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BALANCING INWARD ORIENTED STRATEGIES WITH OUTWARD ORIENTED STRATEGIES: A CASE FOR NIGERIA'S INDUSTRIALIZATION

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ABSTRACT

The World Bank has over the years urged poor nations to adopt development strategies which emphasize export promotion. The first group of developing countries to shift from an inward-oriented to outward-oriented approach to development were located in the far east, specifically Taiwan, Singapore and South Korea. But, with export-led growth, firms produce according to their long-term comparative advantage. Nigeria in recognition of the importance of industrialization to economic growth and development has adopted various policies, incentives and schemes since her independence to promote industrialization. This paper therefore posited that there is more than one approach to the problem rocking Nigeria's economy as the nation could capitalize on its areas of comparative advantages. The paper concluded that primary products (food, commodities etc.) exports should be discouraged as products that are un-branded and homogeneous have low-added value and therefore low-price.

Key Words: Import Substitution; Export Promotion; Economic Development; Developing Countries, Industrialization

INTRODUCTION

Why do some countries develop more than others? Do their strategies in regard to international trade have a role to play or not? During the 1950s and 1960s, developing countries experienced a decline in world markets for their primary products, deterioration in terms of trade and growing deficits in their balance of payments. Similarly, classical economists brand the manufacturing sector an engine of growth. This sector relatively generates increasing returns in the long-run not only within the sector itself but also in the other major sectors, which is raising productivity as output expands (Weiss, 1999).

Given the general belief in the efficacy of industrialisation, less developed countries (LDCs) adopted two alternative strategies for achieving industrialisation: inward-looking strategies which has Import Substitution (IS) as key and outward-looking strategies which has Export Promotion (EP) at its core (World Bank 1987).

Inward looking strategies were typical of the general approach to development which dominated thinking after the Second World War. This approach is both interventionist and protectionist, and guided policy making in many African and Latin American countries. Thus, an inward oriented policy is often designated as the import substitution strategy which meant encouraging the development of domestic industry "under cover" of protective barriers, such as tariffs, quotas etc. Inward looking policies did generate some short term benefits, such as the protection of infant and declining industries; job creation; increased income and preserving traditional ways of life (Oxford Analytica, 2014).

The IS strategy is an attempt to replace commodities that are being imported, usually manufactured consumer goods, with domestic sources of production and supply by erecting tariff barriers or quotas on certain imported commodities, then, try to set up a local industry to produce these goods. In short, this strategy uses tariffs, import-quotas and subsidies to promote and protect import-substitute industries (Rodrik, 1995).

However, the consensus is that the challenges of globalisation require a more outward looking approach as inward-looking economies are likely to have overvalued exchange rates because imports have been restricted. A country which is seeking to enter the world export markets will have to devalue the currency to make its would-be exporters more competitive. Also, the initial costs of production may be higher than former import prices. The economic rationale put forward for the establishment of import substituting manufacturing operations is either that the industry will eventually be able to reap the

benefits of large-scale production and lower costs (the so-called infant industry argument for tariff protection) or that the balance of payments will improve due to imports of fewer consumer goods. Eventually, it is hoped, the infant industry will grow up and be able to compete in world markets. It will then be able to generate net foreign exchange earnings once it has lowered its average cost of production (Rodrik, 1999).

INWARD ORIENTED STRATEGIES

In the post-World War II (1939-45) period, many Developing Countries (DCs), after achieving independence, tried to reduce their reliance on imports, focused on IS policies, and a few, like Brazil, had a short period of success following this strategy. But, by and large, the countries following these strategies stagnated or grew very slowly. Import Substitution strategy is a strategy for economic growth and development which believes in protecting domestic producers from foreign competition by substituting domestic production of goods previously imported with domestic sources of production and supply and then substitute through domestic production for a wider range of more sophisticated manufactured items by levying tariffs and imposing quotas on some commodities then try and set up a local industry to produce those goods (Weiss, 1988).

The idea behind this is to raise the price for domestic substitutes of the imported goods and to protect infant industries as it was believed developing economies would grow faster if they forced their economies to expand their industrial sectors and will achieve faster growth which is well worth the short- run cost of lost international trade (Sunkel, 1990).

The economies that abandoned import substitution earliest such as Korea and Taiwan became the most rapidly growing, and now nearly developed economies. Those that held on to import-substitution policies the longest, such as economies in Africa and South Asia, have been the slowest growing economies of the world. As a result, the protected industries have failed to become competitive. Even more importantly, the protected industries have used much of their resources to accumulate political power allowing them to gain significant control over policy making (Shafaeddin, 2005).

