms of exports (Obstfeld & Rogoff, 1996).

Economic Development
Economic development refers to the general improvement in the quality of lives of citizens in a particular country. The concept has been defined as improvements in material welfare especially for persons with the lowest incomes, the eradication of mass poverty with its correlates of illiteracy, disease and early death (Kindleberger & Herrick, 1958). This early conception of economic development placed emphasis on the growth of output over time. It also had an economic touch which downplayed socio-political considerations. Overtime, development experts (Seers, 1979; Sen, 1999) started to place emphasis on holistic conceptualization of the term. For Seers (1979), the core objective of development is to reduce poverty, inequality and unemployment. Sen (1999) provides a more holistic kind of definition, arguing that development has to do with the general enhancement of the lives we live and the freedom we enjoy. This multidimensional view argues that development involves reducing deprivation or broadening the choice before society.

Import and Export
Imports entail all those goods and services that are procured from other countries. Generally imports are of two variants (Anyanwuocha, 2013). Visible imports are in the main tangible entities like electronics, cars, clothing, food etc. Invisible imports are generally intangible entities like banking and insurance services, haulage and payments to external investors. Invisible imports are generally those endeavours that we cannot grasp.

Exports involve all those goods and services that originate from the domestic economy but sold to other countries. It essentially relates to those produce that a local economy can churn out for the international society. As it is with imports, exports can either be visible or invisible. Exports produce gives a country the much needed foreign exchange necessary to maintain a favourable balance of payment regime. Countries that have been able to deepen exports produce and gain foreign exchange have generally been able to raise the level of their global competiveness and thus they have strategically chase development.

Impact of International Trade in Nigeria:
International trade has fundamental ramifications for states across the globe. In the specific situation of Nigeria the country has, in much of the post-independence era, adopted various strategies with a view to improving its level of competitiveness in the global market. Some of these strategies include the national development plans deployed in the years immediately following independence, import substitution industrialization, and structural adjustments (Osaghae, 2002). There have been proposals for Economic Partnership Agreement with regional bodies elsewhere like NAFTA and EU as a way for Africa’s most populous state to strategically benefit from the opportunity of a large market that its huge population affords.
Table 1: EU-West Africa Trade in Goods, 2014-2019 (in billions of euro)

<table>
<thead>
<tr>
<th>Year</th>
<th>EU imports</th>
<th>EU exports</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>33.6</td>
<td>28.1</td>
<td>-5.4</td>
</tr>
<tr>
<td>2015</td>
<td>26.0</td>
<td>26.7</td>
<td>0.7</td>
</tr>
<tr>
<td>2016</td>
<td>18.7</td>
<td>22.7</td>
<td>4.0</td>
</tr>
<tr>
<td>2017</td>
<td>22.8</td>
<td>25.6</td>
<td>2.8</td>
</tr>
<tr>
<td>2018</td>
<td>29.7</td>
<td>28.4</td>
<td>-1.3</td>
</tr>
<tr>
<td>2019</td>
<td>31.3</td>
<td>28.9</td>
<td>-2.4</td>
</tr>
</tbody>
</table>


Table 1 shows the balance of trade situation West African states and EU countries. There have been a number of challenges for Nigeria and other West African countries in the context of international trade. The advocates of international trade, for example the WTO, often argue for the reduction in tariffs to allow for free flow and exchange of goods and services across the globe. This reduction in tariffs has the effect of reducing the fiscal revenues that accrues to the Nigerian state. McDonald et al (2013) have argued that this phenomenon has the unwanted effect of shrinking the ability of the Nigerian state to accumulate resources needed for industrialization from the point of view of its internal development.

Again, the idea that international trade is ‘Free’ and ‘Fair’ to all countries, often propagated by neo-liberal institutions and their writers, does not reflect existential reality. The advanced states of the northern hemisphere hold a clear and visible advantage over developing countries of the southern hemisphere (Odion, Agbebaku & Kadiri, 2013). This is because developed countries have stronger manufacturing and industrial base as they are more technologically sophisticated. They can produce on a more competitive basis than their underdeveloped counterparts. This has often been the bane of Nigeria in international trade. Perhaps underdeveloped states like Nigeria may need to first protect infant industries in the interim and nurture them before opening up to the global markets. Indeed, Freidrick List and Alexander Hamilton wrote in favour of protection for infant industries during times in the growth trajectory of their countries (Germany and United States respectively) when they could not compete globally.

As a corollary to the above, developed states often hide under the veneer of quality assurance to disqualify products from underdeveloped climes. They deny these products access to their markets under the guise that the products fall short of sanitary and physiosanitary standards (Osuoka, 2016). On the basis of this evidence, international trade is an engagement driven on a faulty wheel. It deepens inequality among nations and seems to reinforce underdevelopment in one sphere while promoting growth in the other terrain. In 2015 a consignment of Nigerian Beans were turned down in Europe allegedly because of faulty storage chemicals (Osuoka, 2016). If Nigerian products cannot get equal access to markets in the developed countries as products from advanced countries easily access Nigerian market, then international trade in a sense can be described as an unjust scheme.

Despite these perceived drawbacks international trade has in many ways benefited the Nigerian state and its economy. Nigeria relies on the sale of crude oil in the international market to accumulate resources needed to prop up the local economy. Since the 1970s crude oil has been the major commodity that provides the needed foreign exchange to finance administration at the local, state and federal levels (Osaghae, 2002).
Nigeria’s federal system is founded on the anomalous reliance on the federal government for survival by the component units. Without international trade in the crude oil business, the nation would have found it difficult to get this much needed resources. In this circumstance, it can be argued that international trade has been a partner to Nigerian government in the quest for economic development.

