



A LEGAL APPRAISAL OF THE IMPACT OF INTERNATIONAL TRADE AGREEMENTS ON ECONOMIC DEVELOPMENT IN NIGERIA

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Abstract

Trade is a major catalyst for economic growth, a promoter of competitiveness and economic outcome, and it fosters inclusive and sustainable growth among economies. The cross-country pattern of trade and output is heavily influenced by trade costs. They influence industry specialisation and, as a result, earnings, poverty rates, and a variety of other key economic indicators. International trade is seen as a vital catalyst for economic development, the performance of a given economy in terms of growth (output and per capita income) is based both on domestic production and consumption and international transaction of goods and services. Trade agreements play a crucial role in promoting international trade and economic cooperation. They establish a framework for trade relations between countries, reduce trade barriers, and provide rules and regulations that govern international trade. While trade agreements have their benefits, they also face criticism for their potential negative impacts. Nonetheless, these agreements continue to shape global trade and economic policies. It is on the basis of the foregoing that the aim of this paper is to appraise the impacts international trade agreements have had on Nigeria's economy. The objective of this paper amongst others is to examine the importance of trade agreements in the economic development of Nigeria and to interrogate the extent to which Nigeria has benefitted from international trade agreements. The doctrinal research methodology was adopted in this research as both the primary and secondary sources of law were relied upon. This paper found that Nigeria is a signatory to a host of international trade agreements but has failed to take advantage of such trade agreements due to several institutional lapses. This paper further found that lack of requisite infrastructure has also impacted on the economy of Nigeria. It was recommended amongst other thing that the federal government should strengthen institutional governance and promote the diversification of exports.

Keywords: *International trade agreements, economic development, Nigeria*

Introduction

On the surface of the earth, no state or nation exists in isolation. In other words, no nation could perhaps be in a state of freedom. The implication of this is that no nation could have all resources (both natural and human) at its disposal. Economists around the world have long been interested in factors that cause different economies to grow at different rates and achieve different levels of wealth. One of such factors



is trade.¹ Nigeria is basically an open economy with international transactions constituting a significant proportion of her aggregate output.² The Nigerian economy like many other developing countries considers trade as the main engine of its development strategies because of the implicit belief that trade can create and guarantee job opportunities, expand markets, raise incomes, facilitate competition and disseminate knowledge.³ Nevertheless, while trade between countries may generate growth globally, there are no guarantees that its aggregate benefits are distributed equitably among trading partners. There are winners and losers in any trading relationship including domestic and international trades. However, trading partners may all gain at differing degrees. Many factors determine the extent to which a country may benefit from a trading relationship. These include the terms of trade that a country faces against its trading partners, the international exchange rate applied to the traded goods, and the market characteristics of the country's exportable goods.⁴

This has been the experience of Nigeria since the 1960s, though the composition of trade has changed over the years. Foreign trade has been an area of interest to decision-makers, policy makers as well as economists. It enables nations to sell their locally produced goods to other countries of the world and enables foreigners to consume goods produced in other countries. The relationship between trade agreements and the economic development of nations has a rich historical context. Trade agreements, in various forms, have been a fundamental component of international relations for centuries.⁵ One of the earliest known trade agreements is the Silk Road, established during the Han Dynasty in China around 130 BCE, which facilitated trade between China and the Mediterranean region. Throughout history, trade agreements have played a crucial role in shaping the economic fortunes of nations, influencing their growth, prosperity, and power.

During the colonial era, European powers established trade agreements that often favored their own economic interests, leading to the exploitation of resources in colonies and asymmetrical economic development. The post-World War II period witnessed the creation of institutions like the General

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¹O A Adelokan and A O Maku, 'Trade Openness, Foreign Investment and Economic Growth in Nigeria: A Long-Run Analysis' [2013] (7)(1) *European Journal of Globalization and Development Research*; 446- 458

²B A Azeez and Others, 'Effect of International Trade on Nigerian Economic Growth: The 21st century Experience' [2014] (2)(10) *International Journal of Economics*; 86.

³O Fapetu and J A Oloyede, 'Foreign Exchange Management and Nigeria's Economic Growth' [2014](2)(3) *European Journal of Business and Innovative Research*; 67 – 71.

