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Original Research Article

Trade Liberalization & Economic Growth in Nigeria (1981 – 2022)

Agbarakwe Ugochukwu Henry[1*], Bredino Samson, M[1]
[1]Department of Economics, Faculty of Social Sciences, University of Port Harcourt, Rivers State, Nigeria
***Corresponding author:** Agbarakwe Ugochukwu Henry

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Abstract: This study is aimed at empirically investigating the relationship between trade liberalization and economic growth in Nigeria. Real gross domestic product and degree of openness were used as measures of economic growth and trade liberalization respectively. Exchange rate and inflation were used as check variables. The aforementioned variables for the study were sourced from the Central Bank of Nigeria. The Augmented Dickey fuller (ADF) was used to test for data stationarity, while the specified model was estimated using the Fully Modifies Ordinary Least (FMOLs) square method. Findings from the study show that there is positive and statistical significant relationship between degree of openness and real gross domestic product. The aforementioned result indicates that the adoption of liberal trade policies will likely bring about economic growth. However economic growth and development are not the same. Historical and empirical evidence from Nigeria have shown that liberal trade policies have not favoured the country. Nigeria's productive capacity has been and has remained low and as a result Nigeria consumes more than it produces. In addition, the country has not been able to develop its local productive capacity. Thus, this paper recommends that the government should be tactful in the formulation and implementation of trade policies.

Keywords: Real Gross Domestic Product, Trade Liberalization, Degree of Openness, Exchange rate.

1.0 BACKGROUND OF THE STUDY

A major determinant of the economic growth of a country is the macroeconomic policy regarding it trading activities with the rest of the world. It has been argued that the adoption of liberal trade policies will result to the maximization of output, improved standard of living and an expansion of the production possibility frontiers of the a country. The aforementioned stance is hinged on the theory of comparative advantage and factor endowment. The justification of trade liberalization is that it affords countries with comparative advantage (either in labour or capital intensive instance) to produce and export those commodities in which they have comparative advantage, and import those commodities in which they have comparative disadvantage thus, maximizing the gains from free trade. The doctrine of free trade is so pervasive in some quarters that we now have several national and international organizations such as the World Trade Organization (WTO), Economies of West Africa States (ECOWAS),…. spearheading the crusade for trade liberalization among member countries.

However, the poser then is who benefits from trade liberation? Data and experience from the past have shown that the adoption of liberal trade policies, as well as reforms on exchange rate by some Asian Tiger countries have done more harm than good. The increase in the level of exports has resulted to high level of poverty and high rate of unemployment in less developed countries. Thus, this paper is aimed at empirically investigating the impact of trade liberalization policies on the economic growth of Nigeria.

2.0 OBJECTIVES OF THE STUDY

The paper is aimed at empirically investigating the impact of trade liberalization on economic growth in Nigeria. Specifically, the objectives of this study are to;

i. To examine the impact of degree of openness on economic growth in Nigeria.
ii. To examine the relationship between net export and economic growth in Nigeria.

3.0 RESEARCH QUESTION

The following research questions shall guide the study;

i. To what extent have the oscillations in the degree of freedom affected Nigeria's gross domestic product.
ii. Has the volume of Nigeria's net-export affected its gross domestic product over time?

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4.0 RESEARCH HYPOTHESES

The following hypotheses are formulated for the purpose of this research:

i. **Ho_1:** There is no significant relationship between degree of openness and gross domestic product.

ii. **Ho_2:** There is no significant relationship between net export and Nigeria's gross domestic product.

5.0 REVIEW OF LITERATURE

In this section, a critical review of theoretical and empirical literature on the subject shall be undertaken with a view to identify gaps that this paper intends to fill.

5.1 Theoretical Review

In this section we shall take a cursory view of selected trade theories as well as conceptual definitions of some terms as it related to trade liberalization. Some of the theories that will shall highlight include but is not limited to; the Classical theory of absolute trade advantage, Neoclassical Trade Theory, Heckscher-Ohlin and Post Heckscher-Ohlin theories.

