Critical Junctures and Merchandize Exports of Nigeria

Abstract

This study examined critical junctures and merchandize exports of Nigeria. Nigeria has had critical moments that warranted policy changes to mitigate economic challenges of the country. The global economic disaster occasioned by the oil and debt crises, multiple economic depression and stagnation during the late 1970's led to the introduction of SAP in Nigeria. The global financial crisis of 2008 had a great effect on the economy of Nigeria. The Nigerian economy slipped into recession in November 2020, as the GDP contracted for the second consecutive quarter. The Covid-19 lockdown also tremendously affected the Nigerian economy. These conditions created crises in the Nigerian economy and necessitated policy adjustments. In the international trade sector, a key policy thrust is the enhancement of its trade balance to raise productivity of commodities with export potential designed to boost export performance to mitigate economic challenges. This study examined various export promotion strategies and used descriptive statistics to analyze the growth of merchandize exports before and after SAP. The study reveals that merchandize export earnings did not perform differently for both periods until the dawn of democratic era in 1999. The findings show that SAP and other export promotion strategies could not achieve the intended purpose to increase merchandize exports to international markets. The study recommends the need to create an enabling environment through an effective monetary, fiscal and exchange rate policies and infrastructural development for investment and expansion to boost merchandize exports in international markets.

Keyword: critical junctures, merchandize exports, policy adjustment, export promotion

Jel Classification: E65, F41

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1.0 Introduction

The concept of development is multi-dimensional but essentially aimed at raising the overall productivity of an economy to continually improve general welfare of society. Therefore, in order to achieve the objectives of development, countries have employed several strategies in normal and periods of crisis, turning points or external shock, which in most cases alter and disrupt existing socio-economic and political balance in the society. In specific terms, development strategies in turning points of history or critical junctures are often instigated by crisis and in most cases orchestrate public outcry with the perception that outcomes may negatively affect individuals, firms and the entire economy. According to Mahoney (2001), the duration of a critical juncture varies and constitutes either a brief period in which one direction or another is taken or for an extended period. Giovanni (2015) broadly defined critical junctures to include organizations, formal rules, public policies, as well as institutional arrangements Collier and Collier (1991), posit that policies usually do not change, unless there is a' critical juncture'. Hargard (1988) argued that economic depression brought into question existing institutions, and resulted in dramatic change. Anyim, Enekwachi, Oko, Samuel and Ayim-Ben (2019) contend that political, social and economic growth or backwardness of any society depends on the institutions and policies and determines economic prosperity or poverty resulting from the distribution of wealth by those who exercise power in a country. Thus, the uncertainty of outcomes of policies implemented during critical junctures has continued to elicit debates among scholars and policy makers.

In Nigeria, there has been historical accounts of critical junctures or external shocks contributing to shaping economic development process that necessitates policy adjustments. Globally, the 1970s crises of world capitalism is a prominent point of reference for the hypothesis that external economic shocks can induce policy change. The Structural Adjustment Programme (SAP) emerged from the International Monetary Fund (IMF) and World Bank due to global economic disaster occasioned by the oil and debt crises, multiple economic depression and stagnation during the late 1970's. Nigeria's dependency on oil and its attendant consequences with regard to negative effects of crash in oil prices has been responsible for economic challenges in the country. The Nigerian economy also witnessed the global financial crisis in 2008 and had a tremendous effect on the global economy and that of Nigeria. The economy also slipped into recession in 2016, its first in 25 years with the contraction of GDP. However, growth in GDP returned but remained below population expansion with a poorer per capita income in the period 2017 to 2019 (Lenon, 2021). The effect of covid-19 pandemic that necessitated global and national lockdown also had consequences on economic activities.