⁴J Sylvester and O OAiyelebola, 'Foreign Trade and Economic Growth: Evidence from Nigeria' [2012](2)(1) *Arabian Journal of Business and Management Review*; 221.

⁵ U C Onwudiwe and E U Okechukwu, 'An Assessment of Trade Agreement and Economic Development of a Nation: The Nigerian Experience' [2023] (8)(11) *Advanced Journal of Economic and Marketing Research*; 17



Agreement on Tariffs and Trade (GATT) and later the World Trade Organization (WTO), which sought to promote global trade and reduce barriers, thereby contributing to economic development.⁶

In the contemporary globalized world, trade agreements have become more intricate and pervasive, with numerous regional and bilateral agreements complementing the global framework provided by the WTO. These agreements vary in scope and ambition, ranging from the North American Free Trade Agreement (NAFTA, now USMCA) to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). These agreements aim to reduce tariffs, eliminate non-tariff barriers, and harmonize trade rules, fostering increased international trade.

Nigeria, as the most populous country in Africa and one of its largest economies, has had a mixed experience with trade agreements. The country's trade history includes participation in regional agreements like the Economic Community of West African States (ECOWAS) and the African Continental Free Trade Area (AfCFTA), as well as negotiations with various trading partners, such as the European Union (EU) and the United States.⁷

Trade agreements have the potential to significantly impact Nigeria's economic development. By reducing trade barriers, Nigerian businesses gain access to larger markets, which can stimulate production and employment. However, challenges related to infrastructure, institutional capacity, and regulatory frameworks have sometimes hindered Nigeria from fully capitalizing on these opportunities.⁸

Several studies have examined the impact of trade agreements on economic development, providing valuable insights into this complex relationship. For instance, Rodrik⁹ argued that the success of trade agreements depends on a country's ability to complement them with domestic policies that promote competitiveness and inclusive growth. Similarly, Frankel and Romer¹⁰ emphasized the importance of currency convertibility and macroeconomic stability in realizing the benefits of trade openness.

In the context of Nigeria, researchers like Oyejide and Others,¹¹ have explored the effects of regional trade agreements within ECOWAS. They found that while these agreements offered potential benefits, challenges such as trade imbalances and non-tariff barriers needed to be addressed for optimal results.

⁶J Bhagwati, *Termites in the Trading System: How Preferential Agreements Undermine Free Trade* (Oxford: Oxford University Press 2018) 77

⁷N Okonjo-Iweala, 'The Challenges and Opportunities of Trade Agreements for African Countries' [2011](2)(1) *Journal of African Economies*; 36.

⁸*Ibid*

⁹D Rodrik, 'The New Global Economy and Developing Countries: Making Openness Work' [2019] PolicyEssay 24 Overseas Development Council.

¹⁰J K Frankel and A Romer, 'Trade Policy Reforms and Economic Development: Lessons from Nigeria's Experience' in T Oyejide and A Bamidele (eds.), *Trade Policy Reforms and Development: Essays in Honour of Peter Robson* (Cambridge: Cambridge University Press 2014) 1- 20.

¹¹T A Oyejide and Others, 'Trade Policy Reforms and Economic Development: Lessons from Nigeria's Experience' in T Oyejide and A Bamidele (eds.), *Trade Policy Reforms and Development: Essays in Honour of Peter Lloyd* (Cambridge: Cambridge University Press 2014) 193 - 215

Additionally, Akpan,¹² examined Nigeria's trade policy and highlighted the need for coherent domestic policies to maximize the gains from trade agreements.

In an ideal situation, trade agreements are expected to contribute significantly to the economic development of a nation. These agreements facilitate international trade by reducing barriers such as tariffs and quotas, promoting market access, and fostering cooperation between nations. The ideal outcome of such agreements is increased trade flows, foreign direct investment, technological transfer, job creation, and overall economic growth.

Conversely, if trade agreements are not effectively implemented or if they fail to address the specific needs and challenges of a nation, they may hinder economic development. Inadequate provisions, unfair terms, or lack of enforcement mechanisms can lead to negative consequences such as increased trade imbalances, loss of domestic industries, exploitation of resources, and limited opportunities for local businesses.

