Understanding Shifts in Nigeria’s Trade Policy: From Realism to Protectionism

Folarin Alayande*

Abstract

The reluctance of Nigeria, Africa’s largest economy, to sign two major international trade liberalisation agreements in 2018 shocked many local and international observers. However, these trade policy postures were not unexpected. Undiscerned by many analysts, many subtle changes had happened to Nigeria’s international co-operation architecture and foreign economic policy in a seemingly incoherent manner. In addition, the premise for expecting Nigeria to automatically consent to both agreements was faulty for two main reasons. First, the pretext of connectivity and market access as the underlying rationale for both agreements was allegedly hinged on the fallacy of composition, with the assumption that the whole was greater than the sum of its parts. This pretext was increasingly questioned by the influential, organised private sector in Nigeria, which had shifted from the altruistic foreign policy tenets of the 1970s to insulation from negative externalities of trade. Second, Nigeria’s trade posture was erroneously considered separately from its foreign economic policy posture, which was increasingly hinged on beneficial concentricism and regaining internal capabilities. In this new dispensation, with a focus on strategic trade policy underpinned by economic pragmatism, understanding shifts in the domestic balance of power is critical to predicting Nigeria’s trade policy responses.

Résumé

En 2018, la réticence du Nigéria, la plus grande économie d’Afrique, à signer deux accords majeurs de libéralisation du commerce international a choqué nombre d’observateurs locaux et internationaux. Cependant, ces positions de politique commerciale n’étaient pas inattendues. A l’insu de nombreux analystes, plusieurs changements subtils avaient, d’une manière qui semblait incohérente, été portés à l’architecture de coopération internationale et à la politique économique étrangère du Nigéria. En outre, l’hypothèse du

* Department of Economics and Development Studies, Covenant University, Nigeria
Email: falayande@yahoo.com
consentement automatique du Nigéria aux deux accords était erronée pour deux raisons principales. Premièrement, le prétexte de connectivité et d’accès aux marchés comme justification sous-jacente des deux accords reposait sur le caractère fallacieux de la composition, qui veut que l’ensemble soit plus important que la somme de ses parties. Ce prétexte a été de plus en plus remis en question par l’influents et organisé secteur privé du Nigéria, qui était passé des principes altruistes de politique étrangère des années 70 à la protection face aux externalités négatives du commerce. Deuxièmement, la position commerciale du Nigéria a, à tort, été considérée en dehors de sa politique économique étrangère, qui reposait de plus en plus sur un « concentrisme » bénéfique et la reconquête de capacités internes. Dans cette nouvelle configuration, qui met l’accent sur une politique commerciale stratégique appuyée par un pragmatisme économique, il est essentiel de comprendre les changements dans l’équilibre des pouvoirs intérieurs afin d’anticiper les réponses de la politique commerciale du Nigéria.

Introduction

Policy moves in the 2010s by Africa’s largest economy, which constitutes approximately 15 per cent of Africa’s population and generates 18 per cent of Africa’s Gross Domestic Product (GDP), have indicated a radical shift in Nigeria’s trade policy. The most deliberate move was signalled when the President of Nigeria, Muhammadu Buhari, declined to sign the treaty for the establishment of the African Continental Free Trade Area early 2018 (African Union 2018; BusinessDay 2018). A fortnight later, Nigeria declined to sign the Economic Partnership Agreement (EPA) between the European Union (EU) and the Economic Commission of West African States (ECOWAS). The justification for declining to assent to both agreements was largely to ‘protect our industries’ and avoid job losses, both premises of trade protection or infant-industry protection. (Aileman 2018).

While most foreign policy analysts, diplomats and international economic observers expressed shock and focused on the tactical issues of the potential benefits or demerits of Nigeria’s non-signing of the agreement, the Federal Government of Nigeria moved on the following week to launch the Nigerian Economic Diplomacy Initiative (NEDI). According to Vice-President Professor Yemi Osinbajo, who also heads the nation’s Economic Management Team:

Our national economic aspirations…in the Economic Recovery and Growth Plan …emphasises sustained growth to generate the large number of jobs we urgently require. As designed, this initiative (NEDI) fits very well into…an enabling architecture…that facilitates business. (Osinbajo 2018)
This emphasis on beneficial concentricism and urgency to create domestic jobs was reinforced by the Federal Government’s simultaneous tactic of ‘consolidating efforts at training our diplomats on attracting foreign investments and in trade negotiation’ (NEDI 2008). Previously, President Buhari (2018) had firmly declared in his new year address on 1 January 2018 broadcast to the populace that ‘rice imports would stop this year’, affirming the nation’s backward integration programme that had worked for cement manufacturing, and was now being extended to staple crops such as rice, tomatoes, cassava and wheat. That era of tariff-led import-substitution and foreign exchange rationing for food imports had led critics such as Olu Fasan (2018) to support claims by the International Monetary Fund (IMF) that Nigeria’s trade policy regime was one of the most restrictive in the world.

Beyond normative statements on trade restrictiveness that analyse Nigeria’s trade policies strictly within the realm of idealist economic policy, authors such as Ubi and Akinkuotu (2014) advocate that trade policy analysis must be interpreted within the normative context of foreign economic policy. Foreign economic policy must also be analysed within the context of the foreign policy architecture and the capacity of the relevant agencies. Viewing Nigeria’s apparent shift in trade policy from this framework would proffer alternative perspectives on Nigeria’s recent trade pronouncements.

The Evolution of Nigeria’s Foreign Economic Policy

How did a country that shaped the creation of ECOWAS and led the continent toward the Abuja treaty for the African Economic Community between 1991 and 1994 suddenly withdraw from the signing of the African Continental Free Trade Area? Contrary to speculations in the tabloid press that this was just a last-minute volte-face by the presidency in Nigeria, a review of the meanders in Nigeria’s foreign economic policy provides a sneak insight as to the evolving patterns of Nigeria’s trade decisions. As foreign policy is oftentimes shaped covertly behind closed doors (Abegunrin 2003) and thus shrouded in secrecy, its analysis could only be reasonably done by piecing together several movements and rhythms in the actions of key players and key agencies.

For the period from Nigeria’s independence from 1960 through the early 1980s, the general sound bite was that the nation’s foreign policy was African-centred in focus and altruistic in character and essence. While there were conflicting views on whether Nigeria’s erstwhile foreign policy thrust of hegemony in Africa was at variance with optimal domestic economic
policy, most scholars broadly agreed that Nigeria’s foreign policy was based on classical realism. Understandably, given their pedigree and professional training, most of Nigeria’s foreign affairs ministers and influencers, from Gambari to Akinyemi rooted their philosophical leanings in the realist approach. Hence, the locus of their default posture or stance on Nigeria’s behaviour towards the external environment was informed by an assessment of national interests defined as power and a sensitivity to the needs of foreign policy objectives and control of the national resources required for their implementation to be compatible. In the oil boom days of the 1970s, with growing foreign reserves and a healthy balance of trade, sponsoring hegemonistic ventures such as ECOWAS, which Nigeria bank-rolled, and the Organisation of African Unity was expedient both as a hegemonic play and a regional imperative. Indeed, in his inaugural speech in 1979, President Shehu Shagari had stated unequivocally that ‘Africa shall remain the cornerstone of our foreign policy’. Needless to say, foreign economic policy or trade policy was not overtly articulated given that while Africa was the foreign-policy theatre of Nigeria, intra-African trade was miniscule, and Nigeria’s external economic relations were primarily with Western countries, which provided technical and capital assistance. This dichotomy between the locus of foreign policy and the locus of trade policy inadvertently denigrated the role of foreign economic policy.

