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The Impact of Trade Liberalization Policy on Nigerian Textile Industries: Evidence from Comparative and Descriptive Method of Analysis

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Abstract
Textile industry in Nigeria has been a leading industry that captures the development needs of the country's early import substitution industrialisation strategy. It acts as a producer of essential mass consumer goods with ability to draw on an existing raw material base and massive employment of labour force. Structural adjustment policies such as liberalization, devaluation and deregulation have led to the demise of the industry. It is in line with this, that, this study was designed to find out the impacts of trade liberalization policy on the performance of textile industries in Nigeria. The study sought for information from secondary data, which includes reports from organized and private institutions such as MAN, NTMA, and international organisations like UNIDO, IMF/World Bank reports, etc. Both comparative and descriptive methods of analysis were employed to analyse the data collected. The study was designed to cover pre-SAP and SAP period for effective comparison. It was found that trade liberalization has negative impact on performance of the Nigerian textile industry in the areas of production: falling drastically, low sales, low capacity utilization and decline in employment. The study recommends for serious government intervention to encourage the public to patronize locally made Nigerian textile products, to limit import by quotas on textile production and to construct a petro chemical industry to ease the importation of textile inputs, e.g. chemicals and dyestuff.

Keywords: *MAN, NTMA, UNIDO, IMF,* World Bank, Comparative and Descriptive
JEL Classification: F14, Q56

1. Introduction

Textile industry has been Nigeria's leading industry with some large number of factories and some major workers, leaving out the unaccounted number engaged in small weaving establishments, including those in the informal sector. In line with long established theories, it acts as a producer of essential mass consumer goods and has become the backbone of early industrialization. Its ability to draw on existing raw material base made the textile industry even attractive. However, this makes it the leading sector as well as a prime candidate for early import, substitution, and industrialization for many developing countries.

The import substitution development of the textile industry has been enforced by government through the imposition of tariffs and quotas on imports of textile. FGN(1986)

In fact, the textile industry was the corner stone of industrialization in the independent Nigeria. It was established with a lot of hopes and fanfare. The post-independence boom in the industry brought rapid expansion. More Mills sprang up in the industrial centres of Kano, Ibadan, Owerri and Funtua with corresponding cotton mills where cotton was grown. Since independence, there is nothing that captures the travails of the Nigerian economy more than the textile mills.

But today, the Nigerian textile industry is comatose. The demise of the industry started with the Structural Adjustment Programme (SAP) that led to massive devaluation and deregulation of the exchange rate and interest rate respectively. However, also in line with the SAP, the liberalization of foreign trade which allows the importation of the previously banned items of textile products also contributed.

2. Literature Review

In much of the orthodox literature on economic development, strategies of industrialization are discussed in the content of trade and commercial policies in the literature to distinguish between policies that have direct bearing on establishment and expansion of industrial capacity and policies that work through the channel of international trade. Admittedly, it is true that various trade and commercial policies have profound implication for the rate, structure and characteristics of industrialization. It is, nevertheless, essentially misleading to regard industrialization merely as a consequence or off shoot of a particular trade strategy.(Kirkpatri and Nixson,1983:9-45). This is because most third world countries regard industrialization of the economy as fundamental objectives of development and deliberately tailor their trade and commercial policies to achieve it.

There is indeed something new but in policy making rather than in development of theory. The 1980s have seen the beginning of a change of heart among developing country policy makers with regard to trade policy. The import substitution consensus of the previous decades with its preference for high levels of tariffs and non-preference for high levels of tariffs and non-preference for barriers has all but evaporated. Some of the staunchest import substitutes such as Mexico and Turkey have now made a decisive push towards trade liberalization (Rudiger D 1992). In this, the simplification of import procedures reduction or elimination of quotas and rationalization of the tariff structure are the most common reforms. But the disappointment in import substitution and the interest in trade reform appear genuine, even among the more equivocating countries.

