

THE IMPACT OF EXTERNAL TRADE ON ECONOMIC GROWTH IN NIGERIA

(1985-2015)

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TITLE PAGE

THE IMPACT OF EXTERNAL TRADE ON ECONOMIC GROWTH IN NIGERIA

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**BEING A PROJECT SUBMITTED TO THE DEPARTMENT OF SOCIAL SCIENCES IN
PARTIAL FUFILMENT OF THE REQUIREMENT FOR THE AWARD OF BACHELOR OF
SCIENCE (B.sc) DEGREE IN ECONOMICS IN THE COLLEGE OF MANAGEMENT AND
SOCIAL SCIENCES, SALEM UNIVERSITY, LOKOJA,KOGI STATE.**

JUNE 2018

DECLARATION

I declare that this project is based on the study conducted by me, Nduka God's favour in the Department of Social Sciences, Salem University, under the supervision of Mr. Itua Monday and this project has not been submitted elsewhere for the award of a degree or certificate. The idea and views of the research project are product of the research undertaken by me. Where the idea and views of other authors and researchers have been expressed, they have been duly acknowledged.

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Nduka God's favour uche

Date

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CERTIFICATION

This project titled “The impact of external trade on economic growth of Nigeria(1985-2015)has been read and approved as meeting the requirements of the Department of social sciences, Salem University, Lokoja, Kogi State, for the award of Bachelor of science (BSC) degree in Economics.

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DEDICATION

With heartfelt joy and gratitude, I sincerely dedicate this project to God Almighty and to my beloved parents, Mr. Nduka. and Mrs. Felicia Osiegbu.

ACKNOWLEDGEMENT

I would like to express my deeply felt gratitude to God Almighty for making this project a success and seeing me through to the end. I would also like to express my special thanks to my project supervisor Mr. Itua Monday for his great support and mentorship, throughout my time in Salem University. May God bless and keep you, for your great contribution in my academic work. I am grateful to you, sir.

Forever grateful to my parents Mr. Osiegbu Nduka and Mrs. Nduka Felicia and my sibling for the show of love extended to me during this academic experience.

I am also grateful to all of those who I have had the pleasure to work with during this project.

I can't neglect to appreciate my beloved Course mates (Economics graduates of 2018, Salem University, Lokoja, Kogi State), I love you all. And to My Beloved Institution, "Salem University Lokoja", thanks for the values and discipline you have instilled into me, I would forever be grateful.

Nduka God'sfavour

ABSTRACT

This study was intended to examine the impact of international trade on Nigeria's economy. This study was guided by the following objectives; To examine the factors that hinders the success of international trade in Nigeria, To examine also the trade policies i.e. restrictions Nigeria has imposed on international trade and how favorable such policies has been, To examine the impact of the exchange rate system in Nigeria, To make necessary policy recommendations based on the findings of the study.

In order to adequately capture and empirically investigate and analyze the impact of international trade on the economic growth of Nigeria, a multiple regression econometric model was used. In the investigation on the impact of international trade on economic growth, a unit root test was carried out on the data using the Augmented Dickey Fuller (ADF) test to know if the data are stationary, if integrated at order zero (0), if integrated at order one (1), if integrated at order two (2). Secondary data gotten from secondary sources particularly from the Central Bank Of Nigeria statistical bulletin and the National Bureau of Statistics were used and data was analyzed using the regression statistical tool at 5% level of significance which was presented in frequency tables and percentage.

The study revealed that international trade positively impacts on National savings, it plays an important role in the process of economic growth as it provides for investment which in turn creates employment opportunity for its labour force, thus increasing their income and aggregate demand and thus leading to economic growth. In our estimated model, we found national savings as positively influencing economic growth. Trade openness in any economy is as a result of globalization. Labour productivity also determines the growth of any economy.

This study is useful to researches as it provides an econometric evidence of the impact of international trade on the growth of the Nigerian economy.

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CHAPTER ONE

1.0 The background of the study

Looking into our economy today we are privileged to make use of the advanced world countries, new goods and services products have risen from improved or advanced technologies of the world. We even eat their type of food, wear their type of cloth, and drive in their kind of cars etc. without having to do all these in their country. Also we enjoy the best of products from neighboring countries without having to travel there to get or use it. All these are made possible by international trade. International trade has a direct effect on the economy of any country as the country sees the need for the exchange of ideas, products and technologies. This effect could either be positive or negative at each given point in time.

External or International trade can be dated back to the need for exchange which evolved from the barter system to the money system. International trade became popular with the advent of the colonial rule that brought their wares and made Nigerians their middle men (Nick 2008). The classical and neo-classical economists have attached so much importance to international trade in an economy's growth that they even regard it as an engine of economic growth (Jhingan 2006) a we can say that the performance of any economic in terms of growth rate of output and per capita income is not only based on the domestic production and consumption activities but it can also be based on the international transaction of goods and services. One of the major reasons why countries engage in international trade is to obtain the goods and services which they cannot produce in the home country or commodity which its cost of production is very high. To solve this problem, the classical economist, David Ricardo suggested that countries should specialize on the production and exportation of goods whose cost of production is low and import the product whose cost of production is high for the country. This is what Ricardo referred to as 'the theory of comparative advantage'.

Infer from above, we can see that international trade is actually a catalyst or speed up for economic growth and thus international trade has been of a great concern to policy makers in the country. For developing countries like Nigeria, its participation in international trade is high as most of the essential facilities for growth e.g. capital goods, technical know-how, raw materials are entirely

imported because of inadequate domestic supply of these goods. Increased domestic demand sure reduces the expansion of exports, thus to enhance export capacity, improved technology must be imported which in turn raises the demand for imported goods. There is every tendency that import would be raised far above export which would result to an unfavorable balance of trade in the short run. Prolonged pressure on the country's balance of payment shrinks economic growth and so appropriate economic policy measures have to be put in place to streamline international trade for the achievement of a desirable economic growth.

Nigeria which used to be a large net exporter of food now imports some of its food product as the agricultural sector could not cope with the increasing population growth. The overdependence on the oil sector has not only led to unbalanced trade but has resulted to economic fluctuations and this has been a major challenge for Nigeria. Even the Structural Adjustment Programme of 1986 whose major aim was to diversify the productive base of the economy could not achieve this till date as we are still dependent on the revenue accruing from oil produce.

1.1 STATEMENT OF PROBLEM

Before Nigeria's political independence in October 1960, Nigeria was actively involved in international trade. Nigeria's main export was primary agricultural commodities which accounted for 70.8% of the total export and its relative contribution to GDP was almost 64% during that period. This agricultural commodity comprises of groundnut, cocoa, palm oil cotton and rubber. At that time, the oil sector accounted for only 2.6% of the total export and its relative contribution to GDP was 1.6%. This story is no longer the same starting from the 1970s. Why? The discovery of oil in commercial quantities in Oloibi in the year 1956 made Nigeria to become a "hot cake" and an important player in the world market. In the first half of the 1970s, there was an increase in the price of oil in the world market which made Nigeria to experience oil boom. The proceeds from oil were so high and this showed a great sign to a start of a prosperous economic development in the country. This made the government's focus to move from the non-oil sector almost fully to the oil sector causing other sectors of the economy to suffer setback. The agricultural, industrial, manufacturing sector's relative contribution to GDP and export fell so much as a result of over-dependence on the oil sector. Nigeria is Africa's largest producer of crude oil producing about 2.2 million barrels per day. This has made Nigeria the 7th largest producer of oil in the Organization of Petroleum Exporting Countries (OPEC). In the early 1980s, there was an oil price shock in the world market which caused an oil glut for Nigeria and since other productive sectors were abandoned, Nigerian government could not meet up with the needs of its populace thus resulting to external borrowing. This did not tell well on the overall welfare of its citizens. Nigeria could be said to be suffering from the syndrome called "Dutch Disease" as a nation abundantly blessed with natural resources especially crude oil still have over 60% of her population still living below the poverty line. Nigeria can also be said to be suffering from the "Resource Curse Syndrome. This means that countries and regions with an abundance of natural resources specifically point source non-renewable resources like minerals and fuels, tend to have less economic growth and worse development outcomes than countries with fewer natural resources. This was hypothesized for reasons including a decline in the competitiveness of other sectors caused by the appreciation of the real exchange rate as resource revenue enter the economy, volatility of revenue from the natural resource sector due to exposure to the global commodity market swings government mismanagement of resources, or weak, ineffectual, unstable or corrupt institutions possibly due to

the easily diverted actual or anticipated revenue stream from the extractive activities. With the collapse of the global oil price in 2008, Nigeria was severely affected by a global economic meltdown. There has been large proceeds obtained from the domestic sales and export of petroleum product, its effect on the growth of the Nigeria economy as regard returns and productivity is still questionable, hence the need to evaluate the relative impact of crude oil on the economy.

