Growth & Trade Policy: Concepts & Implications for Nigeria

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Introduction: A New Global Environment

- **Challenges:**
- Slow growth in advanced economies.
- Brics (besides India) all face growth problems.
- Commodity markets are depressed.
- **Opportunities:**
- Wages rising in China: supply chains are moving.
- Middle Classes in China and India are growing.

Outline

- **Kinds of Growth.**
- **Three policies:**
  - **Tariffs on inputs.**
  - **Infant Industry Protection.**
  - **Competitive exchange rates.**
- **Implications for Nigeria.**

Where does growth come from?

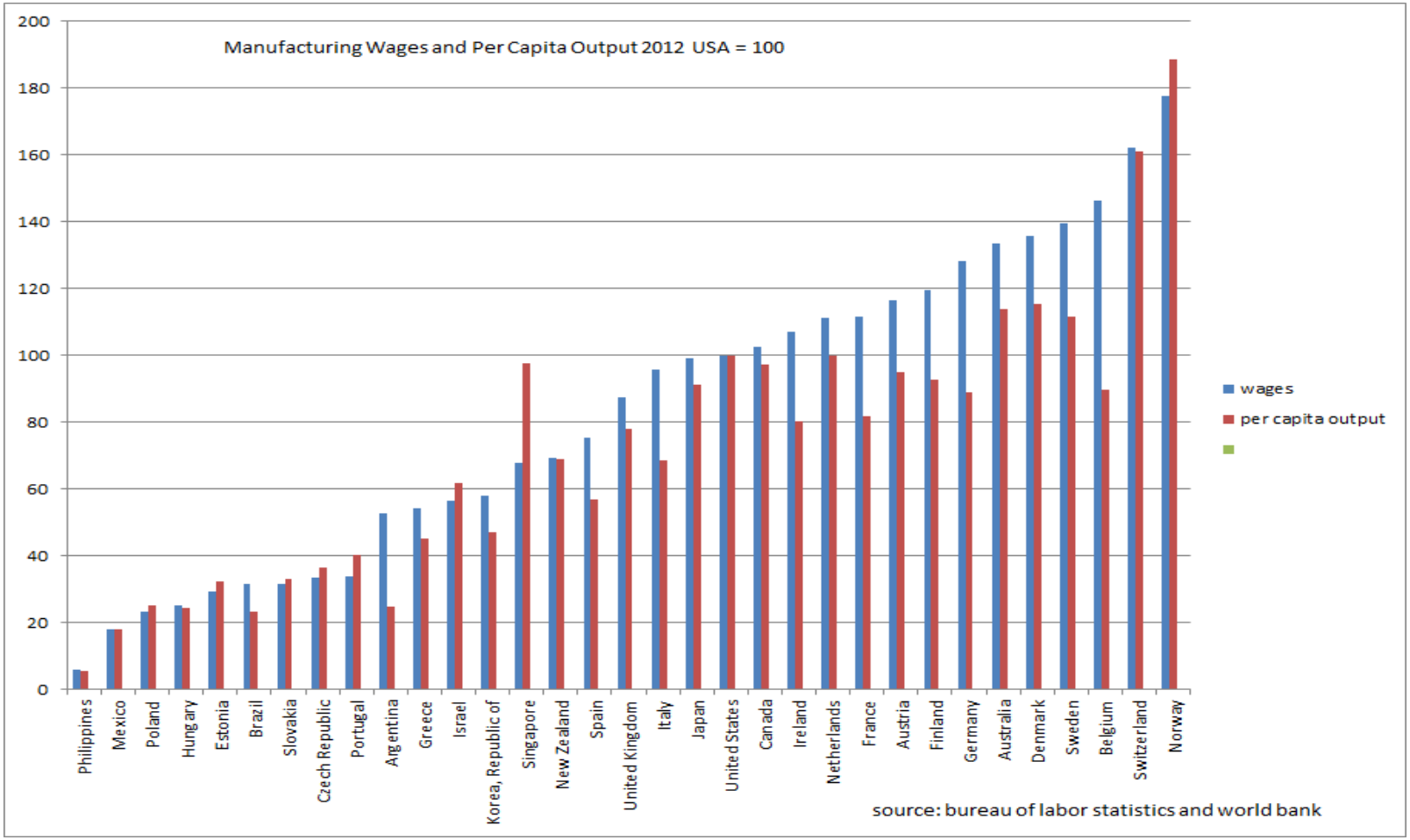
- **Sustainable Growth comes from convergence with the** LJNJ2ŘdzŎűλØλűè fŜØŜfă óűĸKŜ áűŜŎĸy⁄2f2∃èéú űĸKI·ű LJNJŜØI·λf λy⁄űĸKŜ **rich countries**