The coup d’états of the mid-1980s, the declining economic fortunes with the oil price crash, and the imperatives of the structural adjustment programme provided a gradual shift from the realist approach of the earlier two decades towards a variant of a neoliberal approach to foreign economic policy. It was in this new economic reality that the then-Minister of Foreign Affairs, General Ike Nwachukwu (Retired), surmised that it is the ‘responsibility of Nigeria’s foreign policy apparatus to advance the course of Nigeria’s national economic recovery’ (Ogwu and Olukoshi 2002). The new focus on economic diplomacy marked a gradual shift away from an altruistic pan-Africanist foreign policy predicated on politics and diplomacy as well as hard-line pan-Africanism. It was not however until the end of the sixteen years of military rule between 1984 and 1999, occasioned by ostracization in the international community, that the civilian President Olusegun Obasanjo assembled a professional economic management team to articulate and implement a comprehensive economic reform programme, anchored on international trade and investment. From 2003 to 2009 it was clear that the new economic team, comprised of high-profile economists from Ivy League schools who had international experience with multi-lateral institutions, such as Ngozi Okonjo-Iweala, Shamsuddeen Usman,
and Chukwuma Soludo, had a sound understanding of international trade policy. This was a major shift from the immediate past military era wherein military personnel acted as foreign affairs ministers and civil servants as finance ministers. As foreign economic policy involves not only the management but also the mediation of international trade and economic flows across borders, the trio of Okonjo-Iweala, Usman and Soludo subtly shaped a foreign economic policy that was evident in the harmony between fiscal and monetary policy on one hand, and with multilateral institutions on the other. Nigeria’s foreign economic policy posture was therefore beginning to shift from the classical realism posture focused on regional hegemony in the mid-1980s towards a neoliberal posture in foreign economic relations as it entered the twenty-first century.

**Transitioning from Classical Realism to Neoliberal Trade Policy**

The transition from an African-centred foreign policy hinged on regional power, towards neoliberalism in Nigeria’s foreign relations was driven partly by economic exigencies. By definition, the neoliberal school of thought in international relations is primarily concerned with absolute gains and not relative gains (Mearsheimer 1995), hence de-emphasises the focus on balance of power. Borrowing heavily from rational choice, game theory and axiomatic models in supply-side economics, the new neoliberal actors had realised that, like China (Linbo 2017), it was possible to adopt a neoliberal external trade policy without following a neoliberal domestic economic policy of full deregulation. Essentially, the deft economic team – whose members understood the international financial system – had perfected how to deploy a neoliberal trade policy as foreign economic policy without adopting neoliberalism in domestic economic policy. With the increase of Nigerian foreign debt to almost USD 36 billion by 2004, the post-apartheid foreign policy needed re-tweaking into a bipolar sub-Saharan African strategy, and the political aggrandisement of the 1980s and 1990s was glaringly atavistic. The new imperative was to mobilise external resources for domestic development through newer approaches to trade policy and optimising foreign policy levers to reduce the external debt. Early successes of rapid growth in foreign direct investment and a 60 per cent debt write-off by the Paris Club was sufficient to put the economy back on an even keel. Local economists such as Ayo Teriba, who have followed Nigeria’s economic management practices for decades, induce that the performance of the economic management team is correlated with the professional economic skills and exposure of the team (Teriba 2014). The success of the team may have been due to the professional economics pedigree of the trio, under
the leadership of a visionary President, complemented by a fair balance of skilled macroeconomists on the board of the Central Bank of Nigeria. Indeed, it was difficult to dissociate the high points of economic policy and trade reform in the 2000s from the preponderance of professionally-trained economists who ran for several years both the Central Bank and the Ministry of Finance, in addition to the economic management team. However, while elements of trade liberalisation were pursued, with a simplification of the tariff structure and attempts at trade facilitation, there was still a two-speed policy thrust and a divergence between foreign trade policy and domestic economic policy. The structural rigidities that had been institutionalised during the several decades of military rule had created a weak industrial base on the one hand, and a rent-seeking, subsidy mentality in the oligarchy that was used to enjoying patronage, tariff waivers and concessions from government, on the other hand. In that dilemma, it was complex to fully implement a neoliberal domestic economic policy for three reasons: First, the elite, who had sponsored the civilian government into power, needed some infant-industry trade protection, consisting of tariff and non-tariff barriers, to ring-fence and safeguard their large manufacturing industries for a few years prior to fully liberalising the economy (Akinyoade and Uche 2018). Second, the infrastructure and utilities such as petroleum refineries and electricity stations required to support industry had been dilapidated during military rule, so buffers were still required before full liberalisation. Third, the economic architecture required to implement wide-scale reforms for a liberal domestic economic policy still needed some time to be institutionalised beyond the zeal of the principal actors. Overhauling this policy space was required to achieve any substantial changes in the extant trade policy.