Theories of International Trade

Classical Trade Theories

The classical theory of trade is credited to Adam Smith (1776). His idea was put forward in his book "The Wealth of Nations". According to him, countries should specialize in the production and export of goods in which they have absolute advantage. By absolute advantage, He meant that less units of factor input i.e. capital or labour are required to produce a given output level compared to those used in other countries in the production of same output and type of commodities. His ideology was averse to those of the mercantilist who were strong proponent of restrictive trade. This theory came at a time when the mercantilist restrictive trade theory was predominantly practices. Though Adam Smith theory sounded logical, it later expanded by Ricardo who opined that the justification of free trade may not necessary be hinged on absolute advantage, but on comparative advantage.

Neoclassical Trade Theories (NTT)

The Neoclassical trade theory has two Swedish Economist Eli Heckscher (1919) and Bertil Ohlin (1933) as the leading figures. Based on a number of assumptions, Heckscher-Ohlin explanation of the emergence and structure of trade is that factor endowment are different in each country and that commodities are always intensive on a factor regardless of relative factor prices. According to this theory, a country will export those commodities that use relatively intensive abundant factor of production and it will import the goods that use relatively intensive scarce factor of production. Relatively abundant factor may be defined in two ways. The physical definition and the price definition, the physical definition explains factors abundance in terms of the physical units of two countries, for example labour and capital available in each of the two countries.

Post Heckscher-Ohlin Theories

One of the post Hescher-Ohlin theories is the product life cycle theory of Raymond Vernon (1996). The major tenets of this theory is that every product has a life cycle and that this life cycle can be divided into three namely; the new product stage, the maturity stage, and the standardize product stage. In the new product stage, the product is produced and consumed within the domestic economy. In other words, the country consumes all that is produced and none is exported. Over time, due to technology advancement and Research and development, the country begins to mass produce, and thus, starts to explore the possibility of export some of its products, this is what characterizes the second stage or life cycle. In the third stage, the country exports its products to other developing countries where labour is cheaper.

Before the advent of the Structural Adjustment Programed (SAP), one of the trade liberalization policy in practice was the import substitution policies which was implement around the 1970s. However, this policy did not create the anticipated positive effects due to poorly formulated macroeconomic policies. The initiation of SAP in 1986 brought the removal of foreign exchange control and price control. The emergence of SAP also led to the elimination of commodity board. The aim of the SAP was to enhance sustained economic growth through the creation of an economically conducive environment to enhance capital flow, encourage technological advancement, improve over reliance on crude oil, and increase government revenue.

The implementation of policy or policies geared towards directing economic activities away from direct controls to market driven or determined prices and resource allocation is called trade liberation (Bredino *et al*., 2018). Aptly put, the removal of restrictions or any form of barriers to trade between countries is referred to as trade liberalization. According to Jhingan (1997), the increase in the ease with which marketed goods and services as well as financial assets are trade in the international market is called international trade.

The view of Echekoba, *et al*., (2012) aligns with those of the classical school of thought. According to him the objective of liberal trade policies is to entrench efficiency in the product process of countries by allowing the export of goods that require less resource input, and import those good that require less resource inputs. The need for liberal trade policies is a response to the economic crisis faced by countries which is manifested in form of; rising inflation, low output level, rising unemployment rate, falling standard of living, external debts etc. Nigeria with the aim of liberalizing the economy and achieving greater openness plus greater integration with the world economy has put various

policies in place to ensure a higher degree of openness of.

