Boosting a Nation's Trade Potentials through Improved International Economic Relations: the Nigerian Experience

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Abstract

The argument against trade protection has as its major underpinning, the benefits accruable from free trade. Hence, foremost classical economists – Adam Smith, David Ricardo, Harbeler, Ohlin, etc, extol the virtues of free trade. Even at that, what measure of freedom of trade could guarantee such benefits? This paper examined the extent to which healthy and robust international economic relations could enhance/boost a nation’s trade potentials. It focused on the Nigerian experience. The major objective is to ascertain the extent to which the recent trips by the Nigerian leadership has and can boost the nation's trade potentials. It is a descriptive study which is anchored on qualitative analysis. Data is obtained from secondary sources – books, magazines, journals, periodicals, the internet, etc. The paper was divided into parts from the introduction, problem statement, objectives, research questions, literature review, theoretical framework, gap in the literature, methodology, findings, recommendations, and conclusion which revealed that the frequent tours and interactions of the Nigerian leadership has resulted in a boost in foreign direct investments, capital inflows by way of loans/grants and trade volume. The Smith’s “Vent for Surplus” theory as applied by Myint was adopted as the theoretical framework of the study.

Keywords: Trade protection, Free trade, Smith's “vent for surplus” theory, Nigerian leadership.
Background to the Study
Global economic and trade growth trend downwards and many countries are faced with high or growing unemployment and debt levels. The current weak economic recovery and slow pace of job creation in many countries have raised concerns about a possible spiral of protectionist measures by governments. Nonetheless, the same conditions have also heightened interest in the potential role of trade in stimulating lagging labour market performance. Interestingly, over the course of the last half of the last century, the global trade expansion has reshaped the global economy. Such trade openings have enabled the economies to reap the benefits of specialization and focus more productively on what they do best through the sectors in which they demonstrate comparative advantage. Trade has stimulated competition, innovation and economies of scale, allowing the world to ration its finite resources more efficiently. As a consequence, consumers (both individuals and businesses) have enjoyed lower prices and increased choice, while competitive firms have gained reliable access to the necessary inputs and larger markets. Greater market openness goes hand in hand with better economic performance in both developed and developing economies and it has contributed to lifting millions out of poverty.

Trade openness, investment and the movement of people are vital ingredients for peace and individual freedom. In the annals of history, there have been few better moments which confirm the role of trade as central to global growth, job creation and development. In recent times, economic circumstances are full of challenges. Global growth remains fragile after the 2008-2009 crisis with few bright spots in the global economy. The IMF (2015), presents that, “potential output growth has declined in recent years across developed and developing economies owing to structural factors that led to lower productivity growth.” In some quarters, there is a sense that financial crisis presents a case to roll back much of the deep integration which started after the Second World War. Global opinion indicates that views on openness are uneven. A September 2014 Pew Poll revealed that, “while there is strong support for trade in developing countries, the picture is more mixed in developed economies, particularly in perceptions of employment and wage effect.” (Pew Research Center, 2-14). Yet, it is these advanced countries that have historically been the drivers of a more globally integrated world, leading eventually to a multipolar world with changing global political-economic relations. Presently, Nigeria enjoys good relations with the rest of the world. Has such relations resulted to a boost of its trade volume?

Statement of the Problem
Economic activity across the globe remains lackluster, with little prospect for a turnaround. The prolonged period slow global growth poses a challenge to the implementation of the 2030 Agenda for sustainable development, as financial constraints continue to remain formidable. After a tumultuous beginning in 2016, global financial markets have largely stabilized, as equity prices, the prices of primary commodities, and the currencies of emerging economies recover the losses suffered at the start of the year. Nevertheless, the world economy continues to face major headwinds identified in the World Economic Situation and Prospects 2016, which are unlikely to ease in their near term. World gross product is expected to expand by 2.4 percent in 2016, the same rate as
2015. This marks a significant downward revision of 0.5 percent points to forecasts reported in December 2015. Global economic growth prospects for 2017 also remain well below pre-crisis trends and a protracted period of slow productivity growth and feeble investment weigh on longer-term potential of global economy. At the centre of international relations is the foreign policy of any nation. Oshuntokun, (1987), views foreign policy as:

_The strategy of defending a nation’s national interest through diplomacy. When diplomacy fails, the same interest may be defended through war and the force of arms. The question then is what constitutes Nigeria’s national interests. Our relations with other countries must advance our national interests._

In recent times, the federal government of Nigeria has made efforts to earn the confidence and cooperation of the international community particularly on issues concerning trade. President Buhari himself has led several delegations to some countries to among other things, boost Nigeria’s trade potentials and relations with the global community. The big question then is, have these moves contributed to the nation’s economic growth and development via improved trade volume? This paper wishes to address this issue.

**Objectives of the Study**

The purpose of this study in its broad perspective, is to evaluate the effect of our relations with the rest of the world on Nigeria’s trade. Specifically, the investigation goes deeper to;

A) Ascertain the effect of the recent top level diplomatic overtures on the nation’s image and confidence-building in terms of trade.

B) Assess the extent to which the investment confidence and image by the global economy has impacted on the volume of trade enjoyed by Nigeria.

**Research Questions**

Two questions will be addressed in this study. They include;

a) Does the recent diplomatic initiatives by the current administration have any effect on the nation’s image and investment confidence?

b) To what extent has the investment confidence impacted on the nation’s economic fortunes?

**Literature Review**

**General Overview: Globalization and International Trade**

Globalization refers to a process of borrowing and deepening of inter-relationships in international trade, foreign investment and portfolio flows. The outcome is the creation of a global market place for goods and services that is largely indifferent to national boarders and governmental influence. Since 1960, globalization has altered the production, export and employment structure of the world economy. However, many challenges still exist. Rapid technological change (particularly the revolution in computing and communications technology), coupled with falls in barriers to international trade (through the implementation of the Uruguay Round Agreements and economic liberalization in
developing countries), have driven it. In addition, the World Trade Organization (WTO) agreements and regional treaties, forced domestic markets to open up (telecommunications, transport). Among the most important channels of global integration are international trade and capital flows. The movement of goods and services across the boarders has grown tremendously in recent years accounting for over 45 per cent of world GDP in 1990 up from 25 percent in 1970. “There was a rapid shift to higher value-added activities; the export share of manufactures in developing countries tripled between 1970 and 1990 from 20 to 60 per cent.” (World Bank, 1995). World trade expanded nearly thirty-fold in three decades since 1960. Manufactured goods as a percentage of total world exports increased from 35 percent in 1980 to 75 percent in 1990. The share of newly industrialized countries (NICs) manufactured exports that can be classified as a “high tech” soared from 2 percent in 1964 to 25 percent in 1985. Exports accounted for 22 percent of GDP in East and South Asia, 2 percent for South Asia and 10 percent for Latin America (The Economist, 1995). In recent times, the most modern and dynamic industries are transnational in scope since they are the result of an integrated system of global trade and production. Therefore, the development options for many developing countries depend to a great extent, on the kind of export roles they assume in the global economy and their ability to proceed to more sophisticated, high valued industrial niches.

Conceptual Literature
The conceptual framework behind the globalization indicators are diverse. Until late 1990s, globalization was considered as a synonym of global economic integration. Brahmbhatt (1998), proposed a definition of globalization such as, “the increasing freedom and ability of individuals and firms to undertake voluntary economic transactions with residents of other countries, a process entailing a growing contestability of national markets by foreign suppliers.” Randolph, (2001), gives the World Market Research, developers of the G-index, as, “the ever closer knitting together of one-world economy.” More recently, the OECD in its handbook, affirmed that, “globalization refers above all to a dynamic and multidimensional process of economic integration whereby national resources become more and more internationally mobile while national economies become increasingly interdependent.”, (OECD, 2005).

International Political Economy (IPE)
This is the rapidly developing social science field of study that attempts to understand international and global problems using an eclectic interdisciplinary array of analytical tools and theoretical perspectives. It is difficult to imagine a world without international political economy because, the mutual interaction of international politics (or international relations and international economics is today widely appreciated and subject of much theoretical research and applied policy analysis.