The Trade Policy Regime in Nigeria

Nigeria’s trade policy is coordinated administratively by the Federal Ministry of Industry, Trade and Investment, a merger of the erstwhile Ministry of Commerce and Industry, and the Ministry of Trade and Investment. The new Ministry of Industry, Trade and Investment provides oversight for the government’s Nigeria Office of Trade Negotiations. The development and implementation of trade policy is done in conjunction with the Ministry of Budget and National Planning and the Federal Ministry of Finance that supervises the Nigeria Customs Service. Ultimately, trade policy decisions are discussed and ratified by the National Economic Management Team, and chaired by the Vice-President of the Federal Republic of Nigeria. The
National Economic Management Team (NEMT) has overall responsibility for coordinating economic policy, including trade policy, among responsible ministries. The NEMT also has the Ministers in charge of Finance, Budget and National Planning, Industry, Trade and Investment; the Governor of the Central Bank; and a Special Advisor on Economic Affairs, as members. The Federal Executive Council comprising all cabinet ministers then review on trade policy proposals before final approval by the President of the Federal Republic of Nigeria.

Operationally, the Federal Government of Nigeria also has a Trade Policy Advisory Council (TPAC) that performs advisory roles and provides political direction on trade policy formulation. Chaired by the Vice-President, TPAC comprises representatives from the Federal Ministries in charge of Foreign Affairs, Industry, Trade, Investment, among other ministries and government agencies. Policy proposals on trade policy typically emanate from the Federal Ministry of Industry, Trade and Investment (FMITI). In addition, the Enlarged National Focal Point on trade matters (ENFP), established in 2001, helps co-ordinate and makes recommendations on World Trade Organization (WTO) and other trade related matters. Given the federal nature of Nigeria, the National Council on Industry, Trade and Investment (NCITI) is a statutory body established for the sensitisation, consultation, de-briefing as well as monitoring of trade policy between the Federal Government and the various State Ministries in charge of trade and industry matters. The NCITI membership comprises the Minister of FMITI as Chair; States Commissioners in charge of trade and industry matters; Heads of Parastatals on trade and trade-related matters; and representatives of the organised private sector. Technically, however, there is a Tariff Technical Committee with a secretariat in the Ministry of Finance that reviews initial proposals on tariff revisions and changes before forwarding to cabinet ministers.

Despite Nigeria’s trade policy regime being increasingly oriented towards a liberal policy since the mid-1980s, there remains a very high level of trade protection for certain sectors, (Oyejide, Bankole, Adeleke and Olowookere 2013) discretionary incentives and outdated laws (WTO 2017). Based on extant policy documents including the Economic Recovery and Growth Plan (MBNP 2017), Nigeria’s main trade policy objective is to substantially increase the contribution of trade to its GDP (National Planning Commission, 2009), the country’s share of global trade, as well as to contribute to promoting intra-African trade, so as to accelerate economic growth and national sustainable development (WTO 2017). Nigeria is an original member of the WTO, a founding member of ECOWAS and was
fully instrumental in initial negotiations to establish a continental free trade area (AfCFTA) under the African Union. While Nigeria attempts to abide by many of the trade treaties to which it is a signatory, Nigeria is reported to collect several additional taxes and levies on imports and exports, not in line with its WTO agreement, while granting concessions to various imports such as fertilizer, seeds and machinery for agriculture, and allowing duty-free imports of plants and machinery for the mining sector (WTO 2017). In March 2018, when Nigeria postponed its assent to the Africa Continental Free Trade Area treaty, thereby reinforcing the international perception of a cautious approach to further trade liberalisation (Fasan 2018).

Most of the trade policy incentives currently active in Nigeria are reinforced with investment incentives targeted towards ensuring that industrialists enjoy not only trade protection but also fiscal incentives. Investment incentives are centred on the ‘pioneer status’ scheme that allows tax rebates or companies income tax (CIT) holidays. In addition, several industrial policy incentives exist to promote local content, local raw materials utilisation, and local value added/manufacturing. In addition, the use of import prohibition is a key active instrument in Nigeria’s trade policy with stated objectives of achieving domestic self-sufficiency in certain staples such as rice and selected products such as cement (Alayande 2019). Due to the government’s desire to achieve rapid industrialisation (MBNP 2017), there were possible instances of the Federal Government offering to provide additional incentives beyond the published basic incentives, thereby increasing the discretionary space in trade and industrial policy administration (FMITI 2015). This reduces the transparency in the implementation of trade and industrial policy incentives in Nigeria (Rapu, Sanni and Akpan 2013). All of these factors led to the country’s initiative to develop a new policy called ‘A 21st Century Trade Policy for Nigeria – A Welfare and Prosperity Trade Agenda that Works for All’ (NOTN 2018a, 2018b).