A major turning point in Nigeria's economic history was in the 1970's, when the country evolved from a poor agricultural economy into a relatively rich, oil dominated one but mismanaged oil proceeds which culminated to excessive imports and resulted to adverse trade balance and loss of foreign reserves that created various problems that necessitated policy change. According to NCEMA (2014), the economic policy during the 1970's left the country ill

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prepared for the eventual collapse of oil prices in the first half of the 1980's with an inward looking industrial policy with emphasis on protection and government controls that bred an uncompetitive manufacturing sector. Osuntogun, Edordu, and Oramah (1997) contend that Nigeria faced economic challenges as a result of ineffective inward-looking import-substitution industrialization policy with substantial protection on import-competing manufacturing activities due to the crisis of the 1970's policy thrust. This was substituted with an outward looking external policy stance with strong emphasis on diversifying Nigeria's export base away from oil and increasing non-oil foreign exchange earnings to mitigate deficits in trade balance.

Ozili and Arun (2020), observed that the 2016 recession in Nigeria was caused by the fall in the price of crude oil and balance of payments deficits among other factors. It is imperative to state that measures to tackle BOP problems is critical to mitigate economic challenges and for the growth of the economy Therefore, a key policy thrust of development policy of developing economies is to improve its balance of payments with export potentials to boost export performance and compete more effectively with imports. Emery (2007) asserts that emphasis on exports help concentrate investment in the more efficient sectors of the economy and further stimulates additional investment and encourages on increased flow of new technology, managerial skills and increased consumption. WTO (1998) notes that a wide range of export incentive schemes failed to offset the anti-export bias and the cumbersome export procedures that failed to facilitate exports led to the introduction of privatization programme. This study attempts to examine policies adopted to improve merchandize exports of the Nigerian economy.

2.0. Literature review

Achemoglu and Robinson (2013) opined that critical junctures are a double-edged sword that can cause a sharp turn in the economic trajectory of a nation and helps in understanding differences in poverty and prosperity in different countries. Hogan and Doyle (2007) characterize critical junctures as encompassing an initial economic dislocation and subsequent idealization of change. New policy ideas to tackle the economic problem are promoted by individual and collective actors such as international agencies, academics, bureaucrats, and elected politicians; once a sufficient consensus has consolidated around these new ideas, radical policy change happens.

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Sofer (2012)contend that what makes a juncture *critical* is that the outcomes generated in one historical moment persist over time.

Blyth (2002) examined the critical junctures of the Great Depression and the economic downturn of the 1970s in Western democracies with the aim of explaining why new political economy institutions emerge after economic crisis. Torado and Smith (2015) contend that East Asia achieved its relatively low inequality largely from exogenous forces: The U.S occupation of Japan, the Nationalist takeover of Taiwan, and the expulsion of the Japanese in South Korea. Thomas (2010) assert that South Korea launched her way into the group of developed countries with completely regulated foreign investment, welcoming it in some areas but banning it in others. The study further opined that China's low inequality resulted from a social revolution and resistance to the Japanese invasion, which resulted in the Communist takeover of 1949 and transformed itself into a major industrial power without reliance on foreign assistance. Japan's ascendancy to the ranks of highly industrialized countries early in the 1960's from the ashes of World War 11 was often taken for granted due to United States led economic and political reform in that country as it witnessed inflow of American aid hence spent little or nothing on such cash sapping sectors like defence.

Sopiee (1997) affirms that Malaysia apart from getting economic policy right, the legislature arm took steps to address the wave of ethnicity and tribalism that had plagued the country by promulgating the Sedition Act which spelt out *five no-go-areas.* The experience of import substitution industrialization (ISI) in some Latin American and African countries illustrates the components of the critical juncture framework.Anyim, Enekwachi, Oko, Samuel and Ayim-Ben (2019) in their study using philosophical analysis explored the critical periods and moments of Nigeria's socio-political development. These periods include the independence, the first military coup, the civil war, annulment of the 1993 general election.