The oil sector contributes about 11% in 2012 and 15% in 2013. This shows that other sectors of the economy are rising up and contributing immensely to the country's economic growth. But still yet it is this oil which constitutes 95% of our export earnings and 75% of the government revenue. However, in examining a country's economic growth, its external transactions are examined, also the government expenditure as a result of its revenue is examined. There is a problem of determining the overall effect of international trade on Nigeria's growth. This study helps to address this problem.

1.2 RESEARCH QUESTIONS

These are the questions which the study seeks to answer and these questions will guide us through the course of this study.

1. Is international trade really a catalyst for economic growth in Nigeria?
2. To what extent does exchange rate impact on the growth process in Nigeria?
3. Has the use of trade policies been beneficiary to the growth of the Nigeria economy?
4. What factors hinder international trade in Nigeria?

1.3 OBJECTIVES OF THE STUDY

The broad objectives of the study are;

1. To examine the impact of international trade on Nigeria's economy growth.
2. To examine the factors that hinders the success of international trade in Nigeria
3. To examine also the trade policies i.e. restrictions Nigeria within this period
4. To examine the impact of the exchange rate system in Nigeria
5. To make necessary policy recommendations based on the findings of the study.

1.4 STATEMENT OF HYPOTHESIS

The research hypotheses to be tested in the course of this study are as

follows;

1 H₀: That international trade does not contribute to the growth of the Nigeriaeconomy

H₁: That international trade does contribute to the growth of the Nigeria economy

2 H₀: Exchange rate in Nigeria does not impact positively on GDP

H₁: Exchange rate in Nigeria does impact positively on GDP

1.5 SIGNIFICANCE OF THE STUDY

This study is significant because international trade is important in any economy as it is seen as one of the engine of economic growth and so it is important for us to view the ways on how we can maximize the benefits and minimize the losses from international trade. Also this study will be useful to policy makers as it gives them an insight of the volume of trade thus assisting them to make policies which will exert positive influence on the balance of trade. Also the study is helpful to manufacturers, exporters and importers as it helps them to be aware of the policies on international trade, exchange rate and the degree of openness of an economy. The study is useful to foreign partners as it would guide them in making financial commitments, most especially in foreign investment which will aid economic growth. This study is useful to researches as it provides an econometric evidence of the impact of international trade on the growth of the Nigerian economy. Finally the study would also statistically enrich and add to the existing body of knowledge in the area of international trade and its contributions to the economic growth of Nigeria.

1.6 SCOPE AND LIMITATION OF THE STUDY

In order to get a full insight into the study, we have to make use of economic data ranging from 1970-2015 as we tend to view the era of oil boom, oil glut, Nigeria's external trade performance, her economic growth performance over the years and her recent participation at the world market. This study will be broad as possible as various articles and journals will be used to examine the volume of trade, exchange rate, degree of economic openness, inflation rate and gross domestic product.

A major constraint of this study is the insufficient time involved to complete the study and the problem of inconsistent and inaccurate data will give wrong results leading to wrong policy making.

1.7 ORGANISATION OF THE STUDY

The study is structured into 5 chapters with different sections.

Chapter one is the introductory part of the study which contains the background of the study telling us the foundation from which the study evolves from, the statement of problem which states the problem associated with the topic of interest, research questions and hypothesis which the study seeks to answer, the objective of the study which also tell us the purpose of the study i.e. what the study seeks to achieve, the significance of the study showing the importance of the study, scope and limitation of the study opening to us the length(the time series of data involved) and width

Chapter 2 presents the review of available literatures on external trade and its impact on growth, policies and management during the period (1985-2015).This comprises of the topics theoretical framework and the reviews of empirical literature.

Chapter three focuses on the methodology of the study which comprises the sources and techniques of data analysis.

Chapter 4 involves the data analysis. It embodies the presentation and discussion of results for policy recommendation.

Chapter five presents the summary and conclusion. Appropriate policies and recommended based on the findings. The references are given at the end of the last chapter.

CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.0 Introduction

International trade has been seen as an economic force that spurred commerce, promoted technology and growth, spread cultural patterns, stimulates exploration and colonization and frequently fanned the flames of war. The history of international trade has gone hand in hand with the development of civilization and so it is very important to place it in the area of consideration when making economy policy in any country. International trade is for mutual benefits among countries.

2.1 FRAMEWORK CONCEPT

Common Terminologies Used in International Trade includes;

Types of external trade

On the basis of sale and purchase of goods and services, external trade can be divided

Into three kinds. They are:

- (a) Import trade
- (b) Export trade
- (c) Entrepot trade

Let us discuss details about them.

(a) Import trade

When the business firm of a country purchases goods from the firm of another country, it is called Import trade. For example, when the Nigerian Govt. purchases petroleum products, electronic goods, gold, machineries, etc., from other countries it is termed as import trade.

(b) Export trade

When the firm of a country sells goods to a firm of another country, it is called Export trade. For example, the sale of iron and steel, tea, coffee, coal, etc. by Indian companies to other countries is known as its export trade.

(c) Entrepot trade

When the firm of a country imports goods for the purpose of exporting the same to the

firms of some other country with or without making any change, it is known as entrepot trade or re-export trade for that country

(d) Balance of trade

This refers to the difference between country's export and its import. It is often referred to as the net export. It is the monetary difference and it is measured in the currency of that economy. Balance of trade of a country can be favorable when its exports exceed its imports, we can say that the country is enjoying trade surplus but when imports exceeds exports, the country's balance of trade is unfavorable and it experiences trade deficit. Annual trade surplus are immediate and direct additions to their nations GDP'S while Annual trade deficits are immediate and indirect reducers of their nations GDP'S. As export has been seen as an injection and import as a leakage the economy must try to balance both of them or better still make export to be greater than import. In a developing country like Nigeria, if import is more than export, that is as a result of lag in the productive sectors of the economy. If the productive sector of the economy works very well, then there will be more to export and less to import as the economy is able to produce most of its populace needs.

(e) Balance of payments

This is the record of all economic transactions between the residents of a country and the rest of the world in a particular period. It includes all external visible and non- visible transactions of a country. It represents a summation of a country's current demand and supply of the claims of foreign currencies and of foreign claims on its currency. A country enjoy balance of payment surplus when the source of funds[export goods and bonds sold]exceeds the uses of funds[import goods and foreign bonds sold]but when the later exceeds the former, then that country is experiencing balance of payment deficit. When all components of the Balance of Payment accounts are included, they must sum to zero with no surplus or deficit. For example, if a country is importing more than its exports, its trade balance will be in deficit, but the deficit amount will have to be counterbalanced either through funds earned from its foreign investment, by running down central bank reserves or by receiving loans from other countries.

(f) Exchange rate

This is the rate at which one currency may be converted into another currency for the purpose of travel to that country for engaging in speculation or trading in the foreign exchange market. The foreign exchange market usually called the forex market refers to the organizational settings within which individuals, government and banks buy and sell foreign currencies and debt instrument. The forex market is by far the largest and most liquid market in the world. Exchange is very volatile and factors responsible include interest rate, inflation and the state of politics and the economy in each country. Ordinarily, there are two types of foreign exchange. One is the **Free floating or Flexible exchange rate** which only the forces of demand and supply actually determine the rate of exchange. The other is the **Fixed exchange rate** monetary authority of an economy decides the rate of exchange.

