TRADE POLICY IN DEVELOPING COUNTRIES: A CASE STUDY OF NIGERIA AND PAKISTAN

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Abstract: The paper examines trade policies in developing countries with particular reference to Nigeria and Pakistan. Furthermore import and export policy initiatives of the two countries was also reviewed. Nigeria has made significant progress in export of agricultural commodities to ECOWAS member countries. However this effort was not sustained due to instability in the macroeconomic environment. The government has made effort to deregulate and liberalize Nigerian trade policies. The existing policies and regulations are also generally in line with Nigeria's commitment to various bilateral, regional and multilateral agreements. In Pakistan the improvement in the balance of trade payments had resulted from monetary and commercial policies adopted by the government while devaluation stimulated exports. The new import policy with drew privileges enjoyed by selected few. The new reform package is very comprehensive, its impact on resource allocation, efficiency and protection on industries are going to be significant in the long run. Short run impacts will be on revenues and balance of current account. It is recommended that priority must be given to a quantum increase in export as part of economic planning. Fish can be explored as a niche market, we must increase our share in export in a staggering manner and finally diversification in respect of commodities and destinations ought to be our goal on a long term basis.

Keywords: agricultural commodities, trade policies, customs and excise tariff

INTRODUCTION

During the implementation of structural adjustment programme in 1986 Nigeria embarked on a process of deregulating and liberalizing her trade policies. The operation of a regulated exchange rate and restrisctive trade policies featuring an overvalued Naira, import licences and import prohibition, high duty rates on various consumer good and concessionary duties on various inputs for approved users distorted the structure of incentives (Mike, 2004). However over the last decade market oriented reforms of the foreign exchange management system have been effected while the more restrictive trade policies have been abolished. Thus the adoption of SAP in 1986, the commodity boards which had a monopoly on exports of various agricultural commodities were scrapped, price controls were eliminated, import licences and the entire system of concessionary duties and approved users schemes were abolished. Export licenses and levies were also discontinued and export promotion incentives were introduced (Kalegha, 1996).

Tariff reforms have been undertaken with the current customs and excise tariff regime which replaced the 1998-1994 tariff being designed to cover the 7 year period from 1995-2001 in order to provide a stable and predictable basis for long term commercial and investment decisions. More recently efforts have been geared towards streamlining procedures and cleaning up the operational aspects of domestic and external trade in order to speed up the process improve the quality of products and services and reduce the cost of commercial transaction (Usman, 2002).

The focus of structural adjustment programme SAP in Pakistan is meant to improve the balance payment position with the help of devaluation which is suppose to encourage exports. It should cut the fiscal deficit by increasing some prices and cut subsidies and by decreasing government expenditure and reduce inflation and foster growth. As much as possible intervention in the market should be eliminated and an attempt should be made to get prices right. The lifting of restrictions on exports is advised so as to encourage exports. A decrease in quantitative restrictions on imports i.e. quotas and a reduction in tariffs is recommended to strengthen the international competitiveness of domestic industry. Essentially the principle is that the economy should follow an outward oriented export led path (Naqvi et al. 1983).

The improvement in the balance of trade and payments had resulted from the monetary and commercial policies adopted by the government while devaluation stimulated exports, the new import policy withdrew privileges enjoyed by the selected few. Special concession were given to exporters of manufactured goods for the import of raw materials in spare parts. Imports were liberalized with a view to increasing the availability of all types of raw materials consumer goods and pesticides. For plant protection. Another step taken by the government at the time was liberalization of imports. The objective was partly to minimize controls and also to see that the privileges enjoyed by the selected few were withdrawn. Along with this their travel policy was also liberalized. These steps were in a way consequential to the policy of devaluation of domestic currency (Saeed, 2001). In view of the foregoing therefore this paper shall Analyse and review trade policies in developing countries: A case study of Nigeria and Pakistan.

TRADE POLICY ISSUES IN NIGERIA

The overall objectives of Nigeria's trade policy is the encouragement of production and distribution of goods and services to satisfy both the domestic and international markets for the purpose of achieving accelerated economic growth and development.

Other broad objectives include (a) The promotion and development of domestic trade, including intra-trade trade and inter-trade commerce. (b) The development and promotion of oil and non oil exports. (c) Deregulation and liberalization of trade and (d) Promotion of Nigeria's bilateral and multilateral trade interests.