Killick (1984) in Danju (1990) assert that the need for structural adjustment arises where there is persistent imbalance between aggregate demand and aggregate supply that reflects in persistent balance of trade deficits, inflationary pressures and declining growth dynamics that culminates into economic shocks. Imam (2007), assert that IMF structural programme have been widely criticized for failing to restore economic growth and confidence. Thus, the introduction of the structural adjustment programme was a turning point in Nigeria's economic history that attracted

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controversy. Sulaiman, Migro and Aluko (2014) posits that these reforms and programmes were adopted to launch countries from their autarkic economies to open ones, in order to ensure sustainability in economic progress, ease of economic and trade integration, and foreign competiveness in the global market. The programme sought among others, to restructure and diversify developing economies productive base in order to reduce their dependence on imports and mono-economy, achievement of fiscal viability and balance of payments in the medium term. According to Poyi (2006) in Sulaiman, Migiro and Aluko (2014), its core objectives were to stimulate local productivity, expand the economic base, realize viability in balance of payments, cause reduction in government expenditure, improve economic competence and boost the growth potential in the economy. According to Obansa (2005), SAP was designed to pay more attention to exports, especially in the agricultural sector which witnessed the worst neglect before its introduction. Umofia (2018) maintains that the objectives of SAP were to introduce locally manufactured products to international markets through increased output and was envisaged to help increase government earnings and provide employment both in industry and agricultural sectors. Ikpeze, **(**2008) assert that before the introduction of the SAP, government policy encouraged public ownership of heavy industries through protection and subsidies. Ekpenyong (2002), posit that the protectionist policies were serious hindrance to the existence of SMEs and however, the liberalization policy enabled removal of all forms of protection for SMEs in terms of sourcing for raw materials and foreign exchange.

A central issue in development policy debate for decades has been the relative merits of import-substitution and export promotion industrialization. In Nigeria, import substitution industrialization was adopted in the First National Development Plan (1962-68) and consolidated in the second plan (1970-74) period but eventually collapsed due to the import-dependent structure of the economy. Stabilization measures were introduced with restrictive monetary policy and stringent exchange control measures in 1984 with negative economic impact on the industrial sector that necessitated the introduction of SAP with a view to introduce locally manufactured products to international markets to strengthen export-based industrialization (Umofia, 2018).

Another event that affected the Nigerian economy was the global financial crisis which began in the United States financial sector in 2008. It spread to the world market in a considerably short

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period and caused a deep recession (French, Baily, Campbell and Cochrane, 2010). The financial crisis wiped out more than 50 million jobs after years of often weak, poor-job growth and increasing inequality in the world (Puschra & Buike, 2012).According to Burgler, Coelho, Karpowiz and Tyson (2005), the crisis had a tremendous effect on individuals, businesses and governments.

OECD (2005) posit that trade policy is key component of structural adjustment in both developed and developing countries to mitigate economic challenges. Chete et al (nd) classified Nigeria's trade policies into pre- and post- SAP. The pre-SAP economy was dependent on oil exports for foreign exchange, deficits in balance of payments and import controls characterized by import licensing, customs tariff and outright bans as instruments of trade policy while the post SAP trade policies witnessed trade liberalization with emphasis on loosing controls, allowing market forces of demand and supply to prevail in the allocation of foreign exchange and the direction of investment in the productive sectors among others. Therefore, merchandize export promotion is a key component of trade liberalization. Soderbom (2001) posit that there is heterogeneity of African firms to transform inputs into outputs even within the same industries that propels firms to be able to export and compete in world markets. Balchin, *et al* (2001) posit that globalization of the world economy has resulted to the growth in international trade with an increase in trade in manufactured products especially from the developed countries with the developing countries contributing far less in trade. Lyakurwa (1991) in Osuntogun, Edordu, and Oramah (1997) contend that export diversification is important due to the fact that it will reduce the variability of the export earnings of developing countries and raising the growth rates of both exports and domestic output.

Lawanson, Lawanson and Bankole (2004) examined the impact of manufactured exports and its components on economic growth in Nigeria taking into consideration the country's institutional framework. The study used error correction model and found that few of the components of manufactured exports were found to exert positive influence on growth. Kalaitzi and chamberlain (2020) examined the validity of the export-led hypothesis in the United Arab Emirate over the period 1975-2012. The study used a neoclassical production function augmented with merchandize exports and imports of goods and services and confirmed long run relationship between exports and economic growth.

