

# IMPACT OF CHANGE IN FOREIGN TRADE POLICY TOWARD DEREGULATION OF NIGERIAN ECONOMY: A CASE STUDY OF SMALL AND MEDIUM SCALE BUSINESSES IN LAGOS STATE

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**Abstract:** The study investigated on influence of foreign trade policy toward deregulation on the operation of small and medium scale businesses in Lagos State. Some economist argues that trade deregulation frequently better the lot of developed economies compare to developing economies. Since Nigeria is a developing country, it seems it might not benefit much from foreign trade deregulations. Nigeria has taken up several trade deregulation policies even since 1986. Trade deregulation frequently leads to an alteration in the balance of an economy as many organisations develop, while some retrogress, and this has been a major concern for all the stakeholders in Nigerian Economy. The research thus, investigated on impact of government foreign trade policy toward deregulation on Nigerian Economy: A case study of Small and Medium Scale Businesses in Lagos State, Nigeria

This assertion requires empirical investigation. The study used *ex-post facto* design of survey research type; sixty-five (65) small and medium scale business owners were drawn through two stage sampling procedure in Lagos State. Key Informant Interview Guide was used to gather information in this study research questions were raised and answered in this study. The data obtained were analysed using descriptive statistics of percentage and frequency count.

The inference that can be drawn from the research is that foreign trade deregulation policy enhances economic growth. Conclusion can be made that when a government formulates policy that will cushion the effect of unhealthy rivalry from foreign trade deregulation it will promote substantial advancement in Small and Medium Scale Businesses. Therefore, government should formulate policies that will encourage the advancement of small and medium scale business.

**Keywords:** deregulation, economic growth, trade, business.

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## 1. INTRODUCTION

The function of Small and Medium-Scale Business (SMSB) in the country's economy cannot be undervalue. Firms in these categories are being assumed increasing policy concentration nowadays, especially in developing nations relatively because of increasing failure of development strategies concentrating on large scale capital intensive and high import dependent manufacturing companies. The influence of SMSB is noticed through the following areas: Efficient utilisation of domestic human and non-human resources, reinforcement of local area advancement, employment generation,

mobilisation of domestic savings, development of entrepreneurship, encouragement of provincial equilibrium by evenly distributing investments, linkages with giant manufacturing company, stimulation of opportunity for personal-employment and creating chances for developing semi-skilled labour and managers (Raghuvanshi, Agrawal and Ghosh, 2017).

Many countries, including Nigeria since the mercantilist era kept barriers to guide the direction of foreign trade. However, deregulation implies elimination of obstruction, impediment or constraint on the unrestrained interchange of services and goods among nations. This includes the declining or elimination of both non-tariff obstacles (such as quotas, licensing rules and other requirements) and tariff impediments (such as surcharges and duties). The abolition or elimination of these obstructions is frequently referred to as encouraging “free trade”. (Pickford and Wheeler, 2001). In 1960 when Nigeria got political autonomy from the colonialist, the country’s economy depended purely on income from agriculture profit. Planting of crops and rearing of animals was the domineering activities in the local locations of Nigeria (Tokula, Asumugha and Ibcagi, 2007). After gaining political independence in 1960 from her former colonial masters, Nigeria was eager to gain economic independence, therefore, embraced the import substitution policy. In trying to reduce imports, she unconsciously increased the import of raw materials. In the late 1900s, the indigenization policy, meant to reduce the control of foreign governance had a knockout effect on enhancing Nigerian Economy. However, since the inception of the time Structural Adjustment Programmes (SAP), the primary objective of Nigeria’s trade deregulation policies has been to attract Foreign Direct Investment (FDI) (Agbebaku, Edeko and Aghemelo, 2005).