It is paradoxical that the 1980's should have become the decade of trade liberalization in developing countries. The 1980's have also been a decade of intense macroeconomics instability. Common sense would suggest that the conventional benefits of liberalization have become muted. If not completely offset, under conditions of macro instability characterized by high and variable inflation on one hand and fiscal and balance of payment crises on the other. Trade reforms are expected to work by reducing the distributions in the structure of relative prices and by directing sources to sectors that can make the best use of them; macroeconomic instability interferences with both. High and variable inflation serves to confound price signals by making it difficult to disentangle relative price changes from movement in the price level (Alexander,1979). The showdown in domestic activity renders structural change more painful by exacerbating transitional unemployment.

The second reason has to do with the role of foreign creditors and of the IMF and World Bank in particular. The 1980's was a decade of great leverage for these institutions vis-a-vis debtor countries or government, especially where poorer African countries were concerned. The trade policy recommendations of the World Bank were adopted by cash starved government frequently with little conviction of the ultimate benefits (Bhagwati & Krueger, 1978). This accounts for the high incidence of wobbling and reversal on the trade front once again especially in Africa. It also indicates that we ought not to be too optimistic on the sustainability of reforms in many of these countries (Dani Rodnik, 1992).

In Korea, trade reform occurred steadily in the 1970's. Here, the trade liberalization was selective. Major sectors of the economy were included, but the selection was accomplished in a manner that apparently did not interface with productivity and growth, Korea made a point, in particular, of allowing capital goods and intermediate goods to be imported (Ndulu *et al,* 1994). For example, automobile engines were first imported and then produced under licenses and then under Korean design. By 1983, of some 10,000 product classes 19.6 percent still contained restrictions. By 1989, the fraction had declined to only 5.3 percent and most of these were primary commodities. Only 46 industrial products continued with import licensing or prohibition (.Rudiger,1992) This average tariff has been brought down from 24 percent to 11 percent for industrial products with the prospects under a new tariff law to lower them to 5 percent by 1993 (Young, 1989 & Rudiger, 1992)

Even though Korea liberalized only selectively, liberalization did take place. Korea's non-oil import/*GDP* ratio back in 1960 was less than 10 percent, but since 1975, the figure has been in excess of 25 percent with the help of a selectively liberal import strategy. Korea has been able to develop a highly competitive manufacturing sector that offers its own brand name manufactures of increasing sophistication, ranging from cars to TV and now high technology goods. Even though trade had been substantially liberalized in the 1980's of the 12 percent import ratio for finished manufacturing, 13 percent was in consumer goods. Thus liberalization was conspicuously concentrated on capital goods. (Bhagwati and Krueger, 1978)

A third example of liberalization is Mexico, starting in 1985. The economy was opened, the scheme first envisaged was gradual opening, but as political pressure for delays and exemption built up the Mexican administration reacted by pushing the timetable and opening radically.(Rudiger, 1992). Although some areas like chemicals and automobiles have been substantially exempted so far, a great deal of liberalization has been accomplished, import penetration increased already from an average of 11.3 percent in 1980 – 85 to 14.5 in 1986 – 90. This sharp growth in imports unaccomplished by an offsetting immediate gain in exports gave rise to the free trade initiative with the United States which the became the issues under discussion.

With regards to Nigeria, however, liberalization of the economy was more outward in 1986, with the introduction of the *IMF*/World Bank Structural Adjustment Programme. The SAP for Nigeria like those being implemented elsewhere in the sub Saharan Africa sought to deregulate the economy and expose it to international competition. The ultimate goal of the SAP for Nigeria was to alter and re-align aggregate domestic expenditure and production pattern so as to minimize dependence on imports and enhance non-oil exports thereby bringing the economy back on the track of steady and balanced growth (*FRN*, 1986). Therefore, the centrality of trade and exchange rate liberalization to the declared goals of SAP for Nigeria is very clear. With the introduction of the SAP in 1986, the first concrete evidence of the trade liberalization attempts in Nigeria could be found. The first attempt of the SAP activities was the systematic deregulation of the exchange rate fallowed by implementation of the following policies by the beginning of 1987:

(a) Abolishing of import and export licensing system.
(b) Dissolution of marketing boards.
(c) Introduction of the second tier foreign exchange market.
(d) Elimination of export tariffs.
(e) General reduction of import tariffs such that the nominal averaged (outweighed) protection rate fell from 34 percent in 1986 to 21 percent in 1987.
(f) Duty drawback scheme was introduced and a generous retention scheme (100 percent of foreign exchange earning was allowed) (Okeke, 1990; Okeke, 1991).