(g) Depreciation and devaluation

Depreciation is the reduction in the value of the domestic currency relative to the foreign currencies as determined freely by the demand and supply of foreign currency. For example if the exchange rate between naira and dollar moves from 200 naira per dollar to 300 naira per dollar, then we can say that naira has depreciated in value. This is also different from Devaluation because devaluation is the official reduction in the value of the domestic currency relative to the foreign currency by government fiat. Both of them make export cheaper and it increases while imports become more expensive and this reduces import.

(h) Trade policy

This refers to the use of foreign policy instrument such as import and export tariffs, subsidies, quotas and other instruments to change the composition and volume of trade. Trade policy also refers to trade restrictions. Trade restrictions are encouraged so as to generate revenue, to protect the infant industry, to prevent dumping, to eliminate e balance of payments deficit etc. But people react negatively to trade restriction, because they feel it might lower the standard of living, there might be retaliation from other countries, and it might distort the true cost of a product etc.

2.2. THEORETICAL REVIEW

The main aim of any theory of international trade is to explain the cause of trade. The other objectives of international trade are to explain the composition and volume of trade and so a theory which explains these three issues i.e. cause, composition and volume of trade is conventionally said to be a 'complete theory' of international trade. The classical and neo-classical theories of trade are termed complete theory of international trade.

2.2.1. CLASSICAL THEORY OF INTERNATIONAL TRADE

It is important to note the underlying assumption of the classical economist; they include the assumption of the existence of two commodities and one factor of production ($2 \times 2 \times 1$ model). They assumed that labour was fully employed and internationally immobile. There are two markets, the product and the factor market which were perfectly competitive. They assumed the absence of transport cost or any other barrier to trade.

2.2.1a. THEORIES OF ABSOLUTE ADVANTAGE

This theory was propounded by Adam Smith. Smith assumed that a country could produce one commodity at a lower real cost than its trading partners as each of the countries will benefit from the specialization in those commodities in which it has an absolute advantage, exporting them and importing the other commodity that it produces at a higher real cost. "Real cost" to Smith refers to the amount of labour time required to produce a commodity. His analysis was based on his labour theory of value which treats labour as the only factor of production and holds the commodities exchange for one another in proportion to the number of hours required for their production. He said that if labour requirements differ across countries. Assuming Nigeria uses 30 days to produce 1 barrel of crude oil and 120 days to produce a bag of cocoa and Ghana producing 1 barrel of crude oil and 1 bag of cocoa for 100 days and 20 days respectively. Here, Nigeria has an absolute advantage in the production of crude oil while Ghana has an absolute advantage in the production of cocoa. With trade, Nigeria can specialize in the production of crude oil and import cocoa from Ghana, the same goes to Ghana. Also, this increases the output of crude oil for Nigeria because the 120 labour days are used for producing crude oil, Nigeria would be able to produce four barrels of crude oil ($120/30$) and Ghana obtains a similar gain through the specialization in cocoa. A kind of situation may arise, if Nigeria has an absolute advantage in both commodities, e.g. Nigeria uses 2 and 4 days to produce 1 barrel of crude oil and 1 bag of cocoa respectively and 1 bag of co

coa respectively, then what should be done in this case? This brings me to the theory of comparative advantage.

2.2. 1b. THEORY OF COMPARATIVE ADVANTAGE.

David Ricardo, the founder of this theory, he showed this in his book “principles of Political Economy” (1817) that absolute advantages are not necessary conditions for two nations to gain trade from each other, instead, trade will benefit both nations provided only that their relative cost, that is, the ratio of their real cost in terms of labour inputs are different for two or more commodities. He said that a country can profitably trade with another even though it’s real cost is higher in every commodity. Assuming Nigeria uses 2 days to produce 1 barrel of crude oil and 4 days to produce a bag of cocoa and Ghana producing 1 barrel of crude oil and 1 bag of cocoa for 4 and 10 days, here Nigeria has an absolute advantage in the production of both commodities as less labour is required to produce both commodities with trade between the two countries, Ricardo says that a country should produce the goods in which it has comparative advantage in. if the labour for cocoa production is moved to the production of crude oil in Nigeria, then 2 barrels of crude oil will be produced, while using the same labour days just 1 bag of cocoa is produced (4/2,4/4).

In Ghana, if the same is done 3.33 barrels will be produced using the same labour days (10/3, 10/10). In comparative terms, cocoa is inexpensive in Nigeria but expensive in Ghana where as crude oil is cheaper in Ghana and costly in Nigeria, and so we can say that Nigeria has a comparative advantage in the production of cocoa while Ghana has comparative advantage in the production of crude oil because producing 1 bag of cocoa cost Nigeria 2 barrels of crude oil and Ghana 3.33 barrels of crude oil. Since an objective of international trade is to increase world total output, Ghana should be left to produce crude oil as it is able to cover for the cost of Nigeria with an additional 1.33 barrel for just producing a bag of cocoa.

2.2.1c MERCANTILIST TRADE THEORY

The Mercantilists provided the earlier idea on foreign trade which spanned between 1500 and 1800. The doctrine was highly nationalistic and considered the welfare of the nation as of prime importance. According to the theory, the most important way for a nation to become rich and powerful is to export more than she imports; and by acquiring precious metals such as gold. They urged their government to control trade by the imposition of tariffs, quotas and prohibition this is in order to control import and maintain favourable trade balance. Also the need for regulation to maintain order in human affairs and economic affairs were taken for granted. It was therefore argued that the policies of the mercantilists carried the seeds of their own destruction and this brought about the criticisms by Adam Smith

2.2.2a MERITS OF EXTERNAL TRADE

Specialization: Foreign trade leads to specialization and encourages production of different goods in different countries. Goods can be produced at a comparatively low cost due to advantages of division of labour

Stability in prices: International trade ironed out wild fluctuations in prices. It equalizes the prices of goods throughout the world (ignoring cost of transportation, etc.)

Exchange of technical know-how and establishment of new industries: Underdeveloped countries can establish and develop new industries with the machinery, equipment and technical know-how imported from developed countries. This helps in the development of these countries and the economy of the world at large.

Development of the means of Communication and Transport: Different Countries may dispose of those goods which they have in surplus and obtain goods which they are short in supply. The trades between the countries lead to development in the means of communications and transport.

2.2.2b DEMERITS

Misuse of natural resources: If there is an excessive export of natural resources like iron, coal etc of a country, it will be exhausted in a shorter span of time. The country then suffers economically in the long run.

Economic Dependence: The underdeveloped countries have to depend upon the developed ones for their economic development. Such reliance often leads to economic exploitation. For instance, most of the underdeveloped countries in Africa and Asia have been exploited by European countries.

World Wars: International trade breeds rivalries amongst nations due to competition in the foreign markets. This may eventually lead to wars and disturb world peace.

Hardships in times of War: International trade promotes lopsided development of a country as only those goods which have comparative cost advantage are produced in a country. During wars or when good relations do not prevail between nations, many hardships may follow.

PROBLEMS IN EXTERNAL TRADE IN NIGERIA

Distance: Due to long distance between different countries, it is difficult to establish quick and close trade contacts between traders. Buyers and sellers rarely meet one another and personal contact is rarely possible. There is a great time lag between placement of order and receipt of goods from foreign countries. Distance creates higher costs of transportation and greater risks.

Difficulty in transportation and communication: Dispatch and receipt of goods takes a longer time and involves considerable expenses. During the war and natural calamities, transportation of goods becomes even more difficult. Similarly, the costs of sending or receiving information are very high.

Different languages: Different languages are spoken and written in different countries. Price lists and catalogues are prepared in foreign languages. Advertisements and correspondence also are to be done in foreign languages. A trader wishing to buy or sell goods abroad must know the foreign language or employ somebody who knows that language.