Import policy and regulations

Custom and excise tariff import prohibitions and comprehensive import supervision scheme are currently the main instruments of import policy. These are applied on a non discriminatory basis to imports from all countries. All imports are to undergo pre-shipment inspection by one of the four Pre - shipment inspection agents who are charged with the responsibility of quality, quantity and price assurance. They are also responsible for import duty assessment.

The high duty rates and import ban on several products over the 1988-1994 period were largely ineffective and in some cases were counterproductive. They produced unintended results and rewarded unintended beneficiaries. They provided incentives for rent seekers and attracted lobbyists for duty waivers and special concessions. The net effect of these concessions and other forms of import duty erasion and avoidance was increased smuggling, significant leakages in the import inspection scheme and a decline in import duty collection efficiency. As shows in table-1 over the 1988-1994 period actual import duty collection as a percentage of total imports declined from 19.5 percent in 1988 to 9.2 percent by 1994 implying that the Nigerian custom service was by 1994 collecting less than a third of the expected duties.

According to the 1995-2001 tariffs retain the cascading structure of the previous regime but the matrix of basic rates feature lower tariff levels when compared with the derived structure of its predecessor. Typically capital goods for use in agriculture attract 5 percent duty agric products and intermediate goods and components 10-20 percent basic raw materials 5-15 percent, other capital goods 5-20 percent and luxury goods 45 percent. The lower end of the range and duties was applied to products without local substitutes in order to provide relief to import dependent subsectors while domestic products attracted the higher duty rates in furtherance of the commitment to protection of local industry table-2 below summarizes the features of the new tariff regime in relation to the previous one.

Table 1. Import duty collection efficiency (1988-1994)

1998	**1990**	**1992**	**1994**
24.45	45.72	143.15	Total imports (N billion) 161.03
3.10	6.87	14.36	Import duty collected (N billion) 14.86
14.5%	15.0%	10.0%	Duty collection % 92%
31.1%	NA	32.4%	Import weighted average duty 33.4%
46.6%	NA	30.4%	Duty collection efficiency 27.5%

Source: Based on data from CBN and Nigerian Custom Services and Enterprise Consulting group.

Table 2. Trends in average tariff rates 1988-2001.

1988 to	1994	1995 to 1998	1999-2001
33.6	33.0	24.3	26.0 overall economy
31.0	23.1	22.9	24.7 agriculture
13.5	16.1	14.5	14.7 mining, manufacturing
34.3	34.0	24.6	26.4
53.5	47.7	39.1	36.7 consumer goods
26.2	31.2	18.1	22.3 intermediate goods
17.1	16.3	12.6	16.2 capital goods

Source: Enterprise Consulting Group Ltd. Report 2001.

It will be observed in table-2 that the steepest reduction in the new tariff rates affected the manufacturing sector especially intermediate goods without local substitutes.

Exercise duties

Exercise duties are traditionally levied on domestically produced goods with inelastic demand with the more common exercisable products being alcoholic, beverages, spirits and tobacco, luxury goods and petroleum products. However over the years coverage of exercise taxes in Nigeria has varied widely from 182 products in 1988 to 115 products by 1992 and 12 products by 1994 while exercise tax collection increased from N 0.86 billion in 1988 to N 2.84 billion by 1993 inspite of the reduced coverage exercise taxes still accounted for about 8.7 percent of non oil revenue and 20 percent of total revenue by 1993 down from 16.8 percent and 30 percent in 1989 respectively.

Comparison between old and new tariff

The new tariff in comparison with the previous one shows that: (a) Lower average nominal protection rates from an unweighted average duty rate of 33.0 percent in 1994 to 24.3 percent for 1995-1998. (b) A reduced tariff peak from 300 percent in 1994 to 150 percent in 1995/96 and 100 percent thereafter. (c) Reduced dispersion in rates. (d) Shorter import and export prohibition lists and. (d) A revised exercise list.