International trade encourages countries to diversify their economies. This is because the global economy presents a huge market where countries can take advantage by producing a number of products other countries will need. It is in this respect that policy makers have implored Nigeria to diversify its economy (Osaghae, 2002). By diversification, we mean that Nigeria should not restrict itself to oil exportation. Industrial and manufactured goods can also be a source of foreign exchange earnings. Unfortunately, Nigeria has remained a mono-cultural economy in much its post-independence history. The nation is referred to as having a mono-cultural economy because it relies on the export of crude oil in its international trade engagements. A diversified economy would reap more benefits from international trade.

International trade enhances the quality of goods and accelerates the process of technological transfer. The desire to continuously improve on the quality of goods and services is one of the overarching preoccupations of international trade. When states engage in international trade, they do so with an eye for quality assurance. The continuous engagement in international trade therefore improves the quality of goods and services that a nation produces. Developing nations like Nigeria are often encouraged to deepen this engagement so as to improve the quality of their local products. Nigeria has benefited from international trade by absorbing technological knowledge from other countries. There are foreign Multi-National Corporations (MNCs) that have brought new techniques to the country and indigenous entities have embraced these new ways.

**Contribution of Export to Economic Development**

International trade contributes to the general economic development of countries. Firstly, when a country specialises in the production of certain goods and services, it becomes easy for that country to produce those goods at a cheaper rate. These exports serve as an avenue through which the country can accrue foreign exchange earnings. This is a direct way through which countries benefit from international trade. Indeed, since Adam Smith and David Ricardo, economists have come to understand the importance of international trade because resources can only be better accumulated and utilized when they are allowed to move freely from one place to the other.

Secondly, where the domestic market is small and restricted, it then becomes important for capital to seek fresh territories from which the surplus resources can be reinvested. Most advanced countries of the west, during their growth stages experienced this situation. Commerce and manufacturing, in the wake of the industrial revolution, employed huge number of people such that countries like Britain and France started looking for overseas territories to cater for this vast expansion (Chang, 2002). The rapid growth of these economies was due essentially to international trade as they enjoyed favourable terms of trade for long periods having acquired technological know-how to produce commodities and products that were in demand in the international markets.

Thirdly, developing countries can adapt and specialise in the production of one or two staple commodities. And if they continue to strengthen their capacities to produce those commodities, they would widen their export base. The great backward and forward linkages
that this would generate would bring economic
development (Stanford, 2014). This is the
foundation of the ‘staple theory of economic
growth’. This would lead to the vast reduction
of employment in the domestic economy.
Domestic investments would increase and the
productive factors would then be put to more
efficient and greater use. Third world countries
can benefit from the vast opportunities that
international trade affords.

Fourthly, international trade contributes to
economic development through the expansion
of markets and technological transfer. Foreign
trade reconstructs the way people do things
and encourages the assimilation of new ideas.
These ideas can greatly transform the local
economy of a people. The wide scale
industrialization which took place in Japan
following World War II was as a result of the
assimilation of western model of
manufacturing. Indeed, technology transfer
was at the heart of the processes that led to the
emergence of the Japanese developmental state
(Johnson, 1982). This transfer of new ideas
also led to the emergence of a new managerial
class that was competent enough to drive the
developmental process.

Conclusion
International trade affords states the
opportunity to transform their economies. In
situations in which a country has a fairly
diversified economy, the country may
strategically interact with the external
environment in the context of international
trade to accumulate much needed foreign
exchange earnings. When states deepen their
investments climes, diversify their economies,
improve industrial and manufacturing base,
and enhance their governance milieu, they can
substantially benefit from the vast prospects
that international trade affords. Indeed, states
that intend to improve their terms of trade
must endeavour to first improve their
competitiveness by churning out a number of
industrial and manufactured goods that can
meet global sanitary standards. Most developed
countries of the West have attained this
standard.

In the specific case of Nigeria, it would be fair
to submit that international trade has not been
deployed effectively in much of the post-
independence history of the nation. While the
nation has earned foreign exchange from the
sale of crude oil, it has nevertheless failed to
bring into existence a diversified economy with
strong industrial and manufacturing base. A
number of factors account for this economic
crisis which led Nigeria into what Joseph
(1996) calls ‘the dismal tunnel’. Leadership
crises in the form of corruption and improper
resource allocation, the continuous fixation on
a mono-cultural economy driven on oil, and a
general amoral society in which citizens see the
state as an alien entity that could be plundered
at will.

The challenge for the Nigerian state then is to
strategically diversify its economy. In this
direction, the Muhammadu Buhari presidency
since 2015 has pursued economic security and
economic diversification with a conscious
effort at propping up the agricultural sector.
There has also been a continuous effort at
clamning down on corruption, efforts which
were initiated by the Olusegun Obasanjo’s
presidency and vigorously being pursued by the
current administration. While this pursuit has
had its challenges, like the crises facing the
head of the anti-graft agency, Nigerians hope
that we may eventually get it right. The hope is
that with efficient allocation of resources
Nigeria would be able to pursue industrial
development and improve its manufacturing
sector, with a view to benefiting more from
international trade.

Recommendations
On the basis of this evidence, the following
recommendations are suggested:
First, Nigeria should summon the necessary political will needed to genuinely pursue the diversification of the nation’s economy so as to maximise the benefits of international trade.

Second, Nigeria should positively leverage on the African Continental Free Trade Area (AfCFTA) to improve benefits from both oil and non-oil export.

Third, the nation must try to improve on the quality and quantity of manufacturing and industrial concerns with a view to developing value chains that can create employments through increase in exportation of goods and services.

Finally, oversight institutions, like the Standards Organization of Nigeria SON, should improve the quality levels of products from Nigeria so that they meet the phytosanitary conditions required in the global arena.

References