2.3. INTERNATIONAL TRADE AND ECONOMIC GROWTH

From Adam Smith (1776), two main ideas can be pointed out when talking about international trade and economic growth. First, international trade made it possible to overcome the reduced dimension of the internal market and secondly by increasing the extension of the market, the labour division improved and productivity increased. Thus international trade would therefore constitute a dynamic force capable of intensifying the ability and skills of workers of encouraging technical innovations and the accumulation of capital of making it possible to overcome technical indivisibilities and generally speaking of giving participating countries the possibility of enjoying economic growth.

David Ricardo (1817) presented a dynamic model of economic growth with three forces and two restrictions he characterized the progressive state as having high savings, capital accumulation, production, productivity, benefits and labour demand forcing the increase of wages and demographic growth. However, in view of the limitations of land both in quantity and in quality, the additional alimentary resources were obtained in conditions of decreasing returns in which the production is absorbed by wages in an increasing proportion, reducing the stimulation of new investment, sooner or later reaching the stationary state international trade could delay the fall in the rate of profit.

J.S Mill (1848) explicitly reported the classical point of view according to which the production resulted from labour, capital, land and their productivities. Just like Ricardo, Mills recognize that underlying the progressive state there was a stationary state and ultimately the force capable of delaying this state was technical progress. Accordingly the emphasis that Smith has placed on the extension of the market decreases even though he defended free trade among countries. This situation may be as a result of the expectation created by industrial revolution in regards to technical progress.

The neo-classical general equilibrium that the model of Heckscher (1919) and Ohlin (1933) analyzed, whose contributions Samuelson (1948 and 1949) completed shows that the model permits to advocate the opening of the countries to international trades showing that it is efficient, mutually beneficial and positive for the entire world. However, it limits the analysis to the static games of welfare.

Joseph Schumpeter (1912, 1942 and 1954) who repeated old points of view concerning the tendency of the profit to reach a minimum and the dependency of the rate of economic growth on capital accumulation. But he went further, distinguishing ‘invention’ (which is defined as the advancement of useful knowledge to production). Considering innovation as the central element of economic growth, he described the exigencies for a successful innovation which included the need for markets opened in the exterior.

2.4 EMPIRICAL LITERATURE

It is important to look at the works of researchers who have studied the impact of international trade on a country’s economic growth. Here are a few;

Alfred Marshall (1890) pointed out that “the cause which determines the economic progress of nations belongs to the study of international trade”. In effect, the expansion of the market that it represented led to the increase of global production and originated the increase of internal and external economies which resulted to increasing income for the economy. But although the importance of those externalities was understood by him, he recognized the difficulties of his analytic treatment.

Young (1928), one of the successors of Marshall was concerned with economic growth when he considered the dimension of the market limited the labour division and therefore productivity. He also examined the interrelation between industries in the process of economic growth, the creation of new industries due to the specialization and standardization in a vast market and the influence of this market on technological progress.

Maizel (1963) investigated the impact of international trade on economic growth using a rank correlation analysis among developed countries. The result of the study showed a positive relationship between international trade and economic growth.

Fajana (1979) provides the basic indices for analyzing the role of trade on economic growth in Nigeria. Using a two gap model approach, he analysed the role of trade on economic growth of Nigeria for the period 1954-1974. The result of the analysis provided empirical support that trade has been an important engine for growth in Nigeria and recommended it has part of Nigeria strategy for achieving economic development.

Chenery and Strout (1994) asserted that for a long time there was hardly any country which exhibited sustained growth rate higher than its growth of export. They also claim that the growth rate of individual developing countries since 1950 correlate better with their export performance than with any other single economic indicator.

Kavoussi (1984), after studying 73 middle and low income developing countries found out that the higher rate of economic growth was strongly correlated with higher rate of export growth. He revealed that there exist a positive correlation between export and economic growth for both middle and low income countries, but the effect tends to diminish according to the level of development.

DanyRodrik (1998) concluded that high level of trade restriction has been an important obstacle to export performance and growth. He contends that the reduction of this restriction can be expected to result in significantly improved trade performance in the region.

Haberler (1988) says that international trade has made tremendous contribution to the development of less-developed countries in the 19th and 20th centuries and it can be expected to make an equally big contribution in the future and that substantial free trade with marginal insubstantial corrections and the deviations is the best policy from the point of view of economic growth and development.

Perraton (1990) solves the model for 59 developing countries for the period between 1970 and 1984 and reported that the provides good fit. The study also suggests that a country growth performance depends on the income elasticity of both exports and imports.

Ogbokor (2001), Investigated the macroeconomic impact of oil exports on the economy of Nigeria. Utilizing the OLS method, he observed that economic growth would experience a 5.2% jump if there is an increase in oil export by 10%. He concluded that export oriented strategies should be given a more practical support.

Masse (2001), observed that the impact of trade in an economy varies from one industry to another. He noted that some industries are more exposed to trade than others. Some may possess particular characteristic that interact with trade resulting in sector specific policy challenges. As a result

t, industry level analysis is required to enhance the assessment of the impact of trade and its implications for adjustments in terms of employment and wages he maintained.

Gurushri (2004) reveals that trade expansion typically results in an increase in labour intensive export from developing countries, arguing that employers in these industries often prefer to hire women and the growth of export such as garment, shoes, jewelry and electronic- has almost always been accompanied by a significant number of female wage employment in the formal sector. He noted that policy makers need to consider a broad range of issues unrelated to trade if both women and men and the economy as a whole are to reap the full benefit of trade expansion.

Izilein (2005) says that to benefit from international trade so as to achieve high economic growth, it is necessary for a country to diversify her export base to include oil and non-oil exports such as agricultural products and solid minerals. Also debts relief could be sought and there should be conscious efforts to attract foreign investment into the economy as this would help to create more jobs, improve earning capacities and living standards.

Iyoha (2007) says that the expansion of exports can lead to economic growth through stimulating technical change and investment or by spilling demand over into other sector. The 19th century was perhaps the important century for (primary commodity) export-led growth. He sees International trade as an engine of growth and also playing a pivotal role in bringing about rapid economic growth and development in several countries.

Hassan, Olawoye and Nnadozie (2007) observed that in an effort to increase national income and encourage more trade, national laws and regulations that protects local businesses, jobs and resources have been relaxed. They argue that government provides massive support financially and otherwise for the infrastructure necessary to facilitate and sustain the oil economy in a globalizing world.

Oviemuni (2007), looks at international trade as an engine of growth in developing countries taking Nigeria (1960-2003) as a case study, he uses four important variables which are export, import, inflation and exchange rate. The results showed that Nigeria exports value does not act as an engine of growth in Nigeria.

Femi Edun et al empirically examined the impact of international trade on economic growth in Nigeria from 1970-2010. Their independent variables were Exchange rate, Export, Foreign direct Investment, GDP at current basic price, import, inflation and openness and the dependent variable was real GDP. The empirical investigations reveal that three variables are statistically significant at 5% and these variables are export, foreign direct investment and exchange rate and they are positively related to real GDP while other variables such as import, inflation rate, openness exert a negative influence on real GDP.

2.5 THE EFFECT OF EXCHANGE RATE POLICIES AND ITS REFORM ON NIGERIA'S TRADE BALANCE

So far, the naira exchange rate has depreciated, considerably losing its over-valuation over the years. The main problem of the naira exchange rate since SAP has been its instability rather than undervaluation. The naira exchange rate established has produced some favourable effect on various micro and macro-economic variables. The value of non-oil export has increased in value. Imports also increased substantially during this period because of the depreciated exchange rate but the growth in dollar terms was much less than during the pre-SAP era. The structure of imports shifted slightly towards capital goods and raw materials and away from consumer's goods. The bulk of foreign exchange has been allocated directly to productive sectors like industry and agriculture. The BOP situation gradually improved since SAP with a positive effect on foreign exchange reserves. Exports receipts have continued to be unstable as in the 1980s. The prices of non-oil exports especially the traditional ones have been depressed, while the protectionist tendencies of industrial countries have been inhibitive to the growth of manufactured exports. The implication is that oil still accounts for about 95% of total export earnings.