The theoretical framework within which trade liberalization emanates has been the classical economics trade theories of the mutual benefit of international trade among different countries of the world in the work of Adam Smith “The Weath of Nations” since 1776.The idea of trade liberalization originated from the classical economist argument of the free trade versus protection. The free trade argument was first developed by Adam Smith’s argument of the role of the state in economic activities of a nation. He therefore saw non-government interference in economic activities of the state but strict appearance of Laissez-faire activity. To this however, he emphasized the working of an “Invisible Hand” as the regulatory mechanism that serves and promotes both interest of an individual and the society in general. From here, Smith went further to develop his famous theory of trade known as the Absolute Advantage which was seen to be the determinant of trade. To Smith, the objective of trade was to maximize national real income (“render the annual revenues of society as great as it can be”). By appealing to the principle of absolute advantage, Smith maintained that no country should make at home what would cost more to make than to import. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, we better buy it from them with some part of the produce of our own industry, employed in a way in which we have some advantage. Samuelson(1973)

Moreover, the exposition of comparative advantage by David Ricardo in 1817 adds to the Adam Smith’s argument. In this, Richardo states that, “there is nothing particularly favourable about export being greater than import”, and that what really matters was the principle that a country should specialize in the production of those commodities for which production costs are comparatively low and import those commodities for which production costs are comparatively high.

3. Methodology

The method of data collection was largely based on secondary data. In particular, the study relied on the reports from organized and private institutions such as Manufacturers Association of Nigeria (*MAN*) and Nigeria Textile Manufacturers' Association (*NTMA*), and published data from international organizations such as *UNIDO* and *IMF/*World Bank reports. The essence of choosing secondary data as the only source of information was due to the fact that the information required was more easily ascertained as compared to using primary data. The study also used findings of other researchers and relevant publications of other scholars.

The method of analysis of the data collected was both comparative and descriptive. Comparison was made between the pre SAP period when textile industries flourished and the SAP period up to 1990's. Tables were employed to ease up the descriptive analysis.

4. Results

In terms of value added, the textile industry in Nigeria showed an upward trend rising to 19% from 12% in 1965. This is as revealed by table one.

Table 4.1: Percentage of Value Added by Industrial Group

Industrial Group	1965	1968
Food manufacturing	27.0	14.0
Drinks and Beverages	16.0	16.9
Tobacco	15.0	14.0
Footwear	1.3	
Leather Tanning and Leather Production	1.0	
Textiles and Textile Products		

Source: Olayide (1975:60), extracted from Badayi (1999)

In terms of employment, the industry contributed 17.1% of total manufacturing employment in 1965, 29.3% in 1972 as revealed by table 2.

Manufacturing Empowerment

At the end of 2015, estimated manufacturing employment was about 1.6 million jobs across the sectoral groups and industrial zones. An employment survey conducted across sectoral groups in the period under review showed that employment performance in the sector was a mixed bag; while some firms increased employment others exigently downsized in the period.

Consequently, new addition to manufacturing job from January to June 2016 was estimated at 17,688 against 7,910 jobs created in the corresponding period of 2015, thereby indicating a 9,771or 223.4 percent increase over the period. It increased by 8,295 jobs when compared with 9,393 jobs created in the sector in the preceding half. However, in the same period, a total number of 12,400 jobs were lost in the sector due to the economic exigencies in the period. By implication therefore, the net employment in the first half of 2016 was 5,288 jobs.

The employment data generated from the survey of manufactures was also analysed to reveal the performance of the various sectoral groups. From the analysis, domestic/ industrial plastic and rubber group created 7,327 jobs in the period under review as against

1,089 jobs created in the corresponding half of 2015; thereby indicating 6,238 jobs increased over the period. Employment created in the sector also increased by 6,001 jobs when compared with the 1,326 jobs created in the preceding half. Domestic Industrial, Plastic, Rubber & Foam sector account for 41 percent of the total manufacturing jobs in the period under review. Unfortunately, the group lost a total of 2,699 jobs also in the period; thus indicating a net employment of 4,628 jobs.