International Trade
Politics and Economics approach international trade from completely different points of view using completely different analytical frameworks. The problem is that states think in terms of geography and population, which are relatively stable factors that define its domain while markets are defined by exchange and the extent of the forward and
backward linkages that derive therefore. Trade embargoes are economic tools of foreign policy and great deal of IPE research has focused upon the political economy of trade policies.

**Foreign Policy**
Ofoegbu, (1980), views policy as, “a course of action adopted by a government, a group of persons.” It connotes wisdom and prudent conduct. Its Greek roots relate to the polis that is to citizenship and statecraft. Foreign policy is the category which deals with defence, security, international political relations, and international economic relations. It deals therefore, with the relations between one actor in the international system and other actors in the system. “These actors may be states, international organizations, some types of individuals, or the environment of the system irrespective of whether the elements involved are social, cultural or Structural” (Rosenau, 1969 in Ofuegbe, 1980).

Often times, states need the active cooperation, even assistance of other states in the system to achieve their national objectives. As a result, a state naturally has to be in communication with the external environment. “It is the totality of this communication that is commonly referred to as foreign policy” (Ojo in Sesay, 2002).

Northedge (1969) sees foreign policy as, “the use of political influence to induce other states to exercise their law-making power in a manner desired by the states concerned: it is an interaction between forces originating outside the country's borders and those working within them”. Adeniyi 1968, believes, “it is a projection of the country's borders and those working with them”.

**International Relations**
Due to its changing nature, it has not been easy to come up with a universally accepted definition of international relations. As a field of study (IR) deals with decisions that are made within a country that have implications for relationships beyond the frontiers of that country.

**Theoretical Framework**
**The "Vent-for-Surplus" Theory (Hla Myint, 1958)**
Thirty years ago, the Burmese economist, HlaMyint (1958), introduced the concept of “vent-for-surplus” to explain the rapid expansion of exports in certain sparsely populated developing countries during the latter half of the 19th and early 20th centuries. The essential feature of the model was that these countries possessed “surplus productive capacity” left unexploited because of the poor state of internal economic organization and an inelastic domestic demand. The function of trade, in contrast to comparative advantage theory, was not much to reallocate but to provide new effective demand for the output of the surplus resources.

The closing of the land frontiers in the 20th century resulted in the general lack of interest in “vent-for-surplus” models of agricultural development, except with perhaps historians. It is now generally assumed that additional agricultural production will have to come from
increasing the intensity of land use (Hayani and Ruttan). Nevertheless, the empirical study of “vent-for-surplus” can serve to enhance for good understanding of some important elements of economic development, such as the process by which the “surplus capacity” came to be realized as exports. Furthermore, “vent-for-surplus” may not be that much a historical artifact. Never the less, it is believed in this study, that the model provides the basis to appreciate the essence of exploiting its thrust for purposes of the export trade in favour of Nigeria through a robust foreign policy initiative of the current administration.

Theories of International Relations
Political scientists have employed certain theories, approaches, and models in the course of research on international relations in recent times. This paper deems it necessary to run through some of them.

Realism
According to classical realists, “structural anarchy”, or the absence of central authority to settle disputes, is the essential feature of the contemporary system, and it gives rise to security dilemma: in the help-self system, a nation’s search for security often leaves its current and potential adversaries insecure, any that strives for absolute security leaves all others in the system absolutely insecure and provides a powerful incentive for arms races and other types hostile interactions. Consequently, the question of relative capabilities is a crucial factor.

Efforts to deal with this central element of the international system constitute the driving force behind the relations of units within the system; those which fail to cope will not survive. Thus, unlike “idealists” and some “liberal internationalists, classical realists” view conflict as a natural state of affairs rather than as consequence that can be attributed to historical circumstances, evil leaders, flawed socio-political systems, or inadequate international understanding and education.

