

## THE IMPACT OF TRADE LIBERALIZATION ON NIGERIAN ECONOMY

ABDULMAJEED AMINU MAHMOUD\*

### ABSTRACT

Trade liberalization plays a vital role in promoting International trade and the maximization of world output. Countries engaged in international trade to boost and restructure their economies through which they achieve higher benefits of trade, economic growth, foreign direct investments etc. The workings of an economy in terms of growth rate and per capita income have been based on the domestic production, consumption activities and in conjunction with foreign transaction of goods and services.

In every economy, trade liberalization is expected to boost and promote the economy of that country but in the case of Nigeria, it prove to be difficult and unsuccessful, because it suppresses the economy. Foreign trade has not helped in promoting economic growth because the Nigerian economy still experiencing some elements of economic instability that turned the country into an import dependent economy, the destruction of markets and local industries, poverty and unemployment, as well as hardship and misery to its people.

The study focuses on the assessment of the various impacts of free trade liberalization on the Nigerian economy, particularly the (negative impacts) as well as finding possible recommendations in solving Nigeria's economic problems.

**Key words:** Globalization, liberalization, free trade, economy, market, poverty.

\*DEPARTMENT INTERNATIONAL RELATIONS, FACULTY OF SCIENCE AND HUMANITIES, SRM UNIVERSITY INDIA

## INTRODUCTION

Nigeria is a country with the largest Africa economy endowed with abundant natural and human resources. Nigeria is also a country of middle income, mixed economy and emerging market, (based on rebased figures announced in April 2014). The country relied heavily on the exportation of primary products as a source of foreign earning. Crude oil accounted for 96% of Nigeria's exports, prior to the discovery of oil in 1970s, agricultural products accounted for 84% of Nigeria's exports. The discovery of oil made Nigerian government to neglect agriculture and the agricultural sector has not kept up with rapid population growth, and Nigeria, once a large net exporter of food, now imports a large quantity of its food products. This had turned the country's economy in to a petro naira economy with heavy reliance on imports that creates balance of payment problems (Manson, 2004).

Balogun (2012) several measures have been taken by several governments as an effort to improve the Nigerian economy. Nigeria is a member of Regional Trade Agreements (RTAs) like the Economic Community of West Africa (ECOWAS), and other multi lateral trading institutions and financial institutions like the International Monetary Fund (IMF), World Bank, General Agreement on Tariffs and Trade (GATT), and a founding member of the World Trade Organization (WTO) in 1995. Ehigiene (2007) Nigeria's participation in international organizations aimed at achieving higher level of economic growth and development through balance of payment, foreign exchange, employment generation and maximization of participation in service sectors. Nigeria has gone through several internal developmental strategies, micro and macroeconomic policies, trade policies and other mechanism which were incorporated with active participation of many international bodies and organization.

Nigeria liberalizes its economy, allowing foreign goods to move freely in to the Nigerian local markets. This has adversely affected the Nigerian economy by destroying local markets and industries, creating unemployment, dumping, balance of payment problems etc. These were associated by years of mismanagement, inadequate rules and regulations by the Nigerian government to effectively liberalize its economy. The study, therefore, investigates the interrelationship between poverty, unemployment dynamics and trade liberalization in Nigeria.

## OBJECTIVES OF THE STUDY

1. To review and assess the impact of trade liberalization on the Nigerian economy and its people.
2. To identify the negative effects of trade liberalization and to find out its role and meaning.
3. To investigate the problems affecting foreign trade in Nigeria and make suggestions on how they could be resolved.
4. To provide measures for economic growth and development.

## RESEARCH QUESTIONS

1. Does trade liberalization bring Economic Growth and Development to Nigeria?
2. Has trade liberalization contributed in boosting the Nigerian economy?
3. Why does trade liberalization led to the destruction of Nigeria's local industries and market?
4. Why is it that trade liberalization created unemployment and heavy reliance on imports?

## METHODOLOGY

The methodology applied in this paper is documentary analysis of the relevant literatures to study the negative impact of trade liberalization on the Nigerian economy. Data were generated from publications, journals, books, previous studies conducted on similar vein as well as bulletins and annual reports from the central bank of Nigeria (CBN) for the purpose of this paper in order to provide comprehensive and empirical study.