  - "Technology" is the name for the stock of *ideas* and *knowledge* that is available for developing countries to absorb (and disseminate throughout their economies)

- **This stock does not disappear or dissipate when rich countries grow more slowly or when world trade is less buoyant.**

  - As long as developing nations follow the appropriate strategies

Wages reflect Productivity!



Where does growth come from?

There is “bad” growth (1)

1. **Foreign borrowing-led growth**
   - Examples: countries in the periphery of EU in 1990s, Latin America in 1970s, Iceland, Ireland and Greece in 2000s.
   - Good to the extent that it eases the financing constraint of firms
   - Inevitably comes to an end when capital flows dry up
   - This pattern of growth is associated with current account deficits and the overvaluation of the currency
   - and the booming of the “wrong” kinds of economic activities, which do not promote long-term growth
     - non-tradables such as construction and real estate

Where does growth come from?

There is “bad” growth (2)

2. Commodity boom-led growth

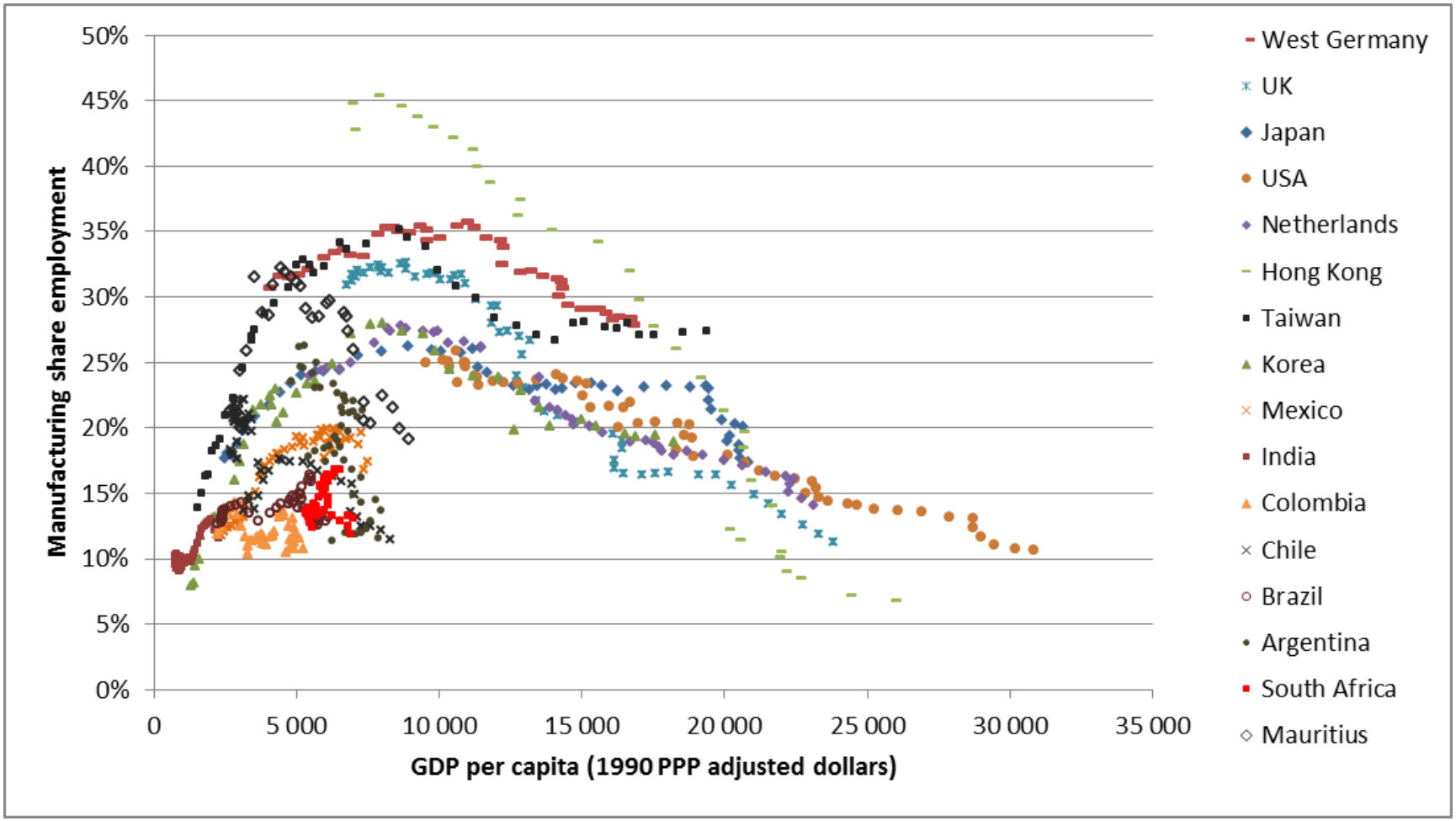
- Examples: 19th century, many African (and Latin American) countries in the last decade
- Not sustainable in the longer term, because of both cyclicality and long-term downwards trend in the commodity terms of trade
- Also associated with the booming of the “wrong” kinds of economic activities
- And produces bad politics on top
  - Resource rents and the rentier state
  - Chile a rare example of a country that has (so far) managed resource rents well

Where does growth come from?

