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Trade Liberalization And Performance Of Multinational Manufacturing Companies In Nigeria (1990-2015)

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***Abstract:** Throughout the 1990s and 2000s Nigeria continued to rely heavily on the export of crude oil, allowing manufacturing to remain in decline, firms where not export oriented and lack efficiency and these has led their contributions to Gross Domestic Product (GDP) to decline, hence these necessitated this study to examine the performance of Multinational Manufacturing companies in Nigeria between 1990-2015. This study was anchored on Adam Smith theory of Absolute Advantage, Expo Facto Research design was adopted for the study. Data was collected from Central Bank of Nigeria Statistical Bulletin and Bureau of statistics, an econometric model was develop and an Ordinary least square(OLS) method was used for estimate of parameter by conducting regression analysis. The result of the findings revealed that there is a significant positive relationship between Balance Payment (BOP), Export (EP), Import (IP) and the Contribution of Multinational Manufacturing companies to Gross Domestic Product (GDP). Sequel to the findings, the study concluded that the contribution of Multinationals manufacturing companies to GDP is determined by increased earnings from exports (receipt) and investments in other foreign countries. It was recommended that policy makers need to develop and adopt effective policies that promotes Manufacturing and encourage manufacturing firms to globalize, employ strategies that promotes export and movement of investment funds to ameliorate Balance of Payment crisis and finally pay adequate attention to manufacturing sector since they are the back bone of every economy.*

***Keywords:** Trade Liberalization, Gross Domestic Product GDP, Balance Of Payment BOP, Multi National Manufacturing Company MNC, Performance.*

I. INTRODUCTION

Since the peak of 7.83 percent in 1982, the performance and contribution of manufacturing as a share of total economic output in Nigeria generally declined. Many factors have contributed to the variation in the sector share through time, many of which show both the vulnerability of manufacturing to global economic pressure, as well as the effects that policy changes can have in reshaping the sector. (Amakom, 2012)

Prior to the Oil Boom of the 1970s, manufacturing contributed approximately 10 percent to Nigeria's economic output, thereafter increased revenue from oil caused the sector's relative Gross Domestic Product (GDP) share to decline, growth persisted at a slower rate. The Manufacturing Association of Nigeria (MAN) has announce that the contribution of the manufacturing sector to the nations Gross Domestic product (GDP) has dipped from 4.21 percent to 4.1 percent, MAN made the declaration in a report released at its 39th Annual General Meeting (AGM), which took place in Lagos. The recession caused by the fall in oil prices in the early 1980s triggered policy attention to turn back to the manufacturing sector.

Nigeria had embarked on several trade policies throughout the post independent era. These policies include industrialization strategy based on import substitution, export promotion and all other forms of administrative procedures. The central objective of these policies is to diversify the country's export base and to continually strengthen trade with other countries. Prior to trade liberalization in Nigeria, government strategy simply involved attracting and encouraging foreign capital to engage in manufacturing activities through provision of social overheads. The role of government was also limited to providing infrastructure and other public incentives. (Iyoha and Oriakhi 2008) Trade liberalization is fast shaping the nature of cross border transaction with the re -emergence of neo- liberal philosophy in the 1980s, which espouse as one of its fundamental policies the removal of all forms of trade restrictions, most developing countries did a u –turn in majority policy thrust to embrace this neo liberal development orthodoxy. (Charles 2011), Trade liberalization is central to the structure adjustment programme (SAP) being implemented by most countries in Sub Sahara Africa including Nigeria, the corner stone of SAP induced policy was the opening up of domestic economies to face increased competition in order to ensure efficiency in resource use, removal of wastages, elimination of persistent misalignment in the external and domestic sectors which ensured continuous balance of payments equilibrium and a general redirection of the economy. Trade liberalization is intended to promote exports and productivity by exploiting comparative advantages that can be gained through exposure to foreign competition and enhanced technical development. It is often argued that that alignment of domestic and foreign prices can generate industrial efficiency by increasing importing capacity, reducing forced idleness of resources, abolishing monopoly profits and allowing optimum resource allocation in the economy. Multinational companies (MNC) have assumed a major role in international trade. According to an estimate by UNCTAD 1999, two thirds of the total world trade was accounted for by MNCs in 1996. In this new environment, MNCs have an edge over local firms owing to their access to property assets, local specific endowments of countries and regions in which they operate and their strategies to deploy and integrate these assets. The nature and character of foreign direct investment(FDI) has also undergone substantial changes with MNCs pursuing more globally integrated production and marketing strategies having greater trading prospects (krumer 2008). It is therefore expected that MNCs would play a key role in international trade, particularly in high-tech industries. Manufacturing sectors are the back bone of virtually all economies of the world because of their role in employment creation and the utilization of resources.