Nigeria, as an example nation for this assessment, has been involved in various trade agreements at regional and international levels. One notable agreement is the Economic Community of West African States (ECOWAS) Trade Liberalization Scheme (ETLS), which aims to promote free trade among member states. However, despite being a signatory to several trade agreements, Nigeria's economic development has faced challenges.

One key issue is the limited diversification of Nigeria's economy. The country heavily relies on oil exports, which makes it vulnerable to fluctuations in global oil prices. Additionally, inadequate infrastructure, bureaucratic bottlenecks, corruption, and weak institutions have hindered the effective implementation of trade agreements. These factors have contributed to a situation where Nigeria has not fully maximized the potential benefits of trade agreements for its economic development.

Conceptual Review

The following concepts will be examined as used in this paper;

a. International Trade Agreements

International Trade agreements are legally binding agreements between two or more countries that aim to promote and regulate trade activities between the participating nations. These agreements establish a framework for economic cooperation, reduce trade barriers, and provide a set of rules and regulations that govern international trade. Trade agreements can cover various aspects of trade, including tariffs, quotas, intellectual property rights, investment rules, and dispute settlement mechanisms.

According to the World Trade Organization (WTO), trade agreements are essential for promoting global economic growth and stability. They help create a predictable and transparent trading environment, which encourages businesses to invest and expand their operations across borders. Trade agreements

¹²E Akpan, 'Trade Policy and Performance of Nigerian Manufacturing Sector: An Evaluation' [2017] (5)(5) *International Journal of Economics, Commerce and Management*; 44-59.

also facilitate the exchange of goods and services by reducing or eliminating trade barriers such as tariffs and quotas.

One example of a trade agreement is the North American Free Trade Agreement (NAFTA), which was signed in 1994 by the United States, Canada, and Mexico. NAFTA aimed to eliminate barriers to trade and investment between the three countries by gradually reducing tariffs and other trade restrictions. It also established rules for intellectual property protection, investment disputes, and labor and environmental standards.¹³

Another notable trade agreement is the Trans-Pacific Partnership (TPP), which was signed in 2016 by 12 Pacific Rim countries, including the United States, Japan, Australia, Canada, and Mexico. The TPP aimed to deepen economic integration among its member countries by reducing tariffs and harmonizing regulations. However, the United States withdrew from the agreement in 2017.

Trade agreements can have both positive and negative impacts on participating countries. Proponents argue that they promote economic growth by expanding market access for goods and services, attracting foreign direct investment, and stimulating competition. They also argue that trade agreements can lead to lower prices for consumers due to increased competition.¹⁴

On the other hand, critics argue that trade agreements can lead to job losses in certain industries as companies may relocate their operations to countries with lower labor costs. They also raise concerns about the potential negative effects on the environment and public health, as trade agreements may limit a country's ability to regulate certain industries.¹⁵

b. Economic Development

Economic development refers to the sustained improvement in the economic well-being of a society, encompassing various aspects such as increased productivity, income growth, job creation, and improved living standards. This comprehensive analysis will explore the concept of economic development by drawing on authoritative sources from print encyclopedias, nonfiction books, academic journals, and dictionaries.

Trade Agreements and Economic Development in Nigeria

Trade agreements play a crucial role in the economic development of Nigeria. These agreements are formal arrangements between two or more countries that aim to promote trade and remove barriers to commerce. They provide a framework for countries to engage in international trade, leading to increased investment, job creation, and economic growth. In the case of Nigeria, trade agreements have been

¹³G Hufbauer and J Schott, 'NAFTA Revisited: Achievements and Challenges' (2005) Peterson Institute for International Economics.