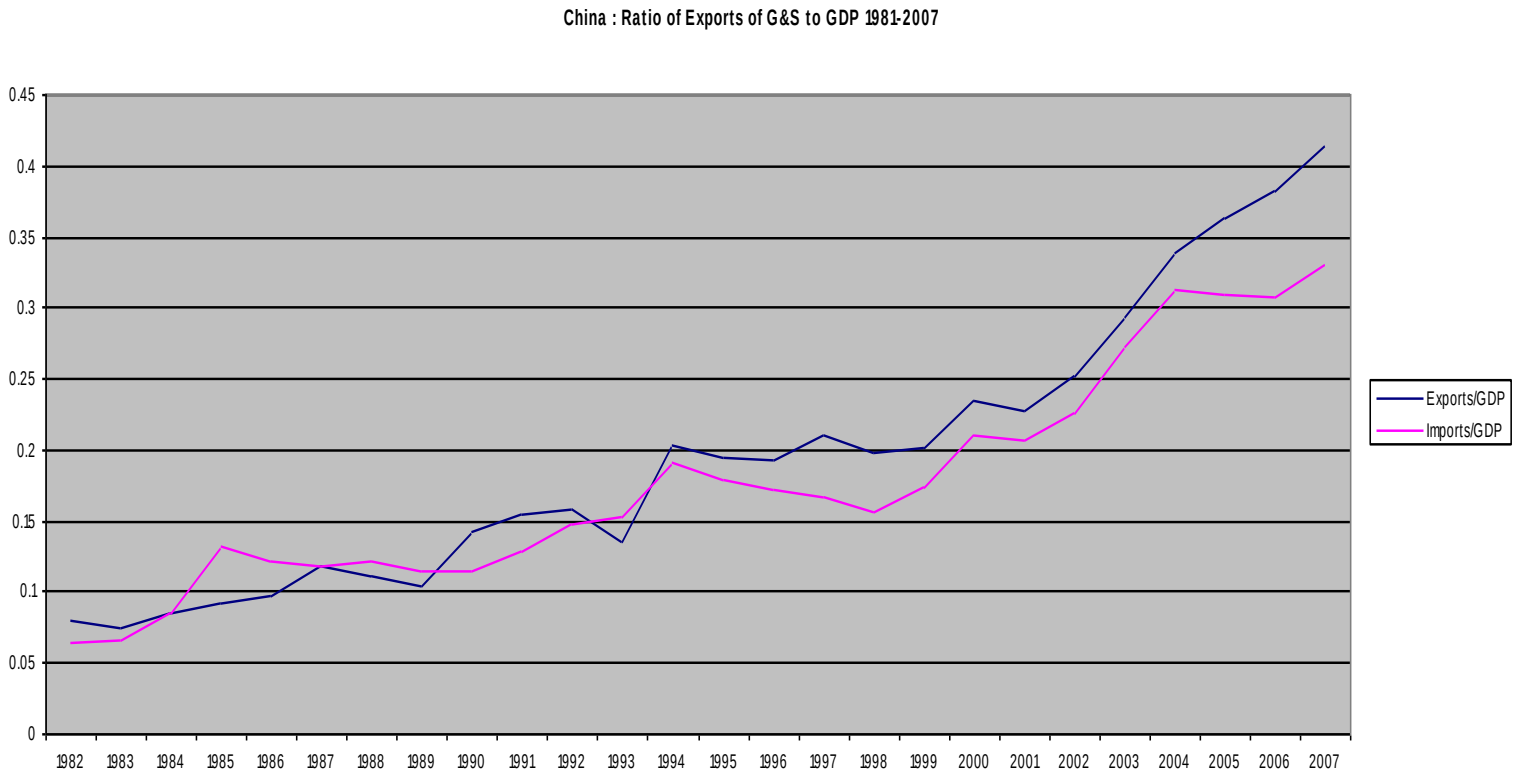
X I·yŘ űĸŜyˇűĸŜℕŜ ƛă άƎƩƩŘέ **growth (3)**

3. Structural transformation-led growth
   - **From low-productivity traditional products**
     - traditional agriculture and informality
   - **to modern, non-traditional activities**
     - manufacturing, non-traditional export crops, and tradable services
   - Examples: Japan, S. Korea, China, India
   - **Based not on (static) comparative advantage, but on producing what countries richer than you produce**
   - Associated with "productivist" policies
     - policies that *explicitly* promote structural change, through removal of constraints on investments in modern activities
     - And through industrial policies, undervalued currencies, financial controls
     - Underpinned by sound macro/fiscal policies
   - **This is the only model that generates reliably sustained convergence with income levels in the advanced countries**

Example: Manufacturing Share Rises and then Falls



Trade and Growth: Why do fast growing countries like China import so much?