**Strengthening the Trade Policy Architecture**

Understanding the shifts in the new trade policy architecture for decision-making in Nigeria, post-2010, would require an overview of the operational improvements, tactical reforms and strategic changes. Between 2010 and 2016, the Federal Government continued to implement a number of reforms in the area of trade policy. These included several operational reforms at the Nigeria Customs Service to ease customs procedures and documentation by deploying technology and process improvements. According to the
WTO (2017), significant progress has been made in privatisation and price controls have been largely removed for most products, therefore opening most sectors for even competition between local and foreign companies. Tactically, Nigeria maintains some industrial policies to promote local raw materials utilisation and local value added in manufacturing. In addition to the forty-one categories of imports for which access to foreign exchange from CBN is banned, Nigeria also maintains import prohibitions and restrictions on various grounds, including protection of domestic industries. In fact, Nigeria has two lists of import prohibitions; moreover, it also prohibits imports of specified goods (such as rice since 2013 and vehicles since 2016) through land borders in order to combat smuggling. Beyond the merging of the federal ministries of industry and that of trade and investment to co-ordinate the domains of industrial policy, trade policy and investment promotion, the Nigerian Office for Trade Negotiations (NOTN) was also set up in 2017. NOTN is the institutional framework and foundation for Nigeria’s trade policy infrastructure. It is expected to develop and periodically update Nigeria’s trade policy in a rapidly changing global economic landscape, so as to maximise Nigeria’s gains from trade. Part of the mandate for NOTB was also to align the country’s domestic trade policy priorities to changing global realities. In addition, NOTN was empowered to lead, manage and co-ordinate all trade negotiations (NOTN 2018a). Some minor organisational alignment was done by strengthening the erstwhile National Planning Commission or Ministry of National Planning, responsible for international economic co-operation, by adding the Budget Office of the Federation to form the Ministry of Budget and National Planning.

On the tactical level, two major changes of significant impact are of overriding importance. First is the re-composition of the economic management team in 2016 to comprise only government functionaries. This radical departure from the practice of 1999–2015 was ostensibly to avoid giving any private sector members unfair advantage to government’s economic policy making, at least not officially. The second is a noticeable shift to implementing a Strategic Trade Policy (Linbo 2017) formally defined in international economics as government policy that attempts to shift excess profits from large foreign players in international market towards the home country firms.

Earlier on in the Obasanjo military regime of 1999 to 2007, there had been a deliberate effort to support the development of a select few large multinationals owned by Nigerians (Akinyoade and Uche 2018). The indigenisation and state-controlled enterprises policy of the 1970s had
not been as successful due to managerial gaps and also because it was a hasty, horizontal policy devoid of sector-specific considerations. The new industrial policy of the new Obasanjo civilian regime that was now more politically savvy and circumspect was to serve as a platform for the evolution for a strategic trade policy. Cement manufacturing was the first protected industry to benefit from this new trade strategy, though critics highlight concerns that the incentives were neither transparent nor evenly distributed (Oyejide, Bankole, Adeleke Olowookere 2013; Fasan 2015).

Implementing the strategic trade policy vertically-focused on a few industries appeared administratively easier to implement than cross-cutting reforms in a large economy (UNECA 2016, 2017), hence leading to various pronouncements on higher import tariffs on some staple crops and several import prohibitions. Though not clearly articulated in any government document, policy insiders suggested that picking a few industries to build local giant multi-nationals was a key consideration of some policy-makers. Coincidentally, the relatively high double-digit inflation that had increased to about 19 per cent by 2014 and 2015, and a deteriorating real effective exchange rate (REER) made domestic manufacturing more burdensome and domestic goods less export-market competitive. Accordingly, when the Economic Partnership Agreement (EPA) was reaching its final rounds before ratification, local economists – who had now mastered leading tools in trade policy analysis such as the computable general equilibrium (CGE) modelling of trade impact (Adenikinju and Bankole 2014; Oyejide, Kwanishie, Adenikinju, Bankole, Adegbenro, Oghayei, and Ogwuche 2009) – could prove scientifically that the EPA as proposed was not favourable to local industries.