Table 4.2: Employment of Nigeria's Manufacturing Industry by Group

Sector	estimated cumulative total job 2015	job added 1st Half 2015	job added 2nd Half 2015	job added 1st Half 2016	job added 2nd Half 2016
Food, Beverage & Tobacco	54,384	2,205	3,390	2,378	1,255
textile, apparel & footwear	55,380	1039	543	1594	4818
Wood & Wood Products	4920	363	390	216	34
Pulp, Paper, Printing & Publishing	53905	627	75	615	489
Chemical and Pharmaceutical	31324	1089	789	3468	1168
Non-Metallic Product	1184005	186	99	469	91
domestic industry plastic and robber	31377	1161	1302	7327	2699
Electrical & Electronics	28679	348	1302	524	315
basic metal, iron and steel	132744	651	921	610	918
motor vehicles & misc. assembly	27498	255	552	487	613
Total	**1,611,035**	**7,917**	**9,393**	**17,688**	**12,400.00**

Source: MAN Survey, 2016

According to Federal Government of Nigeria's (FGN) report (1981), the Nigerian textile industry was one of the leading sectors with about 20% of employment and 15% of total value added in the manufacturing. The industry was said to have processed the capacity to produce 400-600 million meters of cloth. The products ranged from gray bet to shirting dyed cloths, prints of various quantity and pattern as well as embroiled lace. They also included a smaller share of the tube wells bed sheets, blankets and carpets as well as some knitted goods. Others were gold prints, dress prints, Bobbies, brocades head and African prints which account for 35-40% of total fabric production.

The trend from table three suggests that, in absolute terms, the total output of woven fabrics has increased at a somewhat fluctuating trend from 1972 – 1982 when it reached its peak, before it subsequently dropped in 1984 and 1985 a level lower than that of 1973. The deadline from the year 1983 was a feature that characterized virtually all the manufacturing sectors of the country. This trend was the product of the dramatic decline in the foreign exchange earnings that has perished since the slump in the international market following the world recession of 1980-83.

The same picture emerges from a comparison of the manufacturing value added of selected industries as shown in the table.

Table 4.3: The Output of Textile Product in the Period 1972-1985

Year	Cotton and Cotton Blends (I)	Woven fabrics synthetics and Artificial Fabrics (II)	Total (I) and (II)	Knitted Fabrics (III)
1972	190.3	5.0	195.3	-
1973	291.6	9.6	301.2	-
1974	264.8	21.4	296.2	12.9
1975	333.4	38.1	371.5	16.8
1976	367.9	52.7	420.6	25.8
1977	393.9	47.0	445.9	36.0
1978	385.7	56.6	442.3	31.2
1979	297.3	40.8	328.1	21.4
1980	426.8	60.0	486.8	14.9
1981	491.3	51.6	542.9	14.9
1982	596.9	58.9	655.8	5.0
1983	337.7	63.3	401.0	12.8
1984	239.8	26.8	206.6	12.4
1985	230.0	25.0	275.0	-

Source: UNIDO Industrial development review series Nigeria (1988)

Moreover, according to *NTMA* (1996), the industry is the second largest employer of labour after government. When in full capacity production, the industry has a capacity of employing 250,000 workers with capable expansion and integration the job opportunity may double. The industry will of course be capable of supporting almost 2 million people at its fullest capacity utilization. Taking into account spouses and dependent of those directly attached to it.

Just like any other industry, development in the Nigerian textile industry was not without problems. The industry has also faced turbulent period in the history of its growth. As far back as 1976, there was steady decline in the ability of the domestic cotton production to meet the increasing need of textile industry (Okeke, 1990; Badayi, 1999). In 1990, crisis started hitting the industry because of distortions brought about by the oil boom of the 1970s. This led to sharp rise in external value of the Nigerian Naira, the erosion of domestic purchasing power and sectoral dislocations caused by massive spending of oil's revenue and heavy imports (Andrea & Beckham, 1985). The problem was exacerbated by a sharp increase in the minimum wage in a market situation already exposed to heavy competition from cheaper, smuggled imported substitutes.