Import prohibition

Justification for import prohibition of the various products includes: (a) The promotion of self sufficiency especially food self sufficiency in the case of most agro allied products. (b) Infant industry protection (e.g GLS bulbs and fluorescent tubes and aluminium sulphate which were unbanned in 1995 after 7 years on the prohibition list. (c) Forced industrial restructuring (e.g. ban on wheat from 1986 – 1993 and malted barely from 1987 to date. (d) Promotion of political / social / moral objectives by discouraging importation of luxury or socially undesirable products (e.g. gaming machines).

Export policies and regulations

Export expansion and diversification in order to reduce the economy over dependence on crude oil exports is one of the objectives of Nigeria’s trade policy. Incentives provided in furtherance of this objective run side by side with an export prohibition policy covering specified primary food products and industrial inputs. Export licences and duties have been abolished while an export incentives and miscellaneous provision decree no.18 was promulgated in 1986. The decree provides for (a) 100 percent foreign currency retention in domiciliary accounts held by exporters. (b) A streamlined duty drawbacks scheme. (c) An expanded export development fund to defray part of the export promotion expenses of private exporters. (d) An export expansion fund to provide cash incentives for exporter of manufactured and semi-manufactured goods worth at least N 50,000 and (e) An export price adjustment scheme to subsidize exporters facing high production costs. In addition the decree makes provision for (f) The refinancing and rediscounting of short term bills for exports as well as an export credit guarantee scheme.

Table 3. Export prohibition list 2004

Primary food products	Industrial inputs
1. Beans	(1) Timer, rough or sawn
2. Rice	(2) Raw hides and skin
3. Cassava	(3) Scrap metals
4. Maize	(4) Unprocessed rubber latex and rubber lumps.
5. Yam	

Source: Annual Report of CBN Central Bank of Nigeria and Export Promotion Bureau Abuja Nigeria.2004

The Nigerian export import banks was established in 1991 while a manufacture in bond scheme was instituted in 1992 and Nigerian first export processing zone in calabar was commissioned in 1996.

EXPORT PROHIBITIONS

Nigeria's export prohibition orders date back to 1976. since then products have been added to or removed from the list but the current export prohibition list is as shown Table 3.

The objective for food self sufficiency is the justification for export prohibition of primary products, while the conservation of industrial inputs in order to increase domestic added value accounts for the inclusion of industrial inputs, palm oil, palm kernels and wet blue leather which were export prohibited up till 1994 were delisted in 1995. By holding prices of the listed products export prohibition gives rise to production disincentives overtime and can thus be counterproductive.

Directions of trade policy 2004

The natural evolution of trade policy since Nigeria's adoption of the structural adjustment programme would point towards further deregulation and liberalization in the future as the country embraces the tenents of an export led outward looking strategy. Tariff and trade policy reform pushed to its logical conclusion in the future would require. (a) Further alignment of rates to eliminate distortions. (b) Lowering of the tariff ceiling and the tariff levels to achieve some compression in rates and to further expose the productive sectors to competition with imports, thereby enhancing their international competitiveness and export capability. (c) Progressive shortening of the import and export prohibition lists. (d) Adoption of measures to improve the administration of existing export incentives in particular and export sector in general. (e) Integration of the VAT and exercise tax system. (f) The development and promotion of sector and product specific export incentives. (g) Improvements in trade data availability, timeliness and reliability (Nike, 2004).

TRADE POLICY ISSUES IN PAKISTAN

Import / Duties

The structure of import duty shows a great amount of total imports 45 percent is not subjected to any kind of duty. This is due to various exemption granted to different importers specific firms, institutions and regions through various SROs over the years.

These exemptions have made the effectiveness of statutory duty rates extremely low. Despite very high statutory duty rates (0-435 percent) the effective rate of duty which is the proportion of actual duty collection to the value of imports subjected to duty which is the proportion of actual duty collection to the value of imports subjected to only 33 percent. If this rate is calculated as a proportion of total imports it falls to a mere 18 percent which represent the collected rate of duty. Second an important feature of rate wise import duties is that the bulk of collection 64 percent is obtained through statutory duty rates of 40 percent to 90 percent. Duty rates of zero to 40 percent and 90 percent to 435 percent contribute only 8 percent each. Specific duty rates fetch a significant 20 percent of total import duty collection. High tariff rates encourage under involving and smuggling and cease to properly influence domestic producers prices. Domestic prices become lower than the C & F import prices plus tariff.