## BRIEF HISTORY OF NIGERIAN ECONOMY

Nigeria became independent on 1<sup>st</sup> October 1960 having an agricultural based economy that accounted for more than 80% of foreign earnings and provide employment for the teeming youths (Musa, 2014). Nigeria adopted the import substitution industrialization strategy in which imports were discouraged and exports were encourage in order to stimulate the economy (Eleanya, 2013). In 1970s oil came to replace agriculture as it accounted for 95% of Nigeria's export and this made agriculture to be neglected. The economic crisis of 1980s necessitated the country to adopt the structural adjustment program; the policy entails privatization, commercialization and deregulations as well as liberalization of the Nigerian economy. This policy did not yielded much result as the economy relied on a single sector which is the exportation of oil and imports almost everything including agricultural products as a result of liberalization (Ekpo and Umoh, 2015). From 1999 to date, Nigeria fully liberalized its economy so as to achieve growth and development but the reverse was the case as imports far out weighted exports, the destruction of local industries and markets.

## IMPACT OF LIBERALIZATION ON THE NIGERIAN ECONOMY

Ehigiene (2007), Chimobi (2010), Awoyemi (2014) assert that Nigeria's membership in international organizations like the WTO, IMF, World Bank linked and tied its economies to that of the developed world since these multi-lateral institutions are controlled by them. These institutions controlled and determine the Nigerian economy as well as Nigeria's economic relations. Furthermore, they do not only determine the economy but also national trade policies and many of the policies determined by these institutions were detrimental to the Nigerian economy and against the welfare of the masses. These policies included the devaluation of the Nigeria currency (Naira), free market system, abolition or removal of subsidies, withdrawal of government from the economy through privatization and deregulation by allowing the private sector to intervene in the economy.

Manson (2004) examine that imported products become cheaper and hence relatively more attractive than domestic products, a shift from domestic products to foreign products. Imports

increase and compete more with domestic production and this motivated the growth of imports. This adversely affects the household and consumption of those industries affected by open market economy. Liberalization also risks Nigeria to be a dumping ground for foreign goods and foreign industries to dominate local markets. The implication is that, it led to distortions in balance of payment, decrease in GDP and the Nigerian industries cannot compete with the giant Multi National Corporations that flood their products into the country without any barrier as a result of trade liberalization.

As argued by Adhama (2012) total liberalization of markets is having a negative impact on the Nigerian economy because of lack of regulation by the government. Nigerian markets are open for foreigners to enter with their goods without paying any duty and in most case with sub standardized products and then allowed to sell as retailers. Retailer ship is for indigenes. He argued that "How could somebody from China sell as a retailer in Nigeria markets? What would the common trader do?"

Abou-Stait (2005) and Oviemuno (2007) foreign trade is regarded as the engine for economic growth, poverty reduction, employment opportunities if addressed properly. Akeem (2011) foreign trade in Nigeria has been dominated by a single sector which is the exportation of crude oil to world market. Prior to 1970s, the agricultural sector accounted for large sum of exports. The motive behind the failures of foreign trade to affect the Nigerian economy in a positive way were the issues of international trade, distortions in macroeconomic policies, heavy reliance on imports, dependent economy and lack of adequate measures to diversify the Nigerian economy.

Liberalization hinders trade on equal basis and brings about exploitation in economic relations between countries. This is visible in trade relations between countries of the rich North and the poor South (Kim, 2000). Industries of the North are more developed when compared to those of the South and this gave them an advantage to produce goods in large quantities (economies of scale) at a very cheaper cost and sale them at rates cheaper than their cost of production in developing countries. The number of imported goods increases and competes with domestic

goods and this spurs the growth of imports. These adversely affect the household and consumption of those industries affected by open market economy (Ehigiene, 2007).

Liberalization also risks Nigeria to be a dumping ground for foreign goods to dominate the local markets. This is attributed with consequences of distortions in balance of payment, decrease in GDP and the Nigerian industries cannot compete with the giant Multi National Corporations that flood their products into the country without any barrier as a result of trade liberalization (Manson, 2004).

## CONCLUSION

The study focuses on the assessment of the various impact of trade liberalization on the Nigerian citizen and the economy. The findings were contrary to the view that trade liberation led economic growth and development. It shows an inverse relationship between trade liberalization and Nigeria's economic growth and development. Trade liberalization proved to be unsuccessful as the Nigerian government fully liberalized its economy by allowing all kinds of goods to be imported in to the country including those products produced by the Nigeria local industries as it brings about the destruction of local industries, markets, creating hardship, unemployment and decline in government revenue. This was associated with years of mismanagement, corruption, embezzlement and lack of effective rules by government authorities to regulate the economy. The economy has been dominated by a single sector and there is need for government to diversify other sectors of the economy so as to achieve successful development.