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2.1. Policy measures to promote non-oil exports

The decline in economic activities in the Nigerian economy during critical periods such as oil gluts in the international market and the consequent drop in crude oil prices, global financial crisis, global and national lockdown had occasioned various policy measures to diversify the economic base from a sole oil dependent economy to promote non-oil exports in Nigeria. With the introduction of SAP, Nigeria reformed its foreign exchange system, trade policies, business and agricultural regulations. However, growth in agriculture and manufacturing could not offset the drop in purchasing power which resulted from the collapse of oil revenues in the economy (The World Bank, 1994). Other measures to enhance export sector include export (Incentives and Miscellaneous Provisions) Act, Export Development Fund, and Export Adjustment Scheme Fund. Others are Manufacture-In-Bond Scheme, Pioneer Status-Export Incentive and Export Processing Zones-Incentives (Proshare intelligent investing, 2021). Adetola (2017) opined that the involvement of the Federal Government to boost export trade include reduction of document required and the timelines for imports and export; exemption of export products, promoting trade and investment with emphasis on export of non-oil and gas products. The Nigeria export Import Bank also provides for export credit, insurance facilities, credit to exporters in local currency, foreign exchange evolving fund, domestic credit insurance, and the maintenance of trade information system.

3.0 Methodology

This study employed descriptive analysis and data of merchandize exports to international markets was sourced from existing sources, including World Development Index 2021, CBN bulletin and online materials. The analysis takes into consideration period before and after SAP in Nigeria using a 5-year average during periods the economy experienced critical junctures. The analysis constitutes tables and graphs to summarize their main characteristics.

4.0 Discussion

Table 1 below shows 5-years average of merchandize exports of Nigeria (1961-2020) spanning a period of 59 years. Trade policies in Nigeria can be classified into pre-SAP and post-SAP policy regimes. The period 1961-85 is the pre-SAP period characterized by a regime of trade protectionism while the period 1986-2020 is the post-SAP period characterized by economic

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liberalization of the Nigerian economy. The table reveals that merchandize exports had a sum total of $34.4B in the pre-SAP period and $2.8T in the post-SAP period. Thus, post-SAP era witnessed massive increase in merchandise exports to the tune of about 98.8 per cent creating a wide gap with the pre-SAP era reported to be 1.18%.

The pre-SAP era as considered in the study is a total of 25 years, considering the same number of years for the post-SAP era reduces the value of merchandise exports to $1.35T (97.54 per cent) as shown in Fig. 2. It can be surmised therefore that there is significant change in the earnings of the two eras. There was increase in merchandize exports in the period 1961-1970. Agriculture was the mainstay of the economy at this period and could have accounted for the increase. Decline in merchandize exports began from the period 1981 - 1975 with a record low of $4.90B. The figure rose again to $15.13B between 1976 and 1980, and dropped sharply to $12.96B between 1981 and 1985. This was the period the economy witnessed increase in oil revenue until the oil glut that accounted for the economic woes of the country and therefore, a period of critical juncture that necessitated a policy shift and led to the adoption of structural adjustment programme. This is in agreement with the study of Hogan and Doyle (2015) which opines that critical juncture is often dictated by crisis. The Nigerian economy was in the downturn and efforts were made to boost economic activities. The Structural Adjustment Programme did not immediately improve o economic outcomes, see for instance, there was further decline in merchandise exports to $8.6B between 1986 – 1990, however, the trend showed a steady increase from 1996 to 2015, and dropped sharply between 2016 – 2020. The initial increase especially in the 2000's decade can be attributed to the democratic dispensation that characterized the period; the period came with more liberalized trade policies and openness. However, the latter decrease witnessed between 2016 – 2020 can be attributed to economic recession in the country. The finding agrees with Osuntogun, Edordu, and Oramah (1997) who contend that SAP succeeded to improve export performance in Nigeria.