Trade deregulation is the core of the SAP being executed by many Sub-Saharan Africa (SSA) countries, Nigeria inclusive. Nigeria is principally an open economy with foreign business deal, constituting a substantial fraction of her total output (Onah, 2005). The basis of the Structural Adjustment Programmes induced policy was the deregulation of local economies to face upsurge competition in order to guarantee effective resource usage, elimination of enduring misalignment in the domestic and external sectors which guarantee continuous balance of payments dis-equilibrium and absolute redistribution of the economy to the path of growth and recovery. Enough studies have been carried out on the linkage between openness of trade management and economic growth, several studies have that there is a favourable link between trade openness and economic performance (Chesa and Yusuf, 2009; Eke, 2008; and Oghale, 2005). Regardless of the advantages of trade openness that is trade deregulation, it also has its disadvantages which consist of unfavourable terms of trade, destruction of infant industries, unemployment, problem of balance of payment deficit, neo-colonialism, and economic dependence (Chaudhuri and Midkhopadhyay, 2003).

Deregulation implies declining or elimination of obstruction, impediment or constraint on the unrestraint interchange of services and goods among nations. This contains the declining or elimination of both non-tariff obstacles like (quotas, licensing rules and other requirements) and tariff such as (surcharges and duties). The abolition or elimination of these obstructions is frequently referred to as encouraging “free trade”. Many countries including Nigeria since the mercantilist era kept barriers to guide the direction of foreign trade (Pickford and Wheeler, 2001). Foreign Direct Investment (FDI) has been viewed as a major stimulus to economic growth in developing countries. Its ability to deal with two major obstacles; namely, shortages of financial resources and technology and skills, has made it the center of attention for policymakers in low-income countries. Despite the significance generated by foreign direct investment flows, the flow to developing countries and the world, in general, has witnessed persistent decline over the years. The implication for the drop means that competition to attract foreign direct investment has increased as developing countries continue to create the enabling environment to attract foreign investors. Nigeria has, over the last decade, pursued various forms of economic reforms and deregulation of trade in order to become more competitive in the international financial market. These were carried out through partial or at times outright elimination of all policy obstacles on trade with other countries of the World (Shah and Punit, 2015)

### **Statement of the Problem**

Nigeria has embraced several trade deregulation policies even since 1986. Trade deregulation frequently leads to an alteration in the balance of an economy as many organisations develop while some regress, and this has been a major concern for all the stake holders in Nigeria economy. Structural unemployment from certain liquidating factories is inevitable. In fact, in the short run, trade deregulation may be harmful to the economy, as many factories and employees suffer hardship resulting from the regression of un-competitive factories. Some economist argues that trade deregulation frequently better the lot of developed economies compare to developing economies. Since, Nigeria is a

developing country it seems that the country might not benefit much from trade deregulation. Therefore, the researcher investigates on influence of foreign trade policy toward deregulation on the operation of small and medium scale businesses in Lagos State.

### Research Questions

Consequent to the stated problem, the study will provide answer to these questions:

1. Investigate the impact of change in government foreign trade policy toward deregulation on economic growth in Lagos.
2. Examine the effect of change in government foreign trade policy toward deregulation of Nigerian Economy on the advancement of SMSB in Lagos State, Nigeria.

### Significance of the study

The finding of this research will present information on impact of government foreign trade deregulation policy on Nigerian Economy: A case study of small and medium scale businesses in Lagos State. Therefore, the results of the research shall add to the existing literature on government foreign trade deregulation policy as well as small and medium scale businesses. It will also enable government to identify the influence of deregulation on small and medium scale business; it will also expose the entrepreneurs to the fact that, a little dose of deregulation in the economy will make some raw materials available for their use. The results from this research will also assist government to know the on impact of government foreign trade policy toward deregulation on Nigerian Economy on small and medium scale businesses operation and policy makers will be able to attach more importance to the formulation of favourable policy for the survival of infant businesses and it is anticipated that the results of this study will contribute immeasurably to the expansion of knowledge; hence, the results will serve as a baseline for future research work.

## 2. METHODOLOGY

### Research Design

The study adopted *ex-post facto* design of survey research type. This research design was chosen because the researcher did not have control over the variables as they are inherently not manipulable, and participants are not assigned randomly.

### Population and Sample

The target population for this study comprised all small and medium scale business owners in Lagos State. The reason for this choice was that they are in the best position to provide adequate data to the researcher about the impact of government foreign trade policy toward deregulation on Nigerian Economy.

Two stage sampling procedure was used for selection of participants in the study. First, simple random sampling technique was employed to select sixty-five (65) small and medium scale businesses that fall within the study coverage. Moreover, from each of the selected small and medium scale businesses, purposive sampling technique was adopted to select all the owners of businesses selected in the first stage, making a total of sixty-five (65) respondents that participated in in-depth interview.