5.2 Empirical Review

Felix, G.O., Kolawole, S., & Musa, L. B. (2013) carried a study to empirically investigate the impact of trade liberalization on economic growth in Nigeria. Time series data on gross domestic product, imports and export, & foreign direct investment sourced from the Central Bank of Nigeria were used for the study. The Augmented Dickey Fuller unit root, granger causality test, chow breakdown test, and Johansen co-integration test were the statistical instruments used in analyzing the data. Findings from the study show that there exists long-run relationship among the variables. Specifically, three variables were found to be co-integrated with gross domestic product. Openness has positive and significant relationship with gross domestic product. The aforementioned outcome indicates that trade liberalization has positive impact on economic growth. Foreign direct investment and imports both have positive and significant relationship with economic growth.

Claire E, & Joseph A., (2021) conducted a study to examine the relationship between trade liberalization, economic growth and poverty in selected Sub-Saharan African countries within the period 1990 – 2017. The Augmented Dickey Fuller Unit and Johansen co-integration analysis were used to test for unit root and existence of long-run relationship among the variables respectively. This was followed by the Autoregressive Distributed Lag Model (ARDL), Vector Autoregressive model, and the Generalized Method of Moments (SYS-GMM). Findings from the study show that trade openness, foreign direct investment and institutional quality all have positive impact on the economic growth of a country in the long-run. However, in the economic short-run, institutional quality and trade liberalization both have adverse effect on economic growth. Based on the findings, they recommended that African countries to review their poverty alleviation programmes to ensure that it entrenches sustained economic development.

Muhammad. Q., Neelam Y., & Muhammad, B. (2018) examined the impact of trade liberalization on economic in Pakistan for the period 1974 – 2014. Economic growth measured by gross domestic product was the dependent variable, while fixed gross capital formation, trade liberalization, labour force participation, inflation, and interest rate were in independent or explanatory variables. Preliminary statistical analysis such as; the Augmented Dickey Fuller test and Johansen Co-integration tests were conducted to ascertain the stationarity and long-run relationship in the model. This was followed by the computation of the Vector Error Correction Model (VECM). Findings from the study show that trade liberalization have positive impact on economic growth in the country.

6.0 DATA & METHODOLOGY

In this section, the type, sources, as well as the methodology of data analysis are presented.

6.1 *Data Collection & Sources*

The data used for this study are; gross domestic product, exchange rate, and inflation rate. Gross domestic product was used as a measure for economic growth, while degree of opening was used a measure for trade liberalization (Edward, 1988). The rate of inflation was introduced in the model as check variable. The aforementioned dataset were sourced from the Central Bank of Nigeria (CBN, 2023).

6.2 *Research Design*

The study will adopt a quasi - experimental design which is suitable for the social science. The complexities and dynamic nature of the relationship existing between the variables informed the use of quasi - experimental design; such relationships are not subject to manipulation (Nwankwo, 2011). The essence of adopting sample survey quasi- experimental design is to enable the researcher to obtain sample data for the study.

6.3 Model Specification

To modify the above model to capture the objectives of this study, we considered the principal factors that could potentially play a consequential role in the determination of trade liberalization, and economic growth in Nigeria. Hence, the ordinary least square (OLS) linear method is specified in functional relationship as below:

$$RGDP = f(DOP, ER, INF) \quad \text{..... (6.1)}$$

Estimation of Econometric Equations

$$RGDP_t = ao + a_1DOP + a_2ER + a_3INF + u_t \quad \text{... (6.2)}$$

Where:

RGDP = Real Gross Domestic Product
DOP = Degree of Openness
ER = Exchange Rate
INF = Inflation Rate
a_o = Constants
a_1, a_2, and a_3 = coefficients of the econometric equations or slopes of the equations
't' = time trend given that the data are in time series dimension
u_t = Stochastic or error term

6.4 Data Analysis Technique

Unit Root Test

Often, secondary time series data are non-stationary by nature. Specifically, these data are highly trended and correlated (Dickey & Fuller, 1979). The consequence of running regression using non-stationary dataset is that the outcome or result will be spurious. Because results from non-stationary data are spurious, they cannot be used for inferences (Iyeli, 2010). Thus,

we shall conduct an Augmented Dickey Fuller unit root test to ascertain the nature of the dataset.