Table 1

Five years average of merchandise exports of Nigeria (Current US$), 1961 – 2020

Years	5 years average (US$'Billion)	Pre/post SAP averages (US$'Trillion)
1961 – 65	5.60	

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1966 – 70	8.39	
1971 – 75	4.90	
1976 – 80	15.13	
1981 – 85	12.96	34.39
1986 – 90	8.60	
1991 – 95	11.16	
1996 – 00	15.21	
2001 – 05	29.83	
2006 – 10	70.47	1.35
2011 – 15	94.91	
2016 – 20	52.48	2.83

Source: World Development Index, 2020

Fig. 1 below is a graphical illustration of the 5-years trend average of merchandize exports of Nigeria (1961-2020). The vertical line measures merchandize exports while the horizontal line or axis represents the years under investigation. The red line (dotted points) represents 5-years average for both pre and post SAP eras. Observe that the red line is at its lowest within the period 1971 -75, rose sharply between 1987 – 1980, and started falling from 1981-1985. This showed that the economic merchandize exports were at its lowest and the economy was in crisis that necessitated policy change. The performance of the trend showed that post-SAP economic policies impacted positively on merchandise export as evident in the trend compared compared to the preceding years.

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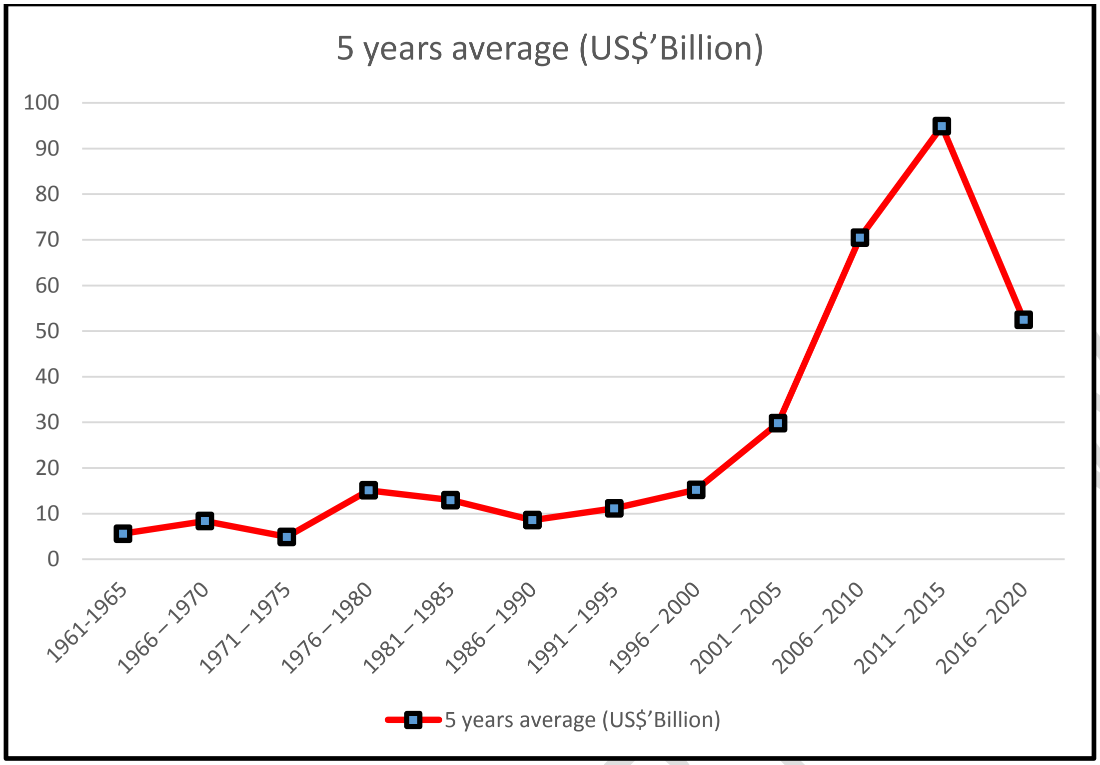