### Instrumentation

An instrument was designed for this study. This is:

#### Key Informant Interview Guide (KIIG)

This instrument was developed by the researcher to guide the discussion process during the Key Informant Interview exercise. It was used to gather first-hand information on the impact of change in foreign trade policy toward deregulation of Nigerian Economy. This guide comprised of semi structured questions, ordered in a sequential manner in order to sustain coherence in responses and assess key informant's ability to express his or her experiences over the years, in order of priority. The usefulness and validity of the guide was determined using face and content validity. These was obtained using the judgement of experts in qualitative research, in the field of social science.

### Data Collection

The data was collected from some selected small and medium scale business owners by the researcher. In each of the SMSB that was sampled, the researcher interacted with the participants with the aid of KIIG through interviews with the owners of each business. The researcher took notes of the questions being answered and, in some cases, the interviews are recorded for further review

### Method of Data Analysis

Data collected were analysed using descriptive statistics and discussion. It is qualitative research in which the data derived from interviews was read and studied thoroughly to understand each participant's view on each question and their views are recorded with descriptive statistic used to analyze the frequency of occurrence of same opinions shared on each question and the findings discussed for each question.

## 3. RESULT

The results are presented and discussed with respect to the research questions that guided the study. Each question asked in the questionnaire were presented and analysed according to their relevance to each research questions and at the end, findings were able to be presented in accordance with the data presented. The data derived from interviews was read and studied thoroughly to understand what each participant's view on each question and their views are recorded with descriptive statistic used to analyze the frequency of occurrence of same opinions shared on each question.

### Research Question One

Does change in government foreign trade policy toward deregulation of Nigerian Economy enhance economic growth in Lagos State, Nigeria? The opinions of the participants on what effects the deregulation policy have had on GDP and how the policies have augment market for domestic products, and to know whether the government foreign trade deregulation policy has caused a dumping effect in Lagos. The data is presented and analysed in accordance with the interview questions relevant to it.

**Table 1: Frequency Distribution of Respondents view on Foreign Trade Deregulation Policy effect on Gross Domestic Product**

In your own opinion, can you conclude that foreign trade deregulation policy increases Gross Domestic Product?	Frequency	Percentage
Gross domestic product has increased due to foreign trade deregulation	52	80
No, it has reduced our domestic product production	7	10.8
Increase in GDP was not due to foreign trade deregulation	6	9.2
Total	65	100

Table 1 showed that 52 (80%) of the participants which represented the majority believed foreign trade deregulation policy increases GDP. While 7 participants (10.8%) believed that foreign trade deregulation has reduced GDP and domestic product production. 6 participants who represent 9.2% of the total participants believed that the increase in GDP was not due to foreign trade deregulation. This has shown that it is believed that foreign trade deregulation policy has improved the GDP.

**Table 2: Frequency Distribution of Respondents View on Foreign Trade Deregulation Augmentation of Market for Domestic Product?**

Does foreign trade deregulation augment market for domestic product?	Frequency	Percentage
Yes, exporting of our products to other countries is easier now meaning more sales and profits	41	63.1
Influx of cheaper foreign goods has reduced demands for our products and services.	14	21.5
More access to foreign raw materials has encouraged more production of local goods.	4	6.2
It has made no difference	6	9.2
Total	65	100

Table 2 showed that 41 (63.1%) of the participants are of the opinion that foreign deregulation policy do augments market for domestic products as this has enabled them to export their products to other countries for more profit. While 14 (21.5%) of the participants believe foreign deregulation policy does not augment market for domestic product as cheaper foreign goods in the country has reduced demands for their domestic products. A further 4 participants who represent 6.2 % of the total participants believe trade deregulation policy has helped them to access cheaper foreign raw materials and thereby helping in more production of profitable domestic goods. Finally, 6 participants (9.2%) say it hasn't made any difference.