The main policy instruments of foreign exchange in Nigeria have been:

- a. Trade and exchange control: This involves the rationing of available foreign exchange in an attempt to eliminate a potential BOP deficit. This is done in the hope that the BOP will improve, external reserves will build up and foreign exchange reserves will be developed. At times when there are severe pressures on foreign exchange resources, trade and exchange control involves restrictions on trade flows and regulations on the use of foreign exchange.
- b. Administrative control: This is used to supply foreign exchange resources. Export promotion and portfolio diversification are some of the strategies of administrative control. Export promotion deals with the use of incentives to the volume and values of exports in order to earn more foreign exchange with which to buy imports, ensure BOP viability and promote export diversification. It aims at preserving the capital value of external assets. This policy is usually aimed at holding liquid, profitable and low risk assets in order to ensure maximum return of investment while minimizing exchange risk which would be high if all assets were concerned in one's currency which could be subject to depreciation or devaluation.

ion.

- c. Foreign exchange budgeting: This involves the use of macroeconomic policy tools which can enhance the supply of foreign exchange while curbing the excessive use of it at the same time. Exchange policy is very important in macroeconomic policy because of the need to ensure equilibrium in the inflow and outflow of foreign exchange.

The exchange rate reform was a component of the Structural Adjustment Program of 1986. The main aim of the exchange rate reform was to diversify the export based on the economy from oil to non-oil export through competitiveness in the relative price of non-oil export in addition to reducing imports especially consumer goods. The stimulation of non oil exports is the major focus of exchange rate reforms through competitiveness in the relative price of non oil exports to be occasioned by the depreciation of the naira and also other incentives such as the abolition of export licenses, retention of 25% of foreign currency proceeds (later increased to 100%) for the exporter's use and the abolition of agricultural commodity marketing boards. Raw materials, capital goods and consumer goods are the major imports in Nigeria. The exchange rate reform is expected to shift expenditure on imports from consumer goods to raw materials and capital goods.

Ben .U Omojimate and Godwin Akpokodje carried out a study on the impact of exchange rate reforms on trade performance in Nigeria for the period of 1986 to 2007. The study show that exchange rate reforms in Nigeria accounted for a marginal improvement in a country's trade balance. The study does not support the view that exchange rate reform discourages the importation of consumer goods. The study show that during the reforms the importation of raw materials and capital goods did surpass the pre-reform era. The objective of achieving a realistic exchange rate is very vital as this could result in simultaneous achievement of internal and external balance and it facilitates the achievement of sustainable economic growth and development. There should be an appropriate policy mix that does not only ensure a realistic exchange rate but also a conducive atmosphere for production as higher productivity will reduce the pressure on exchange rate and its volatility.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 INTRODUCTION

The quantitative method of analysis is adopted in the study. The ordinary least square (ols) method is employed to estimate the impact of external trade on economic growth in Nigeria. Here we will discuss the research design data required for the study, their services specification of model and their a priori expectation

3.2 RESEARCH DESIGN

The design of this research work will be made up of both analytic and descriptive methods. This is based on the fact that the data collected on GDP, degree of openness interest rate and foreign exchange from 1985 to 2015 are time series data, while the use of descriptive method will be justified by the use of tables in specifying the model employed in this study. Have been guided by theoretical considerations

3.3 MODEL SPECIFICATION

To adequately capture and empirically investigate and analyze the impact of international trade on the economic growth of Nigeria, a multiple regression econometric model is specified. The assumption is that the dependent variable is a linear function of the independent variable.

The theoretical form of this model is given as

$$RGDP = F (INV, LAB, OPN, FDI, INF)$$

Where:

RGDP= Real Gross Domestic Product

INV= Investment

OPN = Trade Openness

LAB= Labour

FDI= Foreign Direct Investment

INF= Inflation Rate

Due to the problem of incomplete data, we used national savings as a proxy for domestic investment in Nigeria. Our justification to this is that according to the Keynesian national income

determination realized investment is always equal to savings as this is a fundamental identity in a simplified economy (Iyoha, 2007). The income obtained on the expenditure side is given as

$$Y = C + I_r \dots \dots \dots (1)$$

While on the other hand, it is obvious that income is given as

$$Y = C + S \dots \dots \dots (2)$$

Combining equations (1) and (2), we get an identity which is

$$I = S$$

Thus we re-specify our model as thus

$$RGDP = F(NSAV, LAB, OPN, FDI, INF)$$

Where:

NSAV = National Savings

This can be expressed in an explicit econometric form as

$$RGDP = \alpha_0 + \alpha_1 NSAV + \alpha_2 LAB + \alpha_3 OPN + \alpha_4 FDI + \alpha_5 INF + U$$

Where;

α_0 is the constant term, $\alpha_1, \alpha_2, \alpha_3$ and α_4, α_5 are co-efficient of the independent variables

U is the stochastic disturbance term

Adopting a log-linear specification, taking the natural logarithm of the dependent variable and independent variables for the purpose of elasticity analysis, we have

$$LNRGDP = \alpha_0 + \alpha_1 LNNSAV + \alpha_2 LNLAB + \alpha_3 LNOPN + \alpha_4 LNFDI + \alpha_5 LNINF + U$$

Where;

LNRGDP = log of Real Gross Domestic Product

LNNSAV = log of National Savings

LNOPN = log of Trade Openness

LNLAB= log of Labour

LNINF= log of Inflation Rate

LNFDI= log of Foreign Direct Investment

3.4 APRIORI EXPECTATION

$\alpha_0, \alpha_1, \alpha_2, \alpha_3, \alpha_4 > 0; \alpha_5 < 0$

Real Gross domestic product as a proxy for Economic Growth is the dependent variable, while National Savings, Labour, Trade Openness, Foreign Direct Investment and Inflation Rate are the independent variables. Investment is related directly to economic growth implying that it exerts a positive influence on the economy. This is so because theoretically savings is usually equal to investment and an increase in savings nationally will lead to enough funds for the investors to operate with thus leading to increased productivity and further leading to economic growth. Labour is positively related to economic growth because an increase in the labour force will lead to increased productivity and increased productivity means that there is enough to consume nationally and export thus leading to economic growth. Trade Openness is also positively related to economic growth. It is measured as exports plus imports divided by GDP ($X+M/GDP$). This is used as a proxy for the level of trade between the economy and the rest of the world, but when the net export is negative then the trade openness is seen as a negative influence on economy growth. Foreign Direct Investment is positively related to economic growth because increased investment in form of cash, business enterprises etc into a country by foreigners accelerates economic growth. The rate of Inflation impacts negatively on economic growth as inflation is the increase in the general price level of commodities thus causing too much money chasing too few goods and this will cause the growth of an economy to dwindle.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 INTRODUCTION

The co-integration methodology, trend analysis, unit root test and error correction techniques were adopted in deriving the empirical analysis of the impact of international trade on the economic growth in Nigeria. Thus, this chapter of our research presents the regression result of our estimated model, the analysis and interpretation of our regression result. Hence, this chapter also contains the policy implication of the findings.