The manufacturing sector has a strong influence on the sustainable development process of less developed countries because they foster economic growth and alleviate poverty (Ayagari, 2003). The requirements for manufacturing companies to access global markets and upgrade their position within the international markets as a result of trade liberalization are becoming increasingly difficult due to competition. (Abonyi, 2008). Throughout the 1990s and 2000s, Nigeria continued to rely heavily on the export of oil, allowing manufacturing to remain in decline, firms were not export oriented and lack efficiency, causing competitive companies to relocate abroad. A few industries such as beverages, textiles, cement and tobacco kept the sector afloat, but they operated below their capacity. Most government especially in less developed countries (LDCs) now recognize the need to formulate policies that create conducive atmosphere for their establishment and operations.

Trade liberalization policy was adopted to ameliorate the balance of payment crisis as a result of Oil Glut in the world market in the early 1980, the development has led to a modest impact on the Nigeria economy with the Gross Domestic Product (GDP) growing steadily and progressively (CBN 2004). But the paradox lies in the fact that the manufacturing sectors growth declined from 20.5% in 1985 to 0.72% in 1997 (Iyaha and Oriakhi 2006). The history of industrial development and manufacturing in Nigeria is a classic illustration of how the country neglected a vital sector through policy inconsistencies and distortion attributable to the discovery of oil, Therefore Nigeria's economy is characterized by weak technological base, lack of industrialization, lack of capital flight, absence of skills and human transfer due to poor economic policies and strategies aimed at supporting multinational manufacturing companies to play their roles as the engine of growth and sustainability, as a result of these, Multinationals Manufacturing Companies have not been able to exploit the international markets. Since the introduction of trade liberalization the performance of the multinational manufacturing companies with regards to its contribution to gross domestic product (GDP) has been fluctuating (CBN 2008). However, throughout the 1990s and 2000s, Nigeria continued to rely heavily on the export of oil, allowing Manufacturing companies to remain in decline, firms were not export oriented and lacked efficiency causing competitive companies to relocate abroad. Nigeria has no effective industrial policy that promotes manufacturing and encourages manufacturing firms who intend to globalize. This has been the major concern for different economic policy makers within and outside Nigeria.

The main objective of this study is to examine the extent of relationship that exists between trade liberalization and performance of multinational manufacturing companies in Nigeria. While the specific objective is to:

- ✓ Examine the extent of relationship that exist between Balance of Payment (BOP), and Multinational Manufacturing Companies contribution to Gross Domestic Product (GDP)
- ✓ Examine the extent of relationship that exist between Export (EP) and Multinational Manufacturing Companies contributions to Gross Domestic Product (GDP)
- ✓ Examine the extend of relationship that exist between Import (IP) and Multinational Manufacturing Companies contributions to Gross Domestic Product (GDP)

RESEARCH HYPOTHESIS

Ha: There is a significant positive relationship between Balance of Payment (BOP) and Multinational Manufacturing Companies contribution to Gross Domestic Product (GDP)

Ha There is a significant positive relationship between Export (EP) and Multinational Manufacturing Companies contribution to Gross Domestic Product (GDP)

Ha: There is a significant positive relationship between Import (IP) and Multinational Manufacturing Companies contribution to Gross Domestic Product (GDP)