Following a steep fall in oil earnings that began in 1981, the full impact of which was postponed by borrowing, made the domestic textile industry to shrink, with capacity utilization coming down to 30% (Badayi, 1999). Having become critically dependent on imported raw materials, industrial production fell further as the import capacity of the economy collapsed. A survey made by textile employers association showed that in 1984 one quarter of a sample of 47 factories employed below 50% of their full labour force. Only about 1/3 employed over 75% while overall reduction in employment for the sample was about 40% (Brandell, 1991).

So, the years 1980-1986 were years of mass redundancy in the history of textile development in Nigeria. By 1986, with the introduction of SAP and its policies and strategies to which trade liberalization was a part, only 20% of the cotton requirements of the industry could be met by local cotton production (Okeke, 1990). Domestic cotton production in 1985 harvesting year was 15,000 tonnes against 100,000 tonnes national requirements (Africa textiles, 1991). The industry had lost about 40,000 workers at 40% of its installed capacity.

In conclusion, the textile industry was faced with a lot of problems of low capacity utilization and fast receding domestic raw material base with the declining foreign exchange earnings from the country's major export product crude oil, the massive import of raw materials requirement for the textile industry could not be sourced locally at least for now. These included dye stuff, viscose fibre and chemicals owing to lack of petrochemical base in the country. It was also true with regard to machinery, equipment and spares parts because of lack of domestic engineering capacity to produce them.

According to industry sources, in terms of employment, the textile industry employed nearly 500,000 (five hundred thousand) in 1983, between manufacturing ginning in addition to the thousands of tailors and farmers. But reports from Textile, Garments and Tailoring Senior Staff Association of Nigeria (*TGSSAN*), revealed that within the last 3 years (1996-1999) not less than eleven (ii) mills were distressed and if situation persist may close down. Over 100,000 workers have lost their jobs. But if those people in general supply, retailers of finished textile products, sellers of dye stuff and chemicals and associated organization were added with their dependants to this number it would be almost 1000,000 if the industry collapsed, over 150,000 Nigerians would lose their jobs. This was quite hesitating to make our workers jobless and create jobs for Indians, Indonesians and Chinese workers all in the name of free movement of goods (Trade Liberalization) on which no duty or *VAT* is paid.

In addition, the World Trade Organization (*WTO*) agreement signed by Nigeria had contributed further to the negative impacts of trade liberalization on the Nigerian textile industry. Even though everywhere was becoming frowzy with liberalization and globalization policy of *WTO* there is no clear rules and machinery or system is place for carrying out its policy. At best the world is being called upon to regulate itself but surprisingly, though not many knew that what the *WTO* is all about is not only world product trade simplicity, but a gamut of unhampered trade in capital, goods and services in an unordered setting which creates its own problems. It is not difficult to visualize this state of confusing because opening up the borders all nations for trade among unequal nations without rule for checks and balances and with institution to implement, monitor cannot create available working arrangement at that level. So the developing ones (*TGTSSAN*, 1999)

According to *NTMA* (Textile Manufacturer's Association of Nigeria, Kano Branch), it is estimated that almost 200,000,000 (Two Hundred Million) meter of product/cloth are being dumped here at an approximate cost of N120,000.00 and the duty on that is supposed to be N90,000.00 which is huge amount in lost revenue.

5. Conclusion and Policy Recommendation

The conclusion that can be drawn from this study is that trade liberalization has negative impact on realignment textile industry. The policy has impacted negatively on performance of the realignment textile industry in the areas of production falling drastically, low capacity utilization, low sales and decline in employment.

To suggest the solutions to problems found to be affecting the operational conditions of Nigeria textile industry, there is the need to acquire serious government intervention in the following ways.

There is need for government to encourage and motivate the citizens to develop love for locally made Nigerian textile products so as to generate adequate demand that will be consistent with industrial production.

Government should also ensure minimum market security by employing several strategies like limiting imports by quote on specific items especially textile products; and setting a minimum standard of quality within which all goods coming into the country must meet. This standard is usually so high that most goods (except the locally made) are excluded from the market. All nation's of economic merit set minimum standard of quality.

Government is also required to construct a petro-chemical industry whose products are inputs to the industry thereby reducing the demand for foreign exchange for importation of textile chemicals, dye stuff and other auxiliaries. Also, government should resuscitate the matching tool companies with a view to encouraging local sourcing of spare parts.

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