4.1 DATA PRESENTATION

YEAR	FDI	RGDP	INFL	NSAVINGS(₦)	LABOUR	OPN
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1985	6804	253013.3	5.5	3570692	112024.8	0.025541
1986	9313.6	257784.4	5.4	16007560	112139.5	0.019897
1987	9993.6	255997	10.2	1836460	109727.7	0.043089
1988	11339.6	275409.6	38.2	3131262	110556.7	0.035581
1989	10899.6	295090.8	40.9	6720046	108370.6	0.038884
1990	10436.1	328606.1	7.5	6252785	108077.6	0.055267
1991	12243.5	328644.5	13	6252049	108749.5	0.064127
1992	20572.7	337288.6	44.5	4791773	107593.8	0.06279
1993	66787	342540.5	57.2	4791773	108206.8	0.053744
1994	70714.6	345228.5	57	644264	109486.8	0.039009
1995	119391.6	352646.2	72.8	2502797	107941.6	0.084926
1996	12600.9	367218.1	29.3	2113383	107414.1	0.066886
1997	128331.8	377830.8	8.5	3662113	107642.3	0.071815
1998	157535.4	388468.1	10	-2107537	107726.4	0.056429
1999	154188.6	393107.2	6.6	12521050	107230.9	0.061936
2000	157535.4	412332	6.9	1346959	106176.4	0.062127
2001	162343.4	431783.2	18.9	3381332	106727.2	0.065712
2002	166031.6	451785.7	12.9	12521050	105949.2	0.04569
2003	174450.3	495007.2	14	994670200	105931.2	0.059114
2004	249220.6	527576	15	7,302,8760	105630	0.056451
2005	269844.7	561931.4	17.9	19,212,540	105435.2	0.068186
2006	302843.3	595821.6	8.2	48,136,170	105214	0.055763
2007	364008.5	634251.1	6.6	18,434,210	105187.7	0.058363
2008	399841.9	672202.6	15.1	41,348,790	105105.2	0.062245
2009	441271.3	718977.3	13.9	13,611,300	105191.9	0.053569
2010	481001.4	776332.2	11.8	66,047,980	109348.6	0.056013
2011	461136.4	834000.8	10.3	69,847,550	109227.9	0.065681
2012	471068.9	888893	12	112,569,000	109452.4	0.057848
2013	308424.9	80092.56	8.5	44,370,430	108053.9	0.064759
2014	577325.2	89043.62	8.05	69,783,680	109478.7	0.053856
2015	723356.4	94144.96	9.01	29,159,470	107648.8	0.54368

SOURCE: CENTRAL BANK OF NIGERIA STATISTICAL BULLETIN 2013

4.2 THE UNIT ROOT TESTS OF VARIABLES

Usually in economic analysis of macroeconomic phenomena, researchers are often faced with the problem of deriving stationarity in the time series variables incorporated in the study of interest given the poor data collation technique in Nigeria. Thus, this prompts the relevance of conducting the unit root test to realize the stochastic process in the time series analysis (Iyoha, 2004). Table 4.0 presents the unit root results obtained adopting the Augmented Dickey Fuller (ADF) structure.

TABLE 4.1: Unit Root test of variables using the Augmented Dickey Fuller

Variables	ADF test Statistics	95% critical value of ADF	Order of integration	Remark
DLNRGDP	-3.782354	-2.963972	I(1)	Stationary
DLNNSAV	-8.752596	-2.963972	I(1)	Stationary
DLNLAB	-6.568639	-2.963972	I(1)	Stationary
DLNOPN	-8.118960	-2.963972	I(1)	Stationary
DLNFDI	-8.507843	-2.963972	I(1)	Stationary
DLNINFL	-6.535971	-2.967767	I(1)	Stationary

Source: Author's Compilation Using E-views 7.0

Unit root testing of the variables shows that all the variables are stationary at first differencing. Given the above result, we are justified to conduct the co-integration and error correction model based on the ordinary least square technique for LNNSAV, LNOPN, LNLAB, LNINFL and LNFDI.

From the table 4.1, it is revealed that the ADF test statistic is greater than the critical test value at 5% level of significance for all the differenced variables. Based on this result, the null hypothesis which says that the time series variables are not stationary at 1st difference is rejected, meaning that the series are stationary at their first differences i.e they are integrated of the order one I(1).

4.3 TEST OF CO-INTEGRATION

The Johansen co-integration is said to determine the number of co-integrated vectors for any given number of non-stationary variables of the same order. Two or more random variables are said to be co-integrated if each of the series are themselves non-stationary. This test may be regarded as a long run equilibrium relationship among variables. After conducting the ADF, we have to determine whether or not there exists a long run relationship between variables.

TABLE 4.2: Test for Co-integration

Hypothesized No. of CE(s)	Trace statistic	5% critical value	Max-Eigen statistic	5% critical value
None**	188.0984	94.15	76.28829	39.37
At most 1**	111.8102	68.52	44.25315	33.46
At most 2**	67.55700	47.21	32.36945	27.07
At most 3*	35.18755	29.68	25.50494	20.97
At most 4	9.682610	15.41	5.081330	14.07
At most 5*	4.601280	3.76	4.601280	3.76

Source: Author's Compilation Using E-views 7.0

From table 4.2, the evidence of at least four of the co-integrating vectors rejecting the hypothesis of no co-integrating equations in both the cases of the Trace Statistics and the Maximum Eigen Value of Statistics, the result confirms the existence of a stable (steady) long run equilibrium relationship between the five variables; the log of national savings, log of trade openness, log of labour, log of inflation rate and the log of foreign direct investment. Hence, we conclude that the variables possess the properties of long run convergence and are suitable for conducting the cointegration for short run dynamics in the non-stationary time series using the ECM.

4.4.1 PRESENTATION OF REGRESSION RESULT

Table 4.2:Error Correction Model Results

Variables	Coefficient	Standard Error	t-statistics	Probability
Constant	-20.41547	10.98758	-1.858049	0.0755
DLNNSAV	0.215911	0.019982	10.80520	0.0000
DLNLAB	2.756926	0.949685	2.902991	0.0078
DLNOPN	-0.150953	0.054744	-2.757410	0.0110
DLNFDI	-0.011740	0.022033	-0.532823	0.5991
DLNINFL	-0.036662	0.016955	-2.162303	0.0408
ECM(-1)	0.906935	0.121221	7.481663	0.0000

R-squared = 0.979015

Adjusted R-squared = 0.973768

F-Statistic = 186.6079

Durbin-Watson Stat = 2.238266

S.E of regression=0.064286

Mean dependent var=12.91268

4.4.2 INTERPRETATION OF REGRESSION RESULT

A close examination of the estimated model shows that the results are satisfactory from the high value of the R^2 given to us as 0.979015 implying that the ECM was able to explain approximately 97.90% systematic variation in the dependent variable which is RGDP using these five independent variables which are national savings (a proxy for investment), trade openness, labour, inflation and foreign direct investment. Only 3.10% is left unexplained and this is assumed to be captured by the error term, U . The adjusted R^2 is given as 0.973768. This means that after adjusting for the degree of freedom, the adjusted R^2 explains approximately 97.38% systematic variation in the dependent variable. The higher the adjusted R^2 , the lower the residual variance error due to a one-on-one relationship between the both of them and this means our model has a better predictive ability. The F-ratio with the value of 186.6079 shows that the model easily passes the F-test at a 1% significance level and this means that the hypotheses of a significant linear relationship between the dependent and independent variables taken together is validated.

The T-statistics using the rule of thumb (which states that when the t-value of the parameter estimate is greater than or equal to 2 then it is statistically significant in explaining the dependent variable but when it is less than 2, then it is not.) shows that openness, national savings, labour and inflation are statistically significant in explaining the dependent variable while foreign direct investment and the intercept are not statistically significant in explaining the dependent variable. With the standard error of regression given as 0.064286 and the mean dependent variable as 12.91268, the residual variance is approximately 0.005, this means that our model has a good predictive ability for forecasting. The Durbin Watson test for 1st order serial correlation shows the absence of autocorrelation as we have a value of 2.238.

National savings, labour and inflation are correctly signed based on economic theory. Openness and Foreign direct investment are not correctly signed following economic theory as they are supposed to be positively and not negatively related to economic growth. Openness in this model is negatively related probably because the net export is negative and so this has caused the trade openness to negatively impact on economic growth. Foreign direct investment is also negative probably because the flow of FDI wasn't used for its purpose due to corruption or it caused negative externalities in the economy. A percentage increase in National savings will cause RGDP to increase approximately by 0.22%, a percentage increase in openness will cause RGDP to fall appro

ximately by 0.15%, a percentage increase in labour will cause RGDP to increase approximately by 2.76%, a percentage increase in foreign direct investment will cause RGDP to fall approximately by 0.012% while a percentage increase in inflation will cause RGDP to fall approximately by 0.04%. The ECM is positive thus it will not rightly act to correct any deviations of the dependent variable from its long run equilibrium values.