Finally, it is wrong to conclude that trade liberation had an overall negative impact on the Nigerian economy, but rather to say that liberalization has not done much to what is expected to achieve the desired result in promoting the Nigerian economy. Liberalization has impacted the service sector, telecommunication and the information sector. Nigeria liberalizes its economy as an effort to achieve growth and development but this effort has to be accompanied by effective trade policies which were to be monitored effectively in order to achieve the desired result.

## MAJOR FINDINGS

Openness does not lead to economic growth, but rather it is economic growth that leads to openness. A country opens its economy when its industries are matured and can favorably compete with industries of the powerful industrialized nations in the international market. Free trade does not always guarantee economic growth and development as we have seen in Nigeria; free trade is associated with short comings such as trade inequality and dumping etc.

The major factor retarding Nigeria's economic growth and development is the inability of the government and the designated authorities to monitor and effectively implement trade liberalization policies. Corruption is one of the major factors contributing for Nigeria's backwardness. Funds, capital and resources ment for developmental project were diverted for personal use by politicians and other government officials.

## RECOMMENDATIONS

I recommend that Nigeria should find an alternative to free trade since openness does not contribute to growth of non-oil exports; Nigeria should protect her domestic producers and impose higher tariffs and quotas where necessary to check the influx and dumping practices that have virtually affected most of the sector of the economy.

Nigerian government should initiate appropriate economic policies that would improve Nigeria's trade status, expenditure on projects and infrastructures that would facilitate trade and economic growth and the monetary authority should give priority to exchange rate stability. There is also a need to check costs of production through consistent monetary and exchange rate policies.

Nigerian government should give more emphasis to research and development. The essence is to provide more ideas and technical knowhow and to reduce dependence on imported capital inputs (goods).

## REFERENCES

Abou-Stait, F. (2005). Are Exports the Engine of Economic Growth? An Application of Co integration and Causality Analysis for Egypt. Economic Research Working Paper, No 76 <http://www.afdb.org>

Adhama, D. (2012). The Impact of Trade Liberalization on Nigerian Economy. Daily Trust Nigeria.

Akeem, U. (2011). Performance Evaluation of Foreign Trade and Economic Growth in Nigeria. Journal of finance and accounting. vol2 No2

Awoyemi, B. et al (2014). Financial Globalization Economic Implication for Nigeria. Journal of Humanities and Social Science (IOSR-JHSS). Volume 19, Issue 4.

Balogun, et.al (2012). Poverty and Employment Impact of Trade Liberalization in Nigeria: Empirical Evidence and Policy Implications. <http://mpra.ub.uni-muenchen.de/id/eprint/4100>

Chimobi, O. (2010). The Causal Relationship among Financial Development, Trade Openness and Economic Growth in Nigeria. International Journal of Economics and Finance. Vol. 2. No. 2

Eleanya, k. et al (2013). Trade Openness and Economic growth: A comparative Analysis of The Pre and Post Structural Adjustment Program (SAP) Periods in Nigeria. Asian Journal of Business and Economics. Volume 3

Ehigiene, p. (2007). Trade Policy and Poverty Reduction in Nigeria. A thesis submitted to Maastricht Graduate School of Governance.

Ekpo & Umoh, J. (2015). An Overview of the Nigerian Economic Growth and Development. [www.nigerianeconomy.gov](http://www.nigerianeconomy.gov)

Khor, M. (2006). Globalization, Liberalization and Protectionism: The Global Framework Affecting Rural Producers in Developing Countries. <http://www.globalpolicu.org>

Kim, S. (2000). The Old and the New: The Effects of the WTO on International Trade. Niehaus Center for Globalization and Governance Woodrow Wilson School of Public and International Affairs.



Manson, N. et al (2004). The Impact of Trade Liberalization. University of Nigeria Nsukka and African Institute for Applied Economics.

Musa, A. (2014). An Overview of Economic Development in Nigeria: Issues and Challenges. University of Ilorin, Nigeria. National Bureau of Statistics. Review of the Nigerian Economy in 2011 & Economic Outlook for 2012 – 2015

Obaseki, p. (2000). Globalization and the Nigerian Economy. Journal of CBN economic and financial review. Vol38.

Ogbimi, F (1995), Structural Adjustment is the Wrong Policy. African Technology Forum. Volume 8.

Oviemuno, A. (2007). International Trade as an Engine of Growth on Developing Countries: A case study of Nigeria; (1980 - 2003).