Four years later in 2018, the same concerns and the lack of an analytical framework with statistical evidence to support the beneficial impact of the African Continental Free Trade Area truncated Nigeria’s ratification of the AfCFTA. While connectivity or access to a larger market is oftentimes a compelling rationale for the smaller or mid-sized economies in an economic union, the incremental access provided to the larger countries could be proportionally lower, and therefore less attractive. The pretext of connectivity and market access as the underlying rationale was allegedly hinged on the fallacy of composition – that the whole was greater than the sum of its parts (Saltz, Cantrel and Horton 2002). Indeed, three out of the eleven countries that declined signing the AfCFTA were among the largest countries in Africa by population and domestic market. This was not inconsistent with findings by trade economists such as Osabuohien, Beecroft and Efobi (2018) on the correlation between country size and the
tendency for trade protection on the one hand, and the inverse relationship between a country’s institutional quality and protectionist tendencies on the other hand. Representing the local industrialists, who had witnessed large firms from OECD (Organisation for Economic Co-operation and Development) countries and more recently from China and South Africa enter the Nigerian market and steal market share, the Manufacturers Association of Nigeria had stated its prerequisites to supporting the AfCFTA as follows: government fixing the infrastructural deficits, enforcement of rules of origins, and the market access of 10 per cent (Thisday News 2018). Coming soon just a few quarters after Nigeria exited the recession, with many industrialists struggling to sell their products profitable, amidst an exchange rate that had doubled, it was not unexpected that any hint of further trade liberalisation would be killed at first reading. While analysts such as Deloitte (2018) argued about whether Nigeria had a lucid trade strategy, it was not lost on other discerning analysts that trade liberalisation agreements brought for ratification shortly before presidential elections, for 2015 and 2019, would be tricky to sell given the need to court the good-will of industrialists a few months thereafter.

Conclusion

Subtle shifts in Nigeria’s fiscal position following the return to civilian rule in 1999, and the deteriorating economy had encouraged a gradual drift from the hegemonic Afro-centric foreign policy stance of the military era to one of economic diplomacy and then to a pragmatic approach to trade policy. The tight fiscal position of the Federal Government of Nigeria that had not only adversely affected the funding of its embassies and foreign missions (Aremu 2016) was beginning to translate to a more pragmatic foreign economic policy and trade policy, where trade proposals needed to be supported with analytical rigor away from the politically correct diplomatic niceties that held sway in previous decades. As popularly quoted in Nigerian conversations, ‘charity begins at home’, which reinforces the domestic view that Nigerian citizens and businesses must first be the beneficiary of any trade policy ahead of any concerns for integration into the global economy or ratifying treaties out of political correctness. The pragmatism behind the constant state of evolution of Nigeria’s trade policy, and the apparent paradox that outsiders strain to understand, was manifest by the divergent view of former President Obasanjo who had pursued a tariff-led industrial policy during his regime in the 2000s now insisting that all African leaders must sign the AfCFTA (Akinfenwa 2018).
Like the ship of Theseus in Theseus’s paradox, the piecemeal reconstruction of Nigeria’s foreign economic policy from the 1960s through to 2018 had left many observers of the country’s trade policy struggling as to what the identity of the new trade policy was. While critics still ruminate over the dimensions of Nigeria’s trade policy, what is evident is that the Aristotelian material cause has changed, even though the final intent or final cause remains the same. Indeed, while many planks of classical realism had been replaced from the ship of Nigeria’s trade policy, the policy architecture required to deploy a neoliberal foreign economic policy is still missing. In the interim, the temporary planks of protectionism are being deployed to keep the ship from sinking, and to avert the risk of dumping of foreign goods. The final outcome regarding whether the reconstructed ship would be more like a neoliberal trade policy or a coherent strategic trade policy would be dependent on the character of the NEMT in the 2019-2023 political administration, and the rigor underpinning Nigeria’s on-going twenty-first century trade policy.

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