4.5 POLICY IMPLICATION OF THE RESULT

Based on the results from the empirical investigation carried out on our model, the following policy implications are important

- National Savings have been found in our result to be positively related to economic growth. This implies that the higher the national savings, the higher the investment and so the higher the growth rate of the economy. Thus, national savings should be encouraged and it should be utilized properly for its purpose to accelerate economic growth in the country.
- Trade openness in our estimated model is seen to impact negatively on economic growth. This could be attributed to the fact that our net export is negative which implies unfavourable balance of payment. Thus the government should make frantic efforts to re-diversify the productive base of the economy so as to increase the exports not only from the oil sector but from other sectors in the economy. Once this is done economic growth of the country would be on the rising side.
- Labour is positively related to economy growth. No doubt about this as Nigeria is the most populous black nation filled with youths and since investment and labour goes hand in hand i.e. the higher the investment, the higher the employment of labour and so labour is seen to impact positively on RGDP. The government, as earlier said should encourage more investment so as to cushion the effect of the ever increasing labour force in the country.
- Inflation impact negatively on economic growth. This is no surprise as inflation which is the rise in the general price level of goods and services dwindles economic growth. Inflation is caused by both monetary and fiscal reactions in the country and since we advised the government to encourage more investment earlier, this means more income, taxes should be minimal on these income and savings with attractive interest rates should be encouraged and as rational human beings people will want to save more and consume less as their savings is yielding them extra money.

- Foreign direct investment impact negatively on economic growth. This is because FDI inflow has produced deteriorating growth in the country which is a drag to a country's growth process. So the government should put in place monetary and fiscal policies that will stimulate foreign investment.

CHAPTER FIVE

SUMMARY, POLICY RECOMMENDATIONS AND CONCLUSION

5.0 SUMMARY

This research study attempts to find the impact of international trade on the economic growth of Nigeria using Real Gross Domestic Product as a proxy for economic growth and this is the

dependent variable and five other independent variables which include National Savings, Trade Openness, Labour, Inflation Rate and Foreign Direct Investment to carry out the investigation. It covered the period of 1985-2015. The study employed the Error Correction Model based on the ordinary least squares technique, unit root test and the co-integration test. We came up with the following findings:

- ❖ National savings plays an important role in the process of economic growth as it provides for investment which in turn creates employment opportunity for its labour force, thus increasing their income and aggregate demand and thus leading to economic growth. In our estimated model, we found national savings as positively influencing economic growth.
- ❖ Trade openness in any economy is as a result of globalization. It is of benefit to Nigeria if her net export is positive. But in our estimated model, we found out that it was not beneficial to us as it came up with a negative growth values.
- ❖ Labour productivity also determines the growth of any economy. In our model, we found out that labour influenced the growth of the economy positively and this could be attributed to the positive influence of the national savings on economic growth
- ❖ In our estimated model, we discovered that the inflation rate negatively influenced economic growth
- ❖ Foreign Direct Investment in our estimated model was discovered to negatively influence economic growth. This does not follow economic theory as foreign direct investment is said to influence positively on economic growth so its negative influence on economic growth in our model can be attributed to factors like corruption, unfriendly fiscal and monetary policies, political instability, capital flights, dwindling oil prices, depreciating exchange rates etc.

5.1 POLICY RECOMMENDATION

- ✓ Foreign direct investment should be used for its purpose to promote economic growth. Corruption should be discouraged and the government should intensify their effort in regulating the activities of these foreign investors to curb the adverse effect of growth process in the country..
- ✓ National savings should be encouraged. Income and profit should be taxed minimally to e

encourage savings from households and firms. The government should also increase their savings so as to increase investment which in turn promote economic growth. With national savings which provides for investment, goods are produced which would be enough to consume domestically and export thereby creating a favourable balance of payment for us as our imports reduces and exports increases.

- ✓ The service industry should be well explored. This calls for educational development in the country so as to boost the nation's technological base.
- ✓ An increase in investment will be able to swallow up the ever increasing labour force in the economy and this will cause the growth of the economy to accelerate.
- ✓ Dumping activities by foreigners and unpatriotic Nigerians should be discouraged by stern efforts from the government
- ✓ It is only an economy with a stable political, social and business environment that would attract foreign investors to such economy. Thus, the government should make rules and regulations, policies in achieving such environment.
- ✓ Re-diversification of the economy is very important as the productive base of the economy is increased. This helps to reduce the overdependence on the oil sector in the economy. This will help our exports to not be dominated with oil but also with other commodities and this will protect us from the sudden shock in oil prices we suffered in the 1980s as other commodity export will help to augment the export revenue.

5.2 CONCLUSION

From our research study above, we have seen some of the factors which cause international trade to act as a catalyst on economic growth. All should be taken to note and our policy recommendations should not just be put aside. Savings should be encouraged at all levels and the incentive to save should not be destroyed probably through heavy taxation or inflation. Trade openness is of a benefit to any economy, therefore Nigerians should ensure that they are at a gain my opening

their boarders to trade. Let our import reduce and our export increase as there is enough labour force to provide for high labour productivity and it is the increase in investment that would accommodate this labour force to achieve the aim of high exports and low imports. Foreign direct investment should be used for its purpose as earlier said as it is seen as a compliment to domestic investment. The Nigerian government also has to provide security and a favourable business environment for the foreign investors and their investment. The government should also make rules and policies that would help to curb the effect of the negative growth rates of economic growth in general and foreign direct investments in particular. The government should always be on the watch against inflation rate as it exerts negative pressure on economic growth. An increase in aggregate demand as a result of increased investment will certainly cause inflation but if there are attractive interest rate for savings, any rational human being instead of consuming a large portion of his disposable income would want to save more knowing fully well that the greater the amount of his disposable income saved, the greater the returns.

International trade has been seen as an engine of economic growth and so the benefits from trade should be used for productive projects and programmes so that its positivity will reflect on the economy. We should not be overdependent on the oil sector rather we should re-diversify the productive base of the economy so as to increase our exports and be less dependent on imports. If this is achieved, we would achieve a favourable balance of payment which will in turn lead to economy growth. Therefore, in pursuing and maintaining a healthy balance of payments position in order to safe guard the external value of national currency; there is need for fiscal discipline, active government participation in ensuring efficient implementation of government's development plans and economic integrations.

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APPENDIX

ERROR CORRECTION MODEL

Dependent Variable: LNRGDP

Method: Least Squares
 Date: 12/05/18 Time: 12:21
 Sample (adjusted): 1985 2015
 Included observations: 31 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-20.41547	10.98758	-1.858049	0.0755
LNNSAVINGS	0.215911	0.019982	10.80520	0.0000
LNOPN	-0.150953	0.054744	-2.757410	0.0110
LNLABOUR	2.756926	0.949685	2.902991	0.0078
LNINFL	-0.036662	0.016955	-2.162303	0.0408
LNFDI	-0.011740	0.022033	-0.532823	0.5991
ECM(-1)	0.906935	0.121221	7.481663	0.0000
R-squared	0.979015	Mean dependent var		12.91268
Adjusted R-squared	0.973768	S.D. dependent var		0.396920
S.E. of regression	0.064286	Akaike info criterion		-2.455263
Sum squared resid	0.099185	Schwarz criterion		-2.131459
Log likelihood	45.05658	Hannan-Quinn criter.		-2.349711
F-statistic	186.6079	Durbin-Watson stat		2.238266
Prob(F-statistic)	0.000000			

Table 2: JOHANSEN COINTEGRATION

Date: 12/05/18 Time: 12:28
 Sample (adjusted): 1987 2015
 Included observations: 29 after adjustments
 Trend assumption: Linear deterministic trend
 Series: LNRGDP LNNSAVINGS LNOPN LNLABOUR LNINFL LNFDI
 Lags interval (in first differences): 1 to 2