An import substitution (IS) strategy has three main advantages:

1. The market for industrial product already exists, as evidenced by imports of the commodity. So risks are reduced in setting up an industry to replace imports.
2. It is easier for DCs to protect their domestic market against foreign competition than to force developed nations to lower trade barriers against their manufactured exports.
3. Foreign firms are induced to establish so-called tariff factories to overcome the tariff walls of DCs (Bhagwati, 1978).

Against these advantages are the following disadvantages:

1. Domestic industries can grow by being accustomed to protection from foreign competition and have no incentive to become more efficient.
2. Import substitution can lead to inefficient industries because the narrow size of the domestic market in many DCs does not allow them to take advantage of economies of scale. Moreover, after certain simple manufactured imports are replaced by domestic production, further import substitution of more advanced products becomes more and more difficult and costly in terms of requirements for technology and capital (Michaely, 1986).
3. After the simpler manufactured imports are replaced by domestic production, IS becomes much more difficult and costly (in terms of higher protection and inefficiency) as more capital-intensive and technologically advanced imports have to be replaced by domestic production (Weiss, 1988).

OUTWARD ORIENTED STRATEGIES

In late nineties, more countries changed their economic policies from inward looking to outward looking based on the experience of Brazil, Columbia and South Korea. Mexico also lowered its imports in the 1980s and joined the US and Canada in a free trade area in the 1990s. They achieved economic growth by focusing on increasing exports and thus

exports revenue is injected into domestic economy and increases national income (Weiss, 1999).

An outward oriented strategy is the one in which trade and industrial policies do not discriminate between production for domestic goods and foreign goods. It emphasises participation in international trade by encouraging the allocation of resources to export-oriented industries without price distortions. This strategy focuses on policy measure such as export subsidies, encouragement of skill formation in the labour force and the use of more advanced technology, and tax concessions to generate more exports, particularly labour intensive manufactured exports in accordance with the principle of comparative advantage (Rodrik, 1995).

Advantages

1. With export-led growth, firms produce according to their long-term comparative advantage. This is not current (static) comparative advantage, based on existing resources and knowledge. It is dynamic comparative advantage, based on acquired skills and technology, and recognition of the importance of learning-by-doing of the improvement in skills and productivity that comes from repetitive performance and production experience. With exports, the demand for the goods produced by DCs is not limited by the narrow size of their domestic market (Rodrik, 1995).
2. The advocates of export-led growth also believe that the competitive pressure generated by the export market is an important stimulus to efficiency and modernisation. The only way a firm can succeed in the face of intense international competition is to produce what consumers want, at the quality they want, and at the lowest possible costs (Oxford Analytica, 2014).
3. Export-oriented industrialisation overcomes the smallness of the domestic market and allows DCs to take advantage of economies of scale. The expansion of manufactured exports is not limited (as in the case of IS) by the growth of domestic market. This is particularly important for many developing countries that are both very poor and small (Osorio-Rodarte, 2013).

Disadvantages

1. It may be very difficult for LDCs to set up industries that can compete at international level because of the competition from the more established and efficient industries in developed nations (*The Economist*, 2000).
2. Developed nations often provide a high level of effective protection for their industries producing simple labour-intensive commodities in which LDCs already have or can soon acquire a comparative advantage (*The Economist*, 2000).
3. Protectionist Barriers: The expansion of manufactured exports, such as that attained by Hong Kong, South Korea, Singapore and Taiwan (the “four Asian Tigers”) can run into protectionist barriers in the industrialised countries. Since the labour-intensive manufactured exports pose a threat to well-established industries in industrialised countries (e.g., textiles-and shoes) (Rodrik, 1995).

IMPLICATION FOR NIGERIA

In recognition of the importance of industrialization to economic growth and development, Nigeria since her independence has adopted various policies, incentives and schemes to promote industrialization. Some of these policies include the import substitution that gained currency in 1960s, indigenization policy that started in 1972. Structural Adjustment Programme (SAP) of the late 1980; in 2000, Bank of Industry (BOI) and small and medium equity investment scheme were established to reduce credit constraint faced by entrepreneurs. And in 2007, the Federal government adopted the National Integrated Industrial Development (NIID) blue print (Razzaque *et al.*, 2008).

Earlier in the decades of 1970s, 1980s and beyond, Nigeria sought to borrow from various bilateral and multinational donors in order to finance wealth creation and to promote the industrialization process which led to debt of billions of dollars. It happened that Nigeria economy accumulated a lot of debt to the tune of tens of billions of dollars. This debt crisis has the major impeding factor to the nation industrialization processes (Henning *et al.*, 2002).