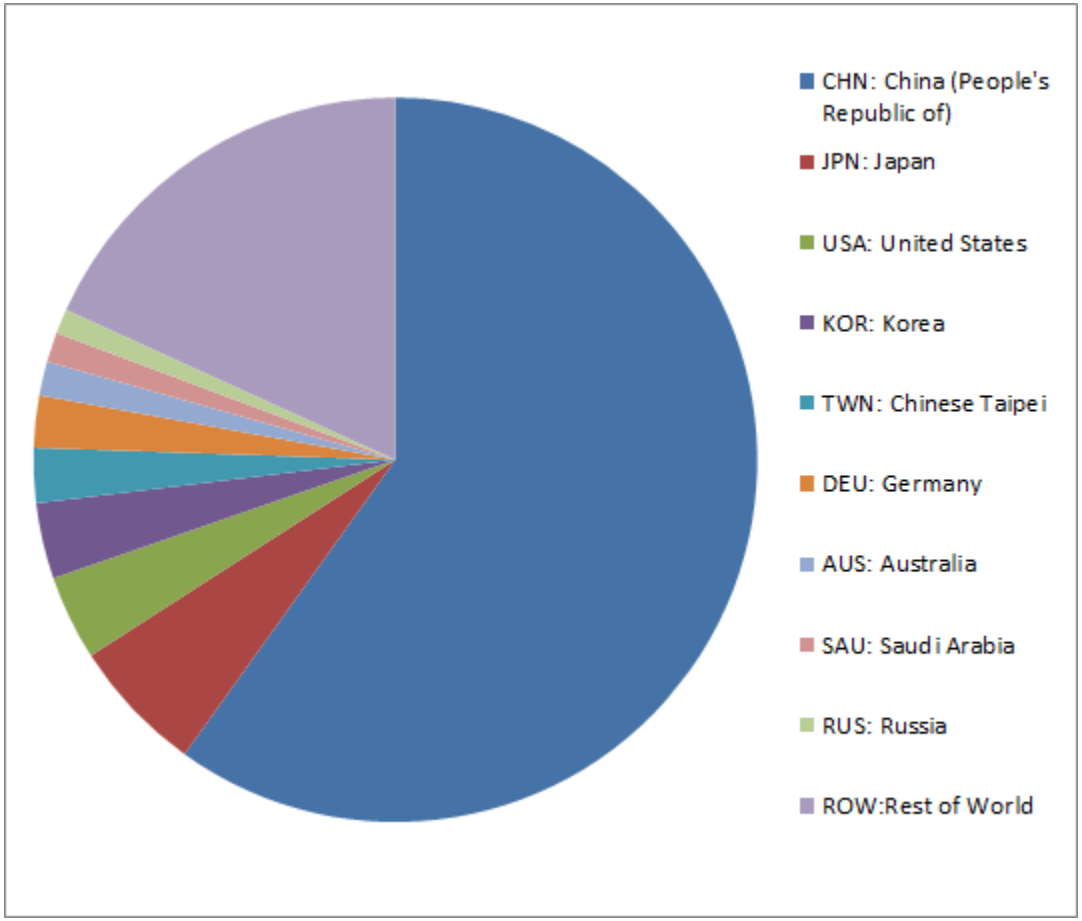


Trade and Growth: Exports and Imports Typically Grow faster than Output

- Links between growth and trade.
  - To Invest (buy equipment) and use inputs you must import.
  - To pay for imports you must eventually export.
  - To export in a world of supply chains you must import.
  - Export promotion leads to import promotion.
  - E.G. Free Trade Zones.

China: Manufactured Exports in 2012

40 percent of Value Imported.



I-Phone: Made in the World

$11, U.S. While America doesn't make much of what goes into the iPhone, it's always better to innovate than to fabricate; just see Apple's profit

$61, JAPAN. It doesn't innovate as much as the U.S., but its tech prowess means a lot of high-end manufacturing value stays there

$7, CHINA. Often more of an assembly line for other nation's wares, work here accounts for only 3.6% of an iPhone's production cost

$48, UNSPECIFIED

$30, GERMANY

$23, SOUTH KOREA

Source: Time Magazine, "Adding Up the iPhone," May 16, 2011.

The other $320?
Apple's profit.

Even the USA BOEING is made in the world.