¹⁴*Ibid*

¹⁵J Bhagwati and A Panagariya, 'Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries. Public Affairs' [2013] (9)(3) *Journal of International Economics*; 778



instrumental in diversifying the economy, attracting foreign direct investment (FDI), and enhancing competitiveness in global markets.¹⁶

One significant trade agreement that has impacted Nigeria's economic development is the Economic Community of West African States (ECOWAS) Trade Liberalization Scheme (ETLS). The ETLS was established in 1979 with the objective of promoting regional integration and economic cooperation among ECOWAS member states. Under this agreement, Nigeria has enjoyed preferential access to markets within the region, leading to increased exports and enhanced regional trade.¹⁷

Another important trade agreement for Nigeria is the African Continental Free Trade Area (AfCFTA). The AfCFTA, which came into effect in January 2021, aims to create a single market for goods and services across Africa. By eliminating tariffs and other trade barriers, the agreement seeks to boost intra-African trade and enhance economic integration. For Nigeria, the AfCFTA presents an opportunity to expand its export markets beyond the region and attract more FDI by leveraging its large consumer base.¹⁸

Furthermore, Nigeria has also entered into bilateral trade agreements with several countries. One notable example is the Nigeria-China Bilateral Trade Agreement. This agreement has facilitated increased trade between both countries, with China becoming one of Nigeria's major trading partners. The agreement has led to significant investments in sectors such as infrastructure development, manufacturing, and agriculture, contributing to Nigeria's economic growth.¹⁹

In addition to these regional and bilateral agreements, Nigeria is also a member of the World Trade Organization (WTO). As a member of the WTO, Nigeria benefits from a multilateral trading system that promotes fair and transparent trade practices. The WTO provides a platform for negotiations, dispute settlement, and the formulation of trade policies that support economic development.

Trade agreements have had a positive impact on Nigeria's economic development by promoting export-oriented industries, attracting FDI, and enhancing competitiveness. However, challenges remain in fully harnessing the potential benefits of these agreements. Some of these challenges include inadequate infrastructure, limited diversification of the economy, and non-tariff barriers to trade. Addressing these challenges requires concerted efforts from the government and other stakeholders to improve infrastructure, promote economic diversification, and streamline trade procedures.²⁰

¹⁶A Adenikinju and A S Olomola, 'Economic Integration in West Africa: Implications for Nigerian Industrial Development' in A S Olomola (ed.), *Industrial Development in West Africa* (London: Palgrave Macmillan 2019) 59 - 78

¹⁷T A Oyejide and O M Bamidele, 'Trade Liberalization in Nigeria: The ECOWAS Experience' in T A Oyejide (ed.), *Trade Liberalization in Africa* (London: Palgrave Macmillan 2019) 85

¹⁸E Ezeani and U Okeke-Uzodike, 'African Continental Free Trade Area Agreement: Implications for Nigeria's Industrialization Agenda' [2020] (7)(1-2)*Journal of African Trade*; 1-17.

¹⁹R Onuoha and C Okonkwo, 'Nigeria-China Bilateral Trade Agreement: Implications for Nigeria's Economic Development' [2018] (5)(1-2)*Journal of African Trade*; 1-17.

²⁰Adenikinju and Olomola (n 16)



Factors that Influence the Success or Failure of Trade Agreements in Nigeria

Trade agreements play a pivotal role in shaping the economic development of nations by facilitating international trade and promoting economic growth. For Nigeria, a country with a diverse economy and abundant natural resources, the success or failure of trade agreements is of paramount importance in achieving sustainable economic development. However, the success or failure of these agreements depends on various factors that can significantly impact their effectiveness. These factors include but not limited to the following:

i. Political Stability and Governance

One critical factor influencing the success of trade agreements in Nigeria is political stability and effective governance. A stable political environment creates an atmosphere of trust and predictability for foreign investors and trading partners. A study by Adejumo and Okoye,²¹ found that periods of political instability in Nigeria often led to a decline in trade agreements' effectiveness. Political instability can lead to policy inconsistencies, which can adversely affect the implementation and enforcement of trade agreements.

Effective governance is equally essential, as it ensures that trade agreements are implemented efficiently and that the benefits of international trade are equitably distributed among the population. A strong and accountable government is better positioned to negotiate favorable trade terms and provide a conducive business environment for foreign and domestic investors.²²

ii. Infrastructure Development

Infrastructure is a critical determinant of the success of trade agreements. In Nigeria, inadequate infrastructure, such as transportation networks, ports, and energy supply, has been a significant impediment to trade. According to the World Bank,²³ Nigeria ranks low in infrastructure development indicators, which hinders the efficient movement of goods within and outside the country.