Kenneth Waltz’s Theory of International Politics
In order to avoid reactions and gain parsimony, waltz erects his theory on core proposition which define the structure of the international system. The first concentrates on the principles by which the system is ordered. The cotemporary system is anarchic and decentralized rather than hierarchical; although they differ in many respects, each unit (states) is formally equal. A second defining proposition is the character of the units. An anarchist system is composed by sovereign units and therefore, the functions they perform are also similar; for example all have the task of providing for their own security. In contrast a hierarchical system would be characterised by some type of division of labour. Finally, there is the distribution of capabilities among units in the system. Although capabilities are a unit-level-attribute, the distribution of capabilities is system-level concept. A change in any of these elements constitutes a change in systems structure.

Empirical Review
Apparently, there seems to be a positive relationship between financial globalization and the level of economic development. Industrialized countries in general are more financially integrated with the global economy than developing countries. This is to say
that embracing globalization apparently is a sign of economic advancement. Statistics available on the development world also reveal that more financially integrated (MFI) economies grew faster than less financially integrated (LFI) economies over the last three decades. For instance, between 1970 and 1999, average output per capita rose almost three fold in the group of MFI developing countries, about six times faster than the corresponding increase for LFI economies. This pattern for the former group applies over each of the three decades and also to consumption and investment growth. It is interesting to contrast the empirical literature and the effect of financial integration with that of the effect of trade integration. Although there are some skeptics like Rodriguez and Rod Rile (2001), “an over whelming majority of empirical papers reach the conclusion that trade openness helps to promote economic growth.” This study employs a variety of technique, including country case study as well as cross-country regressions. In a recent paper that surveys all prominent empirical research on the subject, Berg and Krueger (2002) conclude that, “varied evidence supports the view that openness contributes greatly to growth”. Further still, cross-country regression of the level of income on various determinants generally show that openness is the most important policy variable”.

The various effects between trade and financial integration are etched in other empirical research. As an alternative to examining the effect on economic growth or level of income, the effect of trade and financial openness on a society’s health status maybe examined. Thus, employing data on 79 countries, Wei and Wo, (2002) report “several evidence suggesting that a faster increase in trade openness especially when measured by the reduction in tariff rate is associated with faster increase in life expectancy and a faster reduction in infant mortality even after one takes into account the effect of income, institutions and other factors.” In contrast, higher financial integration is not associated with a faster improvement in a society’s health status. This suggests that, in the health dimension, as in the growth literature, it is harder to find a beneficial role for financial integration compared to trade integration for developing countries.

In theoretical models, the direct effects on global integration on output volatility are ambiguous. Financial integration provides access to capital that can help capital-poor developing countries to diversify their production base. On the other hand, rising financial integration would also lead to increasing specialization of production based on comparative advantage considerations thereby making economies more vulnerable to shocks that are specific to industries (Razin and Rose, 1994).

Unlike the rich empirical literature which focuses on the impact of financial openness on economic growth, there are only a limited number of studies analyzing the links between openness and macroeconomic volatility. Moreover, existing studies have generally been unable to document a clear empirical link between openness and macro volatility. Razin and Rose (1994), studied the impact of trade and financial openness on the volatility of output, consumption, and investment for a sample of 138 counties over the period 1950-1958. They find no significant empirical link between openness and volatility of these variables. Easterly, Islam and Stigliz (2001), explored the sources of output volatility. On the other hand, an increase in the degree of trade openness leads to an increase in the
volatility of output especially in developing countries. Their results indicate that neither financial openness nor the volatility of capital flows has a significant impact on output volatility.

Buch, Dokpe, and Pierdzorch (2002), used data for 25 OECD countries to examine the link between financial openness and output volatility. They reported that there is no consistent empirical relationship between financial openness and the volatility of output. Gavin and Hausaman (1996) studied the sources of output volatility in developing countries over the period 1970-92. They found that there is a significant positive association between the volatility. O'Donnell (2001), examined growth over the period 1970-94 using data for 93 countries. He found that a higher degree of financial integration is associated with lower (higher) output volatility in OECD (non-OECD) countries. His results revealed that countries with more developed financial sectors are able to reduce output volatility through financial integration.