Fig. 1: Merchandise Export, 1961 - 2020

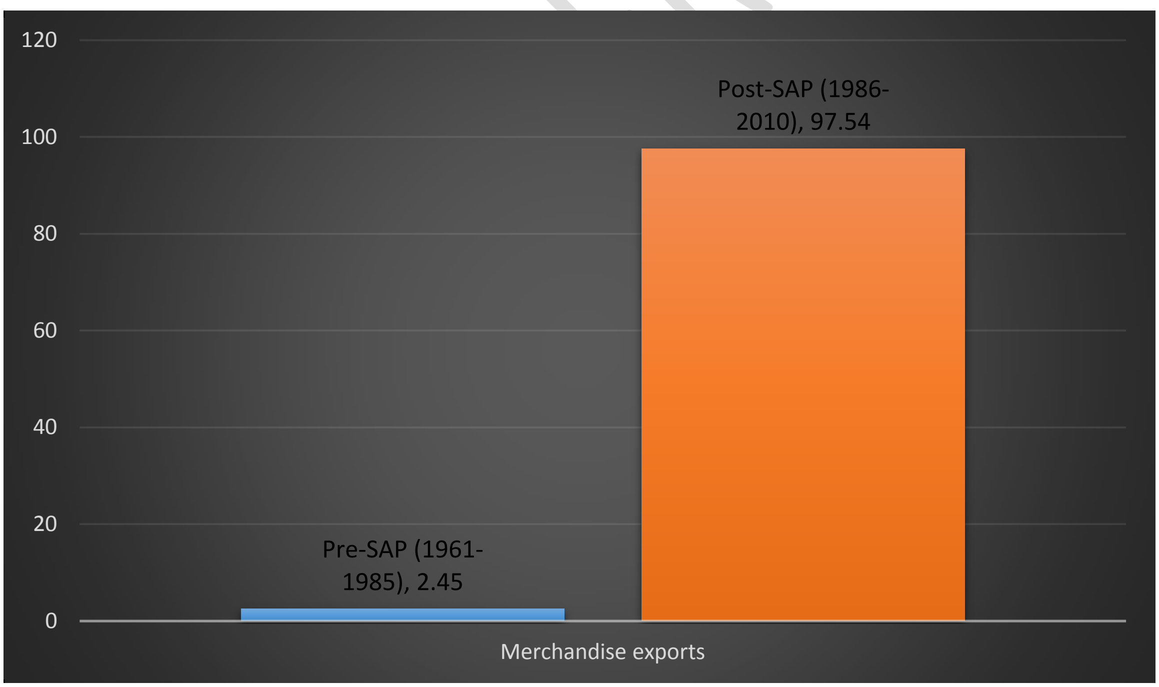

Fig. 2: Merchandise exports, Pre-SAP (1961-1985) and Post-SAP (1986-2010)

Fig. 2 compares 25 years merchandise export performances for pre and post SAP eras, while Fig. 3 shows additional 10 years on the post SAP era. Evidently, both figures confirmed that export performance improved significantly during the post SAP era.