Tariff become redundant and resources are diverted on smuggling. This results in revenue loss to the government as well as losses to domestic producers. The national taxation reforms commission report of 1986 estimated that Rs. 20 billion worth of goods was smuggled annually.

IMPORT SECTOR STRATEGY

The import policy proposals have been based on the following strategic considerations namely: (a) Liberalization (b) Facilitation and (c) Regulation

The entire text of Pakistan import policy has been restructured on the basis of the above mentioned principles. Speicalised requirement of a number of sectors for import of second hand machinery are being met. Scope for existing temporary import scheme has been expanded for facilitation of trade and industry without jeopardizing the genuine interest of the local industry engaged in manufacturing import substitutes. Tax and tariff polices have in particular been used to bring about an industrial turnaround. The strategy has also brought about necessary structural changes in import regime which bode well for the industrial and economic future of the country. The share of industrial raw material in total imports during July 2003 to May 2004 was 56%. The share of capital goods was 33.7 percent and the share of consumer goods was only 9.6 percent. Increased import of manufacturing machinery and industrial raw materials will be up domestic production to generate more exportable surpluses which in turn will boast in an expanding market access environment for Pakistan.

Imports from 2001 to 2004

The income of imports is more than export due to WTO pressure a liberalized import policy will continue to operate. Imports are economically classified into four categories which include consumer goods, raw materials for economic goods, capital goods and raw material for capital goods. The share of these categories are presented in table 4 .

Table 4. Economic classification of imports (percent share).

Particulars	2001-2002	2002-2003	2003-2004
Consumer goods	11	10	10
Raw material for consumer goods	55	53	51
Capital goods	28	31	32
Raw material for capital goods	6	6	7
Total	100	100	100

Source: Pakistan Economic Survey Govt. of Pakistan Islamabad Finance Division Page. 108.

Table 5. Seven major importing countries and their percentage analysis

Countries	2001-2002	2002-2003	2003-2004
Saudi Arabia	12	11	12
Kuwait	7	7	7
Japan	5	7	6
USA	7	6	6
Malaysia	4	5	4
Germany	4	5	4
United Kingdom	3	3	3
	42	44	42
Others	58	56	58
Total	100	100	100

Source: Pakistan Economic Survey 2003-2004 Govt. of Pakistan Finance Division Page. 108.

A review of Pakistan exports 2003-2004

Between 1982 and 2003 global exports had increased by 397 percent to US$ 7.482 million Pakistan's exports ever the same period increased by 496 percent i.e. from a share of 0.13 percent to 0.16 percent a 23 percent increase in the world market share. Export achieved during 2003-2004 were worth US$12,273.5 million registering an increase of 10 percent and surpassing the budgeted level of US$12.1 billion.

The WTO was established and became operational in 1995. Pakistan has been a member of WTO since 1995. The year 2005 is significant from, Pakistan point of view this is because with effect from 1st January 2005 all remaining quotes on our textile exports will be phased out in keeping with the requirements of WTO agreement on textile and clothing. The textile industry of Pakistan in collaboration with the government has been preparing itself by making sizeable investments in order to take advantage of the new market opportunities likely to emerge after the end of the quota regime. Our assessment is that in overall terms Pakistan stand to gain from abolition of textile quotas.

In view of the importance of the textile sector to Pakistan's economy the following specific supportive measures have been undertaken for this sector. (a) Sales tax on ginned cotton has been eliminated to reduce costs for the spinning sector. (b) Ban on the import of cotton waste has been removed to help towel manufacturers. (c) Nearly all restrictions on the relocation of used textile machinery and related equipment have been removed. (d) Garment cities are being set up to encourage production and export of value added products.

Pakistan share of export in SAARC countries: Table 6, presents our analysis of the current position relating to focus on the exported products from Pakistan.