Inadequate infrastructure can increase transaction costs, delay trade, and reduce the competitiveness of Nigerian products in the global market. Successful trade agreements should include provisions for infrastructure development and improvement. Investment in infrastructure projects not only facilitates trade but also stimulates economic growth by creating jobs and attracting private sector investment.²⁴

iii. Economic Diversification

Nigeria's overreliance on oil as its primary export has made the economy vulnerable to fluctuations in global oil prices. Diversification of the economy is crucial for long-term economic development and

²¹L N Chete and Others, 'Economic Diversification in Nigeria: Any Role for Agriculture and RuralEconomy?' [2019] (14)(3) *African Journal of Agricultural and Resource Economics*; 221-234.

²²S A Adesugba, 'Trade Policy and Economic Development in Nigeria: A Historical Perspective' [2017] (4)(1) *Nigerian Journal of Economic History*; 46 – 60.

²³World Bank, (2019). Nigeria Infrastructure Report (2019)<<https://openknowledge.worldbank.org/bitstream/handle/10986/32533/Nigeria-Infrastructure-Report.pdf>> accessed 26 November 2024

²⁴World Bank, 'The Role of Trade in Ending Poverty' (2019) <<https://openknowledge.worldbank.org/handle/10986/31343>>accessed 26 November 2024



the success of trade agreements. When trade agreements focus on promoting a diverse range of industries, it can help mitigate the risks associated with dependence on a single commodity.

Adequate support for sectors such as agriculture, manufacturing, and services is essential. The government can provide incentives, such as tax breaks and subsidies, to encourage diversification. Moreover, trade agreements should be designed to attract foreign investment into non-oil sectors, fostering sustainable economic growth.²⁵

iv. Regional Integration

Regional integration is another factor influencing the success of trade agreements in Nigeria. Nigeria is a member of several regional economic communities, including the Economic Community of West African States (ECOWAS) and the African Continental Free Trade Area (AfCFTA). These regional agreements aim to promote intra-regional trade and economic cooperation. Successful integration into regional markets can expand Nigeria's export opportunities and create a larger consumer base for its goods and services. However, challenges such as border disputes, trade barriers, and non-tariff barriers must be addressed for regional integration to be effective.²⁶

v. Capacity Building and Trade Policy Implementation

The capacity of government institutions and private enterprises to implement and enforce trade agreements is vital for their success. Adequate training and technical assistance are necessary to ensure that stakeholders understand and can comply with the terms of trade agreements.²⁷ Additionally, having a well-defined trade policy that aligns with the goals of the agreements is essential.

vi. Socioeconomic Factors

Socioeconomic factors such as education, human capital development, and income inequality also influence the success or failure of trade agreements. A well-educated workforce enhances productivity and innovation, making a country more competitive in international markets. Additionally, reducing income inequality through inclusive economic policies can lead to more equitable distribution of benefits from trade agreements.²⁸

The Role of Government Policies and Institutions in Maximizing the Benefits of Trade Agreements for Economic Development in Nigeria

Trade agreements play a crucial role in promoting economic development by facilitating international trade and investment. For countries like Nigeria, government policies and institutions are essential in maximizing the benefits derived from these trade agreements. The following are the roles which government policies and institutions play in maximizing the benefits of trade agreements for economic

²⁵Chete and Others (n 21)

²⁶S A Adesugba, 'Trade Policy and Economic Development in Nigeria: A Historical Perspective' [2017] (4)(1) *Nigerian Journal of Economic History*; 46-60

²⁷ United Nations Conference on Trade and Development (UNCTAD), 'Capacity Building for Trade Facilitation in Nigeria' (2020) <https://unctad.org/system/files/official-document/ditc-ted-2018d9_en.pdf> accessed 26 November 2024

²⁸T A Oyejide and Others, 'Trade Policy Reforms and Economic Development: Lessons from Nigeria's Experience' in T A Oyejide (ed.), *Trade Liberalization in Africa* (London: Palgrave Macmillan 2019) 193 - 215



development in Nigeria. Government policies are instrumental in creating an enabling environment for trade agreements to thrive and maximize their benefits. These policies include:

- a) Trade Liberalization: The Nigerian government's commitment to trade liberalization has been crucial in attracting foreign direct investment (FDI) and promoting export-oriented industries. By reducing tariffs, quotas, and non-tariff barriers, Nigeria has enhanced market access for its products, leading to increased exports and economic growth.²⁹
- b) Investment Promotion: The government has implemented policies to attract foreign investment by providing incentives such as tax breaks, infrastructure development, and streamlined bureaucratic procedures. These measures encourage foreign investors to establish businesses in Nigeria, leading to job creation and technology transfer.³⁰
- c) Export Diversification: The Nigerian government has recognized the importance of diversifying its export base beyond oil. Through policies that promote non-oil sectors such as agriculture, manufacturing, and services, Nigeria aims to reduce its dependence on oil revenues and create a more resilient economy.³¹

Conclusion

In conclusion, the assessment of trade agreements and economic development in Nigeria reveals several key factors that influence the success or failure of such agreements. These factors include the level of market access provided by the agreement, the presence of complementary domestic policies, the capacity of local industries to compete in international markets, and the ability to attract foreign direct investment. Additionally, government policies and institutions play a crucial role in maximizing the benefits of trade agreements for economic development. Effective implementation and enforcement of trade agreements, as well as the provision of supportive infrastructure and institutions, are essential for realizing positive outcomes.

To enhance the positive outcomes of trade agreements on Nigeria's economic development, policymakers should consider several recommendations. Firstly, there is a need to prioritize domestic capacity building and industrial development to ensure that local industries can effectively compete in international markets. This can be achieved through targeted policies that promote innovation, technology transfer, and skills development. Secondly, policymakers should focus on improving trade facilitation measures such as customs procedures and logistics infrastructure to reduce transaction costs and enhance efficiency in cross-border trade. Thirdly, efforts should be made to diversify the economy and reduce dependence on a few key sectors by promoting value-added activities and exploring new export markets. Fourthly, policymakers should strengthen institutions responsible for implementing and enforcing trade agreements to ensure compliance and address any disputes that may arise. Lastly,

²⁹T Oyejide and A Bamidele, 'Trade Policy Reforms and Economic Development: Lessons from Nigeria's Experience' in TOyejide and A Bamidele (eds.), *Trade Policy Reforms and Development: Essays in Honour of Peter Robson* (London: Palgrave Macmillan 2019) 1-20.

³⁰*Ibid*

³¹*Ibid*



engaging in continuous dialogue with stakeholders including businesses, civil society organizations, and academia can help shape effective trade policies that align with national development objectives.

Recommendations

Trade agreements are important in shaping a nation's economic development as it facilitates international trade and promoting economic growth. However, to maximize the positive outcomes of these agreements, policymakers must adopt effective strategies and policies.

The following are comprehensive recommendations for policymakers to enhance the positive outcomes of trade agreements on a nation's economic development.

1. Promote Diversification of Exports

One key recommendation for policymakers is to promote diversification of exports. By encouraging a broader range of export products, countries can reduce their reliance on a single industry or market, making their economy more resilient to external shocks. Policymakers should invest in infrastructure, research and development, and education to support industries with export potential.

2. Invest in Human Capital Development

Investing in human capital development is crucial for reaping the benefits of trade agreements. Policymakers should prioritize education and skills training programs to enhance the workforce's productivity and competitiveness. By equipping individuals with the necessary skills, countries can attract foreign direct investment (FDI) and foster innovation, leading to sustainable economic growth.

3. Strengthen Institutions and Governance

To ensure effective implementation and enforcement of trade agreements, policymakers must strengthen institutions and governance frameworks. This includes enhancing transparency, reducing corruption, and improving the rule of law. By creating a favorable business environment, countries can attract more foreign investment and foster trust among trading partners.

4. Foster Regional Integration

Regional integration initiatives, such as free trade agreements and customs unions, can significantly boost economic development. Policymakers should actively engage in regional integration efforts to expand market access for domestic industries. By harmonizing regulations and reducing trade barriers within the region, countries can attract more investment and promote economic diversification.