The political maladies that are facing Nigeria have also acted as another impediment to industrialization process. It may also be observed that for most of Africa's post-independence period, the continent in general appeared to be a late comer as well as an inferior actor in the international political economy due to its inability to play a leading role as far as international trade and trading regimes are concerned. Throughout the 1960s through to the 1990s, the international trading system was under the control of the developed countries of the North under the General Agreement on Tariffs and Trade (GATT) arrangement (Jha, 2008). This system generally failed to create a governable environment as far as the place of Africa and the rest of the Third World are concerned. The World Trade Organisation (WTO) formed in 1994 also failed which replaces (GATT). International market shocks, as well as international trade regimes beyond Africa's control have continued to act as a major setback to Africa's industrialization process (Bach, 1998).

Since 2001, the African Union (AU) sought to rejuvenate African's industrialization through a number of initiatives; the most outstanding was the New Partnership for Africa's Development otherwise known as (NEPAD) which was a product of the millennium partnership for the Africa Recovery Programme (MAP) and the OMEGA plan (Henning et al., 2002).

And finally, Nigeria ranks 154 out of 185 countries according to World Bank on the level of development of international trade. Nigeria has been experiencing economic famine (Razzaque et al., 2008). And according to naij.com, as a response policy, the Central Bank of Nigeria (CBN) recently issues a directive stopping some imported goods (Rice, Cement, Margarine, Palm kernel/Palm oil products/vegetables oils, Meat and processed meat products etc.) from the list of items valid for forex in the Nigerian Foreign Exchange Markets which implies that, importers of these items can no longer buy foreign currency from the official window to pay the overseas suppliers and has to rely on parallel market or Bureau De Change to pay for their imports which buttresses the fact that the nation has been ineffective in its policy approach.

RECOMMENDATIONS

Despite using several policies and strategies to address Nigeria's industrialization challenges, there are still a lot of controversies as to how industrialization should be achieved. It is against this background therefore that the way out of economic debacle for Nigeria is presented:

1. Primary products (farm produce, minerals etc.) exports should be discouraged as products that are un-branded and homogeneous, have low valued added, and therefore low-price. Also, primary products have low income and price elasticity, which means that, as world incomes rise, proportionately less income is allocated to primary products, and more is allocated to manufactured goods, and services. These analyses contribute to the general view that it is dangerous for Nigeria to rely on agriculture without value addition to secure growth and development. This means encouraging countries to stop importing goods with increasing terms of trade, and develop their own industrial base so that they can produce these goods for themselves.
2. If a government does not provide support to a steel industry then it is unlikely that an automobile industry that needs fabricated metals as its inputs would get it easily. According to Stiglitz and Charlton in *Fair Trade for All*, Japanese government initially cultivated heavy industries such as steel, aluminium, car and ship-building in the post-war period and then expanded credits to support more advanced industries including electronics and semi-conductors (Valdez and Zietz, 1980).
3. Newly established industries may benefit from favourable change in comparative advantages but they need to go through a period of learning before they can compete in the global market. Thus, protection is essential to help these industries to learn and acquire new know-how.
4. Increase in national incomes should be invested into maintaining and providing infrastructure, education, sanitation and healthcare as well as providing a means to distribute this increased income to the poor.
5. Trade liberalization cannot only ensure economic growth. It must therefore be complemented with investment in education, infrastructure as well as regulatory effectiveness (Stiglitz and Charlton, 2003)
6. Nigeria could capitalize on its comparative advantage by:
 - Cooperating with other developing countries; this could be done through regional cooperation such as in the case

of Asian Free Trade Area

- Joining and carrying out workable international commodity agreement, (e.g. to avoid low commodity prices)
- Securing greater access to markets in developed nations through bilateral agreements with EU or through multilateral agreements through WTO
- Cooperating with other developed countries to use Nigeria resources as part of local content requirements

CONCLUSION

There is more than one approach to the problem ravaging Nigeria's economy. While protectionist policy will work for some sectors, others may require export subsidy, but it is vital to craft new industrial development policies within the context of the present realities as was done in the United States, during the so called financial crisis.

Although countries that have built their development efforts around import substitution have experienced grave problems, it is still possible to pursue the policy in a more satisfactory manner while at the same time promoting exports as the need for the both are not mutually exclusive (Jha, 2008). As Masina (2006) indicated, the East Asian countries that became economically successful used a combination of selective import substitution and export promotion policies tailored to their national industrial strategies.

The overall lessons from countries reviewed suggest that neither strategy can bring desired results when pursued in isolation. Rather, strategies have to be fine-tuned to economic, social and political reality of the country in question (Bruton, 1998).

And finally, Nigeria has so far lacked vision and there are doubt whether the current government has one or know how to implement same if it does. The question has continued to be what does Nigeria want to be known for? Does Nigeria want to become a tourist centre? Does Nigeria want to become the West and Central Africa's central manufacturing capital? Does Nigeria wish to become the food basket of Sub-Sahara Africa? Does Nigeria wish to become the information technology giant of the continent? Or does Nigeria wish to become a combination of these, or some of them and others?

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