**Table 3: Frequency Distribution of Respondents View on Impact of Foreign Trade Deregulation Policy on Dumping Effect in Lagos State**

Does foreign trade deregulation engender dumping effect in Lagos State?	Frequency	Percentage
Yes, and they are mostly inferior products compared to local products	28	43
It has been going on before foreign trade deregulation policy.	20	30.1
Products has always come in illegally	17	26
Total	65	100

Table 3 showed that 28 (43%) of the participants are of the opinion that foreign deregulation policy does encourage dumping effect in Lagos and that most of the products are inferior products compared to locally made ones. 20 (30.1%) participants believe that dumping effect has always been in Lagos way before deregulation policy. Meanwhile, 17 participants who represent 26% to total participants are of the opinion that products have always come in illegally regardless of foreign trade policy. It can be deduced that there is a dumping effect in Lagos although not mostly my foreign trade policy.

#### Research Question Two

What is the influence of change in government foreign trade policy toward deregulation of Nigerian Economy on SMSB advancement in Lagos State, Nigeria? The questions asked gave information on the opinion of the business owners on whether deregulation policy has had a positive effect in enticing new investors into SMBS in Lagos State, and tounderstand the effect of the government deregulation policy on innovation in SMSB in Lagos State and their opinion as to setbacks in SMSB as a result of deregulation policy of Nigerian Economy.

**Table 4: Frequency Distribution of Respondents View on How Change in Government Foreign Trade Policy Toward Deregulation of Nigerian Economy Affect Entrant of Local Investors Into SMSB**

How does change in government foreign trade policy toward deregulation of Nigerian Economy affect entrant of local investors into small and medium scale business?	Frequency	Percentage
It gives more confidence to do business knowing that laws and circulars won't just spring up anyhow	1	1.5
It gives room for cheap inputs and raw materials thereby allowing high increase in entrants into small and medium scale business.	18	27.7
No effects	9	13.8
Reduces competition that might arise	1	1.5
I don't know/ I can't say.	14	21.5
Give space for more competition	10	15.4
Reduce some certain risk at the market level	3	4.6
It creates a negative effect discouraging local production over international importation, especially in areas where the cost of production in marginally higher than importation	1	1.5
Threat to infants small and medium scale businesses.	8	12.3
Total	65	100

Table 4 showed that 18 (27.7%) of the participants which represented the majority believed deregulation bring about It gives room for cheap inputs and raw materials thereby allowing high increase in entrants into SMSB. Similarly, 14 (21.5%) of the participants were uncertain about the effect of deregulation on entrant of Local Investors into SMSB. Also, 10 (15.4%) of the participants stated that deregulation give space for more competition. In addition, 9 (13.8%) of the participants claimed that deregulation has no effects. Besides, 8 (12.3%) of the participants believed deregulation

promotes threat to infants SMSB. Furthermore, 3 (4.6%) of the participants posited that deregulation reduce some certain risk at the market level. Again, 1 (1.5%) of the participants claimed that deregulation creates a negative effect discouraging local production over international importation, especially in areas where the cost of production is marginally higher than importation. Likewise, 1 (1.5%) of the participants asserted that deregulation reduces competition that might arise and 1 (1.5%) of the participants declared that it gives more confidence to do business knowing that laws and circulars won't just spring up anyhow.

**Table 5: Frequency Distribution of Respondents View on Whether Change in Government Foreign Trade Policy Toward Deregulation of Nigerian Economy Promote Serious Setback in SMSB**

Do you agree that change in government foreign trade policy toward deregulation of Nigerian Economy promote serious setback in small and medium scale business?		Frequency	Percentage
	No, it has been generally good for the economy though implementation is not so good	52	80
	No serious setback, it is more of the same	8	12.3
	Yes, demands for our goods has reduced	5	7.7
	Total	65	100

Table 5 showed that 52 (80%) of the participants are of the opinion that foreign deregulation policy does not promote serious setback in SMSB and that it has generally been good for the economy though the implementation can be improved on. While 8 participants believe that there might be setbacks but it's not a serious one and that it's more of the same. A further 5 participants who represent 7.7% of the total participants are of the view that foreign deregulation policy has promote serious setback in SMSB. It can be deduced that change in government foreign trade policy toward deregulation of Nigerian Economy doesn't promote serious setback in SMSB