Bekaert, Havey, and Lundblad (2002), examined the impact of equity market liberalization, the volatility of output and consumption during 1980-2000. They found that, following equity market liberalization, there is a significant decline in both output and consumption volatility. Capital account openness reduces the volatility of output and consumption, but its impact is smaller than that of equity market liberalization. However, they also report that capital account openness reduces the volatility of output and consumption in margin market countries. The September 2002 OTC provides some evidence indicating that financial openness is associated with lower output volatility in developing countries.

**Methodology**

As earlier indicated, this study adopts the method of content analysis. Thus, data obtained from secondary resources---- journals, periodicals, newspapers, the internet, are analyzed in line with the stated methodology in the following sequence: Research question (1): Did the recent diplomatic initiatives of the current (Buhari) administration have any impact on Nigeria's image and investment confidence?

Since independence in 1960, Nigeria as a nation, has been enmeshed in long years of military rule leading to an apparent nose- dive of its international image. This phenomenon attained its lowest ebb in which Nigeria was classified as pariah state at the brink of democratic governance in 1999. The situation worsened under Abacha with the gruesome mother of Ken Saro Wiwa, an environmental right activist from Ogoni in Rivers state. Sklar (2000; CNN, 1995), carried news report of Nigeria's expulsion from the Commonwealth of Nations. Also, the military junta came under heavy economic and military sanctions including bans on top military personnel's and their family members. According to Folarin (2013),

> The poor image rating of Nigeria under Abacha regime saw the severance of the hitherto friendly relations by most of the developed countries with some withdrawing their ambassadors and commissionners and others such as Canada effectively shutting their diplomatic missions in Lagos and Abuja.
The traditional trading partners froze up support and credit facilities, even aid and humanitarian assistance were limited much to the determent of the ordinary Nigerian citizen. Aginal (2010), sums up the situation in the following quotation

"Unarguably, General Abacha's accent to power marked Nigeria's decent to a level of repression unparalleled by any past military ruler. Such Bestiality was most evident in his intensely predatory relationship with voices critical of his administration's wanton right violation and self-subsection agenda."

After Abacha came the subsequent administrations of Olushegun Obasanjo, Umaru Yar'adua, Goodluck Jonathan and Muhammadu Buhari. Obsanjo made a number of shuttle trips to improve Nigeria's image abroad. For them foreign travels constitute a tool for not only rebuilding Nigeria's image abroad but also and most importantly, fine-tuning the international economic environment for the attraction of foreign investment/capital. He meant well and did his best. However, it is on record that Buhari's administration has in recent times enhanced the nation's image in the international community. Writing in the PREMIUM NEWSPAPER (28-05-206), Abdullahi, a legal practitioner observed that, "under president Buhari's watch, Nigerian foreign policy has reclaimed its traditional vibrancy, dynamism and purposefulness. Not only have we regained our pride of place and leadership on the continent and beyond, we have also successfully tied policy exertions to the achievement of domestic priority programmes". His visit to China, US, and attendance to G8 summit in Berlin has earned Nigeria the confidence of foreign investors through the signing of bilateral agreements. This is a clear positive effect on Nigeria and its economy; also is the support for the fight against Boko Haram by the international community particularly the US.

Research question (2): to what extent has the new investor confidence (diplomatic initiative) impacted on the country's economic fortunes? Buhari's diplomatic initiatives have led to a significant impact on the economy in recent times. Having succeeded in garnering foreign investors' confidence through the signing of bilateral arguments with the US, China and G8, Elharum Muhammed reports that, "his visits opened a new chapter in Nigeria- G8 relations, by extension with individual member countries and the EU generally, including Japan. The $5million assistance to fight Boko Haram is a welcome development, an immediate dividend of presidents' visit to the G8 Summit."