The New Ecowas Tariff

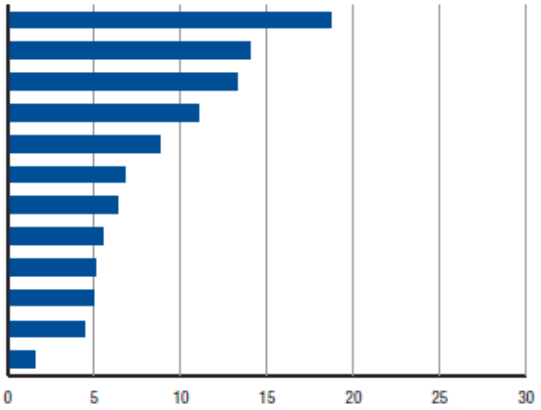
- Å 1 Essential social goods 0%
- Å 2 Basic raw materials and capital goods 5%
- Å 3 Intermediate products 10%
- Å 4 Final consumer goods 20%
- Å 5 Specific goods for economic development 35%

- Å An Improvement on Nigerian schedule but still imposing penalties on exports! ECOWAS Tariffs on Fabrics can be as high as 35 percent, and are often 20% e.g. Denim.

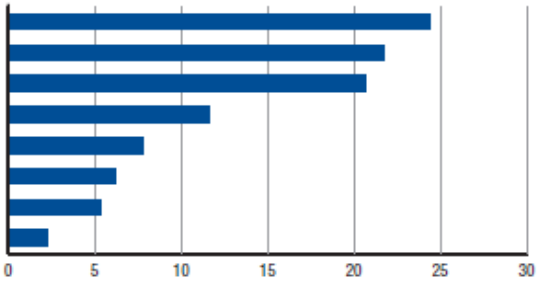
Trade finance: Largest problem for Nigerian Exporters!

The most problematic factors for trade, 2013

Most problematic factors for exporting	Score*
Access to trade finance	18.6
Inappropriate production technology and skills	14.0
Difficulties in meeting quality/quantity requirements of buyers	13.2
Identifying potential markets and buyers	11.0
High cost or delays caused by domestic transportation	8.7
Access to imported inputs at competitive prices	6.8
Technical requirements and standards abroad	6.3
Corruption at foreign borders	5.4
High cost or delays caused by international transportation	5.0
Burdensome procedures at foreign borders	5.0
Tariff barriers abroad	4.4
Rules of origin requirements abroad	1.6



Most problematic factors for importing	Score*
Corruption at the border	24.4
Burdensome import procedures	21.8
Tariffs	20.7
Crime and theft	11.6
High cost or delays caused by domestic transportation	7.8
High cost or delays caused by international transportation	6.2
Domestic technical requirements and standards	5.3
Inappropriate telecommunications infrastructure	2.2



* From the list of factors above, respondents were asked to select the five most problematic for trading in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

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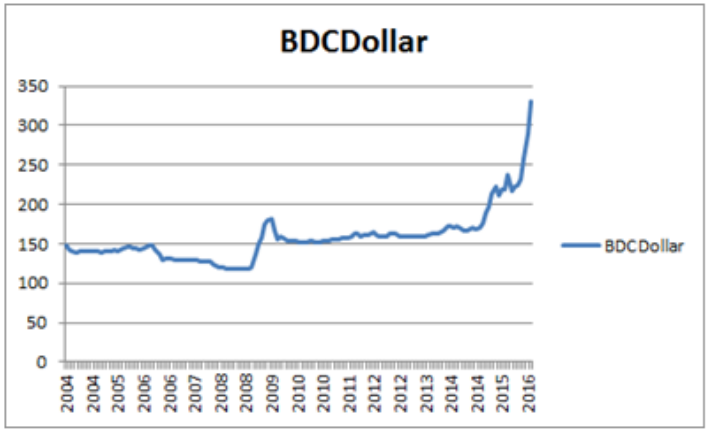
Internal Costs Also Matter for Gains

Nigeria's currency: Extremely overvalued.

Official

Market



Result: Firms are uncompetitive, government finance under stress, incentives for correuption.

Conclusions

- There are opportunities in the current global environment but Nigeria is poorly equipped to achieve them.
- It needs policies that facilitate structural change.
- In principle industrial and trade policies can help.
- But an appropriate macroeconomic environment with a competitive exchange rate

  is essential