**Table 6: Frequency Distribution of Respondents View on Impact of Foreign Trade Deregulation Towards Innovation in SMSB in Lagos State**

Do you think foreign trade deregulation stimulate innovation in small and medium scale business in Lagos state?		Frequency	Percentage
	Yes, it's easier to start a small-scale business now than before.	43	66.1
	The fear of competitions with foreign counterparts for sales of products is driving people away from starting business	11	16.9
	There are more ways to export products now which encourages more people into business.	11	16.9
	Total	65	100

Table 6 showed that 43 (66.1%) of the participants believed it is easier to start a business now in Lagos than before due to foreign trade deregulation policy and 11 (16.9%) of the participants believed competition from foreign counterparts for sales has driven people away from starting new business. Meanwhile 11 participants which represents 16.9% of the total participants are of the view that export of goods has been easier now and it has encouraged more people to SMSB in Lagos state. This shows foreign trade deregulation stimulates innovation in SMSB in Lagos State.

#### 4. DISCUSSION OF FINDINGS

The findings from this study demonstrates that change in government foreign trade policy toward deregulation of Nigerian Economy has had a positive impact on SMSB and economy in Lagos State though there are still issues of access to cheap foreign raw materials. It is also derived from the findings that foreign trade policy has aided in the area of export of locally made goods to foreign countries for more profits and this has aided in easing the effect of lowering demand for domestic products as a result of influx of cheaper foreign products into Lagos State. It was also observed that foreign trade deregulation policy enhances economic growth. Also, the study revealed that despite the poor to average implementation of the policy, foreign trade deregulation policy generally has a positive effect on Small and Medium Scale Businesses advancement and a lot of improvements can be made on its full and effective implementation and make sure it applies to all businesses regardless of sector. Deregulation of the economy is one of such public steps that government can adopt to improve the performance of the economy since, no economy can operate in isolation because of unequal distribution of

raw materials by nature. Deregulation is an official or specified decisions of state bodies or strategic procedure employed by state or government agents to improve availability of necessary goods and services.

The result revealed the knowledge of the respondents on deregulation as majority of the participants understood it as the reduction or elimination of government power in foreign trade. The result is in consonance with the assertion of Pickford and Wheeler (2001) that deregulation implies declining or elimination of obstruction, impediment or constraint on the unrestraint interchange of services and goods among nations. This involves the elimination of both non-tariff obstacles like (quotas, licensing rules and other requirements) and tariff such as (surcharges and duties). The abolition or elimination of these obstructions is frequently referred to as encouraging “free trade”. Similarly, the result support Akinwumi, Isuku and Agwaranze (2005) who posited that deregulation deals with the elimination of state meddling in the operation of any sector.

The findings from this study revealed the fact that foreign trade deregulation policy enhance economic growth. This finding supports Briggs (2007) who asserted that historical validation has proved that international trade affects economic growth positively by stimulating capital accumulation, industrialization, technological progress and institutional development specifically increased imports of capital and intermediate products, which are not available in the domestic market to induce the productivity of the manufacturing sector. Also, the result is in consonance with the opinion of Achtenhagen, Naldi and Melin (2010) who constructed a policy index to analyze economic growth rate and found that the average growth rate in the period after trade liberalization is significantly higher than in the period before liberalization.

The researcher, therefore, submitted that when government formulate policy that will curbs the effect of unhealthy rivalry owing from foreign trade deregulation it will promote substantial advancement in Small and Medium Scale Businesses.

## 5. RECOMMENDATIONS

The findings summarised above necessitate recommendations for stakeholders in education sector. Therefore, the following recommendations were made.

1. Government should ensure effective implementation of deregulation policies that will encourage the advancement of Small and Medium Scale Businesses especially with ease of importations of raw materials and clearing of goods.
2. Government should establish anti-competition law to protect infant Small and Medium Scale Businesses within the economy to protect them from their foreign counterparts.
3. The policy makers should as a matter of urgency assist prospective entrepreneurs to have access to finance and necessity information relating to business opportunities, modern technology, raw materials, market, plant and machinery which would enable them to reduce their operating cost and be more efficient to meet the market competitions.
4. Capacity building in these enterprises especially medium scale business should be given a high priority by the policy makers in their economic development policies.

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