Co-integration Test

The Johansen co-integration test shall be performed to ascertain whether or not there is any long-run association between the variables used for the study. It is also referred to as non-stationary time series modeling. We shall perform the error correction modeling if the test shows that there is a long-run relationship between the variables.

7.0 EMPIRICAL RESULTS

Unit Root Test

As stated earlier, the test of unit root was carried out using the Augmented Dickey Fuller (ADF) test. The ADF test output is shown in table 7.1 below.

Table 7.1: Augmented Dickey Fuller Unit Root Test Result

VARIABLES	LEVELS		1st DIFFERENCE		Order of Integration
	ADF Test Statistics	Test Critical Value @ 5%	ADF Test Statistics	Test Critical Value @ 5%	
RGDP	-1.70237	-3.526609	-6.084935	**-3.529758	I(1)
DOP	-3.845405	**-3.529758	-5.811818	**-3.536601	I(0)
ER	4.464509	**-1.949319	-3.344216	**-1.949609	I(0)
INF	-3.016569	**-2.936942	-6.089263	**-2.938987	I(0)

Source: Authors Computer from E-view

The output of the ADF test shown in Table 7.1 reveal that degree of openness (DOP), Exchange Rate (ER), and Inflation Rate (INF) are stationary at both level and first difference, while real gross domestic product (RGDP) is stationary first difference.

Fully Modified Ordinary Least Square

The output of the fully modified ordinary least square is shown below.

Table 7.2: Fully Modified Ordinary Lest Square Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DOP	88.85784	42.41486	2.094969	0.0431
ER	61.24536	27.45452	2.230793	0.0318
INF	-627.5095	144.7524	4.335054	0.0001
R-squared	0.672326	Mean dependent var		10.315
Adjusted R-squared	0.874614	S.D. dependent var		7.501478
S.E. of regression	7.210054	Sum squared resid		719.118
Long-run variance	57.42541			

Source: Authors Computer from E-view

The coefficient of the degree of openness (88.857), and corresponding probability value (0.0431) indicates that there is positive and statistically significant relationship between degree of openness and real gross domestic product. The aforementioned outcome is in consonance with apriori expectations and some empirical findings (Nwakoh, 2017; Romain & Karen 2008). There is positive and statistically significant relationship between exchange rate and real gross domestic product, though the outcome is contrary to apriori expectation. The rate of inflation has negative effect on real gross domestic product. The aforementioned relationship between inflation and gross domestic product is in line with the findings of (Fiderikumo & Bredino, 2021).

8.0 CONCLUSION

This study was aimed at empirically investigating the relationship between trade liberalization and economic growth in Nigeria. Real gross domestic product and degree of openness were used as measures of economic growth and trade liberalization respectively. Exchange rate and inflation were used as check variables. Findings from the study show that there is positive and statistical significant relationship between degree of openness and real gross domestic product. The aforementioned result indicates that the adoption of liberal trade policies will likely bring about economic growth.

However, historical and empirical evidence from Nigeria's perspective has shown that liberal trade policies have not favoured the country development. This is because indigenous productive capacity has been destroyed by trade liberalization and as long as its economy remains open to international trade, it may not be able to develop its local productive capacity. Hence Nigeria has continued to consume more foreign commodities than it produces.

Thus, this paper recommends that the government should be tactful in the formulation and implementation of trade policies. Specifically, in trade policy formulation, the government should consider the Agbarakwe's Strategic Protectionism where Agbarakwe (2023) recommended that developing countries should

strategically identify industries, commodities and technologies they want to develop and fully protect and support such domestic industries and producers until such a time when they are capable of competing with international firms then they can liberalize. Such liberalization after strategic protectionism will ensure that international trade generate benefits to both trading partners in terms of development and not just economic growth.

We also recommend that further studies be carried out on this area, preferably, using primary data source.

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