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	5 Percent Critical Value	1 Percent Critical Value
None **	0.927967	188.0984	94.15	103.18
At most 1 **	0.782590	111.8102	68.52	76.07
At most 2 **	0.672474	67.55700	47.21	54.46
At most 3 *	0.585002	35.18755	29.68	35.65
At most 4	0.160726	9.682610	15.41	20.04
At most 5 *	0.146718	4.601280	3.76	6.65

Trace test indicates 4 cointegrating equation(s) at the 5% level
 Trace test indicates 3 cointegrating equation(s) at the 1% level
 *(**) denotes rejection of the hypothesis at the 5%(1%) level

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	5 Percent Critical Value	1 Percent Critical Value
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None **	0.927967	76.28829	39.37	45.10
At most 1 **	0.782590	44.25315	33.46	38.77
At most 2 **	0.672474	32.36945	27.07	32.24
At most 3 *	0.585002	25.50494	20.97	25.52
At most 4	0.160726	5.081330	14.07	18.63
At most 5 *	0.146718	4.601280	3.76	6.65

Max-eigenvalue test indicates 4 cointegrating equation(s) at the 5% level

Max-eigenvalue test indicates 3 cointegrating equation(s) at the 1% level

*(**) denotes rejection of the hypothesis at the 5%(1%) level

Table 3: ADF UNIT ROOT TEST

Null Hypothesis: D(LNRGDP) has a unit root

Exogenous: Constant

Lag Length: 0 (Automatic - based on SIC, maxlag=7)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-3.782354	0.0076
Test critical values:		
1% level	-3.670170	
5% level	-2.963972	
10% level	-2.621007	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation

Dependent Variable: D(LNRGDP,2)

Method: Least Squares

Date: 12/05/18 Time: 12:36

Sample (adjusted): 1986 2015

Included observations: 30 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LNRGDP(-1))	-0.641467	0.169595	-3.782354	0.0008
C	0.028375	0.009427	3.010041	0.0055
R-squared	0.338159	Mean dependent var		0.002704
Adjusted R-squared	0.314521	S.D. dependent var		0.043280
S.E. of regression	0.035833	Akaike info criterion		-3.75554
				2
				-3.66212
Sum squared resid	0.035953	Schwarz criterion		9
				-3.72565
Log likelihood	58.33313	Hannan-Quinn criter.		8
F-statistic	14.30620	Durbin-Watson stat		1.962957
Prob(F-statistic)	0.000751			

Null Hypothesis: D(LNOPN) has a unit root
 Exogenous: Constant
 Lag Length: 0 (Automatic - based on SIC, maxlag=7)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-8.118960	0.0000
Test critical values:		
1% level	-3.670170	
5% level	-2.963972	
10% level	-2.621007	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
 Dependent Variable: D(LNOPN,2)
 Method: Least Squares
 Date: 12/05/18 Time: 12:36
 Sample (adjusted): 1987 2015
 Included observations: 30 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LNOPN(-1))	-1.390190	0.171228	-8.118960	0.0000
C	0.020999	0.046159	0.454925	0.6527
R-squared	0.701866	Mean dependent var		0.004623
Adjusted R-squared	0.691218	S.D. dependent var		0.454542
S.E. of regression	0.252580	Akaike info criterion		0.150167
Sum squared resid	1.786313	Schwarz criterion		0.243580
Log likelihood	-0.252501	Hannan-Quinn criter.		0.180050
F-statistic	65.91751	Durbin-Watson stat		2.080664
Prob(F-statistic)	0.000000			

Null Hypothesis: D(LNNSAVINGS) has a unit root
 Exogenous: Constant
 Lag Length: 0 (Automatic - based on SIC, maxlag=7)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-8.752596	0.0000
Test critical values:		
1% level	-3.670170	
5% level	-2.963972	
10% level	-2.621007	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation

Dependent Variable: D(LNNSAVINGS,2)
 Method: Least Squares
 Date: 12/05/18 Time: 12:36
 Sample (adjusted): 1983 2015
 Included observations: 30 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LNNSAVINGS(-1))	-1.435650	0.164026	-8.752596	0.0000
C	0.303967	0.063123	4.815482	0.0000
R-squared	0.732334	Mean dependent var		0.009216
Adjusted R-squared	0.722774	S.D. dependent var		0.555392
S.E. of regression	0.292426	Akaike info criterion		0.443131
Sum squared resid	2.394365	Schwarz criterion		0.536544
Log likelihood	-4.646966	Hannan-Quinn criter.		0.473015
F-statistic	76.60794	Durbin-Watson stat		2.163236
Prob(F-statistic)	0.000000			

Null Hypothesis: D(LNLABOUR) has a unit root
 Exogenous: Constant
 Lag Length: 0 (Automatic - based on SIC, maxlag=7)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-6.568639	0.0000
Test critical values:		
1% level	-3.670170	
5% level	-2.963972	
10% level	-2.621007	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
 Dependent Variable: D(LNLABOUR,2)
 Method: Least Squares
 Date: 12/05/18 Time: 12:36
 Sample (adjusted): 1986 2015
 Included observations: 30 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LNLABOUR(-1))	-1.212311	0.184560	-6.568639	0.0000
C	-0.001246	0.002076	-0.600380	0.5531
R-squared	0.606449	Mean dependent var		-2.17E-05
Adjusted R-squared	0.592393	S.D. dependent var		0.017738
S.E. of regression	0.011325	Akaike info criterion		-6.059326
Sum squared resid	0.003591	Schwarz criterion		-5.965912

Log likelihood	92.88988	Hannan-Quinn criter.	-6.02944
F-statistic	43.14702	Durbin-Watson stat	2
Prob(F-statistic)	0.000000		2.043936

Null Hypothesis: D(LNINFL) has a unit root
 Exogenous: Constant
 Lag Length: 1 (Automatic - based on SIC, maxlag=7)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-6.535971	0.0000
Test critical values:	1% level	-3.679322	
	5% level	-2.967767	
	10% level	-2.622989	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
 Dependent Variable: D(LNINFL,2)
 Method: Least Squares
 Date: 12/05/18 Time: 12:37
 Sample (adjusted): 1987 2015
 Included observations: 29 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LNINFL(-1))	-1.487137	0.227531	-6.535971	0.0000
D(LNINFL(-1),2)	0.498443	0.156172	3.191629	0.0037
C	-0.032671	0.124699	-0.262002	0.7954
				-0.03276
R-squared	0.643471	Mean dependent var		4
Adjusted R-squared	0.616046	S.D. dependent var		1.083323
S.E. of regression	0.671271	Akaike info criterion		2.138408
Sum squared resid	11.71571	Schwarz criterion		2.279853
Log likelihood	-28.00692	Hannan-Quinn criter.		2.182707
F-statistic	23.46269	Durbin-Watson stat		2.045704
Prob(F-statistic)	0.000002			

Null Hypothesis: D(LNFDI) has a unit root
 Exogenous: Constant
 Lag Length: 0 (Automatic - based on SIC, maxlag=7)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-8.507843	0.0000
Test critical values:	1% level	-3.670170	

5% level	-2.963972
10% level	-2.621007

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
 Dependent Variable: D(LNFDI,2)
 Method: Least Squares
 Date: 12/05/18 Time: 12:37
 Sample (adjusted): 1986 2015
 Included observations: 30 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LNFDI(-1))	-1.401983	0.164787	-8.507843	0.0000
C	0.268359	0.124663	2.152682	0.0401
R-squared	0.721069	Mean dependent var		-0.04334
Adjusted R-squared	0.711108	S.D. dependent var		9
S.E. of regression	0.652652	Akaike info criterion		1.214265
Sum squared resid	11.92673	Schwarz criterion		2.048795
Log likelihood	-28.73192	Hannan-Quinn criter.		2.142208
F-statistic	72.38340	Durbin-Watson stat		2.078679
Prob(F-statistic)	0.000000			2.192486