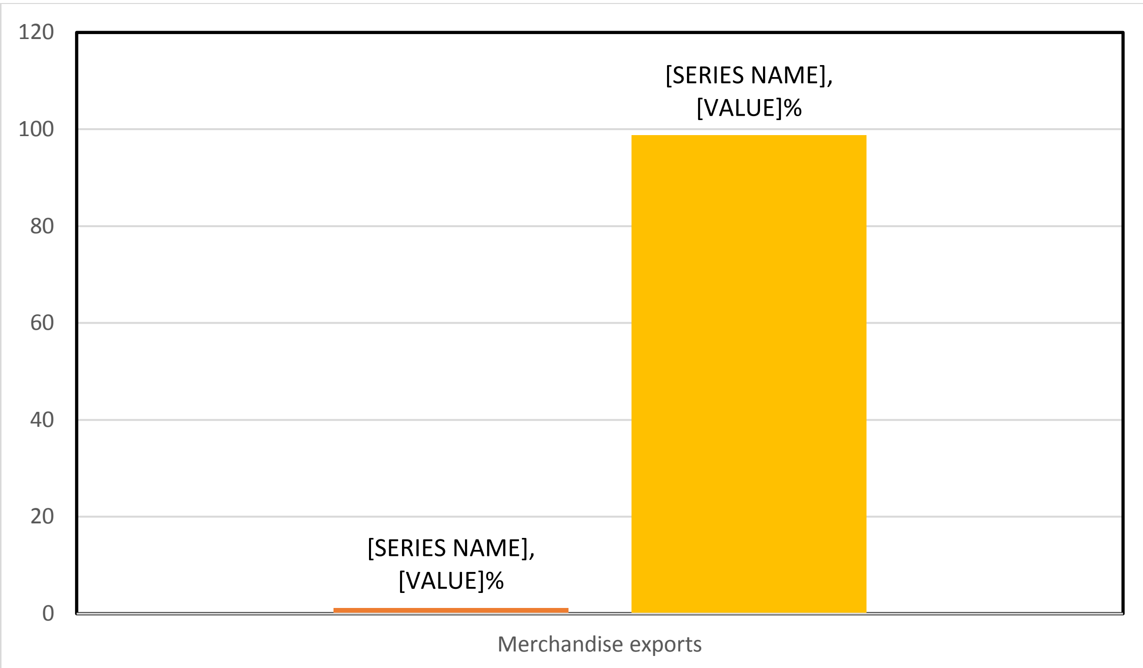

Fig. 3: Merchandise exports, Pre-SAP (1961-1985) and Post-SAP (1986-2020)

5.0 Conclusion and recommendations

The need for policy change is often necessitated by severe economic fluctuations that affect an economy especially when most economic variables are on a negative trend. This study showed that merchandize exports declined in the period 1981-1985 and earlier periods. As a result, the idea of diversifying the economy has been a front burner in Nigeria's development planning to achieve sustainable development in the country especially at the post-SAP period. However, the implementation of SAP aimed to boost local merchandize in the international market could not achieve the intended purpose even after fifteen years. Thus, performance of merchandise export remained poor until the democratic dispensation in 1999 which set the stage for export expansion. This may be due to over-dependence of foreign goods that affects our foreign exchange and the domestic production challenges on account of infrastructural deficits that would have promoted productive activities.

There are minimal changes between the pre-SAP and one and a half decade of post- SAP periods in terms of merchandize exports despite various strategies to boost the sector. The Export Development Fund was created to provide financial assistance to private sector exporting companies to cover some of their initial export promotion expenses; The Export Adjustment Scheme Fund is aimed to serve as a supplementary export subsidy, Manufacture-In-Bond Scheme is designed to benefit an exporter from the Duty Draw-Back, Duty Suspension. Any Manufacture, intending to export at least fifty percent (50%) of its manufactured goods is entitled to apply to NEPC for Pioneer Status tax exemption and the Nigerian Export Processing Zones Act provides for the establishment of Export Processing Zones in any part of Nigeria. Export Processing Zones (EPZ) are duty-free centres designed to boost manufacturing activities that are primarily destined for export.

These measures will be effective with policies that create an enabling environment through macroeconomic stability and growth. Therefore, management of macroeconomic stability through sound fiscal and monetary policies, addressing anti-export bias and adopting an exchange rate policy is critical in developing economies to trade in international markets. The paper recommends that the authorities in Nigeria should implement effective monetary, fiscal and exchange rate policies and infrastructural development to create stable and conducive environment for investment and the expansion of economic activity to thrive and improve merchandize trade in international markets.

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