In a related development, Nigeria's Minister of Foreign Affairs, Mr. Geffery Onyema, (2016), in an NTA PRINTMAIL, explained that Nigeria's foreign policy is strengthened under Buhari's Administration to ensure that the nation maximizes its relationship with other nations. He made the assertion on the NTA programme, Good Morning Nigeria while explaining the gains recorded by the President's visits to other countries to include recovery of Nigeria's looted funds and intensified fight against Boko Haram. There is no doubt that the benefits of the visits will continue to manifest with time. It also needs to underscore the point that victory over insurgency will facilitate the country's Economic Recovery and Growth Plan (ERGP) of the present administration. A former Senate Deputy Minority Leader, Senator Olorunmimbe Mamora, sums up the benefits of Buhari's visit to the US in the following words, “it is a measure of goodwill Obama and the
United States government has for President Buhari and his administration. The goodwill goes beyond America; it also extends to the international community, especially, the western world.” He went ahead to observe that,

*The United States did not have confidence in Jonathan’s administration, so the military assistance to combat the insurgency was not there. But now that Washington is ready to work with Buhari’s administration, he is confident of themilitary assistance from US.*

Empirical evidence abound to support the positive effect of robust international relations on the economy of nations. For instance, Sanubi and Oke, (2017), examined the impact of diplomatic shuttles in foreign policy using the Obasanjo’s tenure as a case study. The results of the investigation showed that, Nigeria’s international image hitherto, battered by erstwhile military regimes which preceded the Obasanjo administration had been restored by the civilian administration. This feat according to the study, has rekindled international business engagement by attracting inflows of Foreign Direct Investment (FDI), securing international debt reliefs, while restoring its recognition in the comity of nations.

**Findings**
The study recorded some interesting findings which include;

1. A robust international relations often leads to financial openness that translates to lower volatility of output, consumption and investment.
2. Prior to the inception of the Buhari Administration, Nigeria’s image abroad was very poor and foreign investors had little or no confidence to do business in Nigeria.
3. The Buhari Administration has been doing a thorough clean-up of the image. This success so far, has resulted from its diplomatic initiatives and frequent visits outside the country.
4. It must be understood that the confidence enjoyed by the Buhari Administration follows the administration's strong anti-corruption stance which is to the admiration of the advanced western countries.
5. The diplomatic initiatives of the current Administration has rekindled the investment confidence which translates to a number of economic benefits such as credit facilities from China and the resumption of support of the US and other countries in the anti-terrorist war.
6. The gamut of economic benefits are gradually reflecting on the living standards of the entire citizenry of the country.

**Conclusion**
Since independence in 1960, Nigeria has been experiencing frequent change of guard through military coups which made the country politically unstable. As a consequence, the confidence of the international community was eroded and the business environment became unfriendly. This led to capital flight as many foreign business interests shut down and either returned home or settled in neighbouring countries with relatively more stable polity and environmental business friendliness. The consequence was an unstable
economy that kept dwindling, down to present experience of economic recession. Diplomatic relationships could not help the situation as a result of the apparent loss of confidence on the part of foreign investors.

On inception, the Buhari administration inherited this challenge of turning the situation around. Hence, it wasted no time in embarking on the task of addressing the fundamental challenge of economic survival through diplomatic measures and shuttles abroad. Taking advantage of the support for the anti-graft war it unleashed on the nation's economic saboteurs, relations with the international community started improving with its attendant economic benefits. This experience is a good example of an economy whose fortunes are coming alive again through a robust foreign policy.

**Recommendations**
The study makes the following recommendations;

1. Nigeria must do all it can to sustain and continue to improve on its relations with the rest of the world.
2. The war against corruption is the source of the confidence reposed on the country by the international community. No effort should be spared in sustaining the campaign.
3. Back home, the information ministry should mount serious enlightenment campaigns to improve on the awareness of Nigerians on the need for, and benefits of the anti-corruption crusade.
4. The international community is watching the country to monitor its seriousness and sincerity in prosecuting the war against corruption, efforts must be made to ensure that it is not sectional in its execution. The EFCC should earn the support of the citizenry by exhibiting transparency.
5. More high level diplomatic shuttles should be undertaken to improve our ties with other countries.
6. On no account should the military come back to power as the worst relations with the outside world were recorded during military rules.
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