II. REVIEW OF RELATED LITERATURE

TRADE LIBERALIZATION

Trade liberalization deals with the increasing breakdown of barriers and the increasing integration of the world market (Fafowora 2008). Trade liberalization was referred to as the increasing international integration of international market for goods, tradable service and financial assets. In the real sense, it is also referred to as the integration of markets for major inputs to production, not only mobile physical capital but also labor in various forms, basic labor, skilled labor and other professional services. Trade liberalization offers countries access to the global market which offers people greater opportunities to tap more into larger market around the world, giving them access to more capital flows, technology, cheaper import and larger export markets. It equally exposes countries to new ideas, products and economies of scale in production and makes them gain efficiency in utilization of production resources (Adenikinju and Chete 2006). However a more integrated world economy is prone to some adverse consequences as it relates to financial management, environmental degradation and pace of development. Also trade liberalization opens an economy to some financial crisis (United Nations Environmental Programme 2001). In Amos (2000), viewed adverse effect of trade liberalization on the rate of inflation, when he said that lowering tariff and relaxation of quantitative restriction can lead to expansionary fiscal and monetary policies knowing the goals of expansionary fiscal reform is to reduce budget deficit, the concomitant effect which is the rapid growth of money supply will inevitably boost price inflation in the economy. Jerome and Adenikinju (2005), opined that Nigeria's nonoil export goes mainly to west European economic community countries and more so new markets are emerging in Asia and other part of the world especially in Sub Sahara Africa. Also in the comparative analysis of the performance of manufactured export between Nigeria and selected countries in Asia and Africa, they analyzed that manufactured export in Korea and Hongkong accounted for 94 percent and 96 percent respectively, while that of Nigeria was 1% of the total GDP as at 1990. According to world bank(2000), the Egyptian government responded to trade liberalization with impressive economic reform program that include, fiscal tightening that reduced the marginal tax rate and government budget deficit. Monetary reform adopted in Egypt also included re-controlling of interest rate, devaluation and un-information of exchange rate, reducing growth of money supply and liberalizing capital accounts. Privatization was also introduced and thus foreign investors reacted quickly to this opportunity. In 1995, the total foreign direct investment (FDI) was $400 million USD followed by $800 million in 1996 and $1.2 billion in 1997. In the case of Nigeria, the net foreign direct investment was $588 million USD in 1990 and $897 million USD in 1992 then to $ 1.96 billion in 1995 and $ 1.53 billion USD in 1997 (global development finance 1999). Despite the reform in Egypt and Nigeria, these countries are yet to take full advantage of trade given their market size and border countries like Israel, Tunisia and others. Trade liberalization is thus, a multi-dimensional concept and may be viewed as the forging of multiplicity of linkage and interconnectedness between states and the societies which make up the modern world called the global village. It is also a process by which occurrences, decision and activities in one part of the world come to have significance consequences on individuals and communities in quite distant part of the globe.

THE IMPACT OF TRADE LIBERALIZATION IN NIGERIA ECONOMY

Anyanwu et al(2007) referred to the manufacturing sector as a sub set of the industrial sector. Colander (2004) stress that the impact of trade liberalization on the manufacturing sector deals with enlarging the size of the market and the scope of specialization in the manufacturing sector, it also makes a greater use of machinery encourages inventions and innovations, raise labour productivity, lower costs and lead to economic development. Trade liberalization in Nigeria also leads to the importation of foreign capital and instill new ideas, technical knowhow, skills, managerial talents, and entrepreneurship. Usman (2000) pointed out that the impact of trade liberalization on the manufacturing sector can be seen on how it has foster healthy competition and checking inefficient monopolies. Healthy competition is essential for the development of the export sector of such economies and for checking inefficient exploitative monopolies that are usually established on the grounds of infant industry protection.

PERFORMANCE AND CONTRIBUTION OF THE MANUFACTURING SUB SECTOR IN NIGERIA

Though the concept of performance has gained prominence in management and organizational studies, the term seem not to have a consensus among experts in management. Richardo (2004) asserts that performance is the ability to achieve organizational goals and objectives, According to Martineli (2001), performance is a measure of the state of an organization, or outcomes that result from management decision and execution of those decision by employees of the organization.

Performance is a set of financial and non-financial indicators which offers information on the degree of achievement of objectives and results (Greenberg 2011) therefore performance can be viewed from financial angle or output which is quantitative in nature and non-financial which is qualitative or perceptual. Financial measures or quantitative measures allow researchers to build bench mark analysis and trend analysis.