Pakistan trade policy for fiscal year 2006-2007

(a) The trade policy 2006-2007 sets an export target of US18.6 billion upto 13 percent from the existing level of exports and projects an import target of US$28 billion. (b) The new trade policy will replace the export promotion bureau which has been responsible for trade promotion for 42 years. (c) Other highlights of this new policy are to establish (1) expo centre in Islamabad Quetta and Peshawar (2) A modern warehousing city in Karachi (3) A textile skill development board. (d) To facilitate cement export a specialized coal clinker and cement terminal has been planned at Port Qasim in Karachi. It has been decided to provide this sector with research and development support on the same lines as is available to the garment sector. (e) To meet the growing demand of Halal meat in middle east, Halal meat export zones will be established in Karachi Lahore, Peshawar and Quetta to facilitate exporters who will opt to work in these zones.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Considerable progress by the Nigerian government has been made in the last decade in the effort to deregulate and liberalise Nigeria's trade policies. The major effort has gone into the abolition of more restrictive trade policies. Tariff reforms, liberalization of the investment and ownership rules and more recently streamlining operating procedures and regulations in order to reduce transaction time, improve product quality and increase import duty collection and repatriation of export proceeds. Existing policies and regulations are also generally in tune with Nigeria's commitments to various bilateral, regional and multilateral agreements.

Table 6. Pakistan's major exports 2001-2004 (percentage).

Commodity group	**2001-2002**	**2002-2003**	**2003-2004**
Cotton	59	63	63
Leather	7	6	5
Synthetic textiles	5	5	4
Rice	5	5	5
Sports goods	3	3	3
Others	21	18	20
Total	100	100	100

Source: Pakistan Economic Survey 1999-2000 P.123 and 2001-2003 Page-119.

The task of achieving and accelerating economic growth and development which is the ultimate objective of trade policy that requires integration of the appropriate trade policy with other macroeconomic policies in a stable political environment. It is important to ensure that the respective policies are internally consistent and stable in order to send the right signals to and mobilize the support of key operatives for the development effort in Nigeria.

In Pakistan the types of exports and imports can give an idea of the stage of economic development reached and the broad features of the social and political structure of the land. The sources of imports and destination of exports indicate its economic connections and sometimes political affiliations. The improvements in the balance of trade payments had resulted from the monetary and commercial policies adopted by the government while devaluation stimulated exports, the new import policy withdrew privileges enjoyed by the selected few. It is important to note that import were liberalized with a view to increasing the availability of all types of raw materials consumer goods and pesticide for plant protection. The prime sources of federal government tax revenues are of various kind of import, tariffs, licenses fees and surcharges. Due to their significant contribution to tax revenues it is apparent that governments main objective in imposing tariffs is revenue allocation. Other economic objectives like providing protection to domestic industries are also considered but are not the main guiding criteria in setting tariff rates. Reform package describe earlier is very comprehensive and unlike any policy package of the past. Its impact on resource allocation, efficiency and protection on industries are going to be significant in the medium to long run. Short run impacts will be on revenues and balance of current account.

Finally the proposal to replace duty drawback with zero import duty is a correct step but it will not itself be sufficient to induce better export performance. This does not auger well as imports will be rising much faster than exports. This scenario will adversely affect the current account balance and would most likely force the government to further devalue the rupee.

RECOMMENDATIONS FOR BOASTING EXPORTS IN NIGERIA AND PAKISTAN

Priority: Priority must be given to a quantum increase in exports as a part of economic planning.

Regional setting: SAFTA and ECOWAS as a hope for 2004-2005 practical action for increasing Inter African Union AU and South Asian Association of Regional Cooperation SAARC to promote exports.

Niche Markets: Fish can be explored as a niche market. Our coastal belt is fairly large. A strategic investor with a proposal of US$ 0.50 billion was available in the past. We must utilize this to our benefit.

Exportable surplus: We need to ensure a quantum increase in exportable surplus so that the export led growth concept can be translated into reality.

Share in world exports: We must increase our share in exports in a staggering manner with an accelerated approach.

Diversification: Diversification in respect of commodities and destinations ought to be our goal.

Product focus: (a) ready made garments exports must be pushed (b) value addition through an enlightened industrial policy has to be followed (c) superior quality cushioned with high value products should be maintained for boasting exports (d) ISO, 9000 via TQM should be achieved for meeting international standards. (a) We must begin to address the fudmanetal problems faced by the economy to avoid devaluations of our currency.(Naira and Rupee) (b) We must avoid fiscal deficit and address the perverse incentive structure that retards export led growth.

Both export promotion bureau of Nigeria and trade development authority of Pakistan should formulate export strategies that would address various problems regarding import and export of commodities outside the two countries.

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