Gross domestic product (GDP) is a function of manufacturing sector performance. Gross domestic product (GDP) is the amount of goods and services produced in a year, in a country. It is the market value of all final goods and services made within the border of a country in a year. It is often positively correlated with the standard of living.

$$GDP=C+INV+G+EX-I$$

Where:
C= consumption
INV= investment
G= government expenditure
Ex= export
I= import

From the formula, it is evident that balance of payment forms a part and chunk of our gross domestic product (GDP)

The manufacturing sub sector in Nigeria has had a mixed performance over the years owing to the fluctuations in its contributions to the country's Gross domestic product (GDP). In 1960, manufacturing share of the Nigerian GDP was 4.5percent rising to 6.9 percent in 1965 and to 7.2 percent in 1970. The manufacturing sector contribution to GDP stood at 8.3% and started to decline in 1993 from 7.2 percent to 6.0 percent in 2000(CBN 2003).Also the manufacturing sub sector capacity utilization fell from 7 percent in 1980 to 42.7 percent in 1986 and 39.0 percent in 1995. By 1992 the sector capacity utilization rose to 40.4 percent and in 1995 collapsed to 29.3percent in the same vein, growth rate of manufacturing rose from 23.6 percent 1965 to 77percent in 1975, but falling drastically to only 6.6percent in 1980.the only rise that exceeded 10percent since then was recorded at 20.5percent growth rate in 1985 CBN(2000).By 1993,it has fallen to 4.2percent in 1994.It was recorded 5 percent in general, the industrial sector as a whole grew by 5.2percent in 1980 to 1986 period and also fell to 0.2% in 1996 to 0.72percent in 1997(CBN2000).

Total manufacturing output in Nigeria was #6,843,678.59 million in 2010. It Increased over the following year by #1,326,277.80 million or 19.37percent in 2011 to reach #8,171,906,39 million and by #1,652,610.80 or 20.22percent in 2012 to reach a total of 9,824,817.19 million.

THEORETICAL FRAMEWORK

This study examined the theory that explained and have a link with trade liberalization in the economy, the theory of absolute advantage by Adam smith. The theory which is attributed to Adam Smith discusses the benefit a country can achieve by actively participating in the international division of labor. Smith argued that specialization in production leads to increase in output .This theory advocates that a country that trades internationally should specialize in producing only those goods in which it has absolutely advantage. The country can then export a portion of those goods and import goods that its trading partner produce more cheaplyS.

The linkage of Adam Smith theory of absolute advantage in view to the topic of this study lies in the fact that with trade liberalization, investment funds can move unimpeded from industrialized countries to developing countries where they are most needed. Consumers can also benefit from cheaper products because reduced tariffs make goods produced from other industrialized countries cheaper to buy. In the same vein, producer of goods make goods gain by selling to a wider market, while countries will benefit by gaining access to modern technology, negotiate for multilateral and or bilateral trade. However, the introduction of trade liberalization in Nigeria was aimed at increasing product quality and increase expenditure on research and development that will enhance competition in production.

III. METHODS

RESEARCH DESIGN

The study employed expo factor research design with the aim of comparing pre exiting group of variables on the dependent variables. The assignment of participants to the levels of the independent variable is based on events that occurred in the past or history.

METHOD OF DATA COLLECTION

Data were extracted mainly from publications of Central Bank of Nigeria (CBN), supplemented with data from other secondary sources such as Bureau of Statistics, official reports, Journals and text books. The analysis covered the period of1990-2015.

METHOD OF DATA ANALYSIS

The method used for data analysis was Ordinary Least Square (OLS) methods. Data obtained were subjected to regression analysis with the aid of statistical package for social sciences (SPSS version 20).

MODEL SPECIFICATION

The theoretical basis for this study is that Balance of Payment is a fundamental determinant of multinational manufacturing companies' contribution to Gross Domestic roduct (GDP). Since Balance of Bayment can set the frame work for economic growth, this study set out that multinational manufacturing contribution to Gross Domestic Product (GDP) will be the function of Balance of Payment (BOP)

This study made use of Time Series data as used by Obansa (2013), in which their behaviors are observed across time. The model is specified as follows:

$MC = f\ (BOP,EP,IP)\ e_t$……………………………………(i)

$MC = f\ (a_0 + a_1L\ BOP+a_2L\ EP+a_3L\ IP)\ e_t$….…………..(ii)

Where:

MC = Multinational Manufacturing Companies Contribution to Gross Domestic Product
BOP = Balance of Payment
EP = Export
IP = Import
f = Function Of
$a_0 - a_1$ = Parameter Structure or Estimate
e_t= Stochastic or Error Term
L_{BOP} = Log Balance of Payment

DATA ANALYSIS

Method: Least Squares
Date: 08/29/16 Time: 07:16
Sample: 1990-2105
Included observations: 26

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Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1688250.	333679.0	5.059503	0.0001
BOP	1.370609	0.317914	4.311259	0.0003

R-squared	0.481690	Mean dependent var	2722708.
Adjusted R-squared	0.455775	S.D. dependent var	1474305.
S.E. of Regression	1087619.	Akaike info criterion	30.72339
Sum Squared resid	2.37E+13	Schwarz criterion	30.82257
Log likelihood	-335.9573	Hannan-Quinn criter.	30.74675
F-statistic	18.58695	Durbin-Watson stat	1.733717
Prob(F-statistic)	0.000340		

Descriptive Statistics

	MC	BOP
Mean	2722708.	754743.5
Median	2030774.	445059.1
Maximum	6684220.	2046779.
Minimum	1412444.	5959.600
Std. Dev.	1474305.	746547.6
Skewness	1.394894	0.492853
Kurtosis	3.984039	1.688745
Jarque-Bera	8.021980	2.466755
Probability	0.018115	0.291307
Sum	59899584	16604356
SuSm Sq. Dev.	4.56E+13	1.17E+13
Observations	26	26

Source: Data Analysis 2016 (SPSS version 20

Table 4.2.1 Data Analysis

SUMMARY OF FINDINGS

From the OLS output in table 4.2.1 above, Multinational Manufacturing Companies Contribution to GDP was regressed on Balance of Payment and the result is summarized thus.

MC = 1688250C + 1.370609 BOP

The Constant term was 1688250 and it is statistically significant at 0.0001 Percent (p. value < 0.05).

The coefficient of BOP was 1.370609 and it is statistically significant at 0.0003 (P-value < 0.05).

The coefficient of determination (R^2) was 0.481690 which indicates that 48% variations in the dependent variable is explained by changes in the independent variable.

Adjusted R^2 is 0.455775 (46%) showing that the variables are highly correlated. Therefore we are accept alternative hypothesis which states that there is significant positive relationship between Balance of Payment (BOP) and Multinational Manufacturing Companies contribution to Gross Domestic Product (GDP)

The value of Durbing-Watson Statistics is 1.733717 which is greater than the R^2 (0.481690) and can be approximated to 2. This shows a negative result for serial correlation. That is, this is not a case of serial correlation for the variables used.

IV. DISCUSSION OF FINDINGS

The result obtained from the test of hypothesis shows that there is a significant positive relationship between Balance of Payment (BOP), Import (IP), Export (EP) and Multinational Manufacturing contribution to gross domestic product (GDP) This implies that the more the country adopts polices and strategies to ameliorate the Balance of Payment crisis through Export and investment in other countries the more it will increase the contribution of Multinational manufacturing contribution to Gross Domestic Product (GDP). There is a direct relationship between the two variables, when there is surplus Balance of Payment as a result of increase earnings from other foreign countries the contribution of Multinational manufacturing companies to (GDP) will also increase in equal propotion.

The findings of this study is in line with Asongo, (2013), whose findings revealed that performance of manufacturing sector is likely to produce sufficient income, if measures are taken to invest in the right path and Edward (2009), whose findings revealed that greater openness may accelerate developing countries adoption of technological innovation originating in industrial countries, technical progress embodied in new materials, capital equipment are traded on international markets. Therefore trade liberalization is significantly positively correlated with the performance of Multinational manufacturing companies of Nigeria.

V. CONCLUSION

The study concluded that the contribution of Multinational Manufacturing companies to Gross Domestic Product (GDP) is determined by increased earnings from exports (receipt) and investment in other foreign countries. Therefore greater openness will accelerate developing countries adoption of technological innovation, increased access to foreign market and opportunity to increase foreign earnings.

RECOMMENDATIONS

The study recommends among other things that policy makers need to:

Adopt effective policies that promote Manufacturing and encourage manufacturin

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