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Trade Policy Indicators and Macro Economic Performance in Nigeria 1985-2021

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ABSTRACT

The study examined the effect of trade policy indicators on macro-economic performance in Nigeria from 1985-2021. The objective of the study was to evaluate the empirical contributions of trade policy indicators on macro-economic performance in Nigeria adopting three distinct models. While the specific objectives were centred on the examination of the effect of trade openness, exchange rate, quota and tariff on real gross domestic product, unemployment rate and balance of payment in Nigeria using Autoregressive Distributed Lag (ARDL) technique with bound test approach to cointegration and Granger causality test from 1985-2021 precisely. The time series data showed stationariety and long run relationship between the variables. Findings in the first model showed a strong positive and significant relationship between trade policy indicators and macro-economic performance. R2(0.720981) indicates 72% of the variation of real GDP was explained by the regressors and Prob. F-stat. (0.0162) showed that the overall model was significant at 5% level and CointEq (-0.322587) this speed of adjustment coefficient was negative which indicates convergence of the variance and demonstrates the short run disequilibrium converged at the speed of 32% annually. Findings in the second model revealed that the effect of trade policy indicators on balance of payment (BOP) was negative and significant at 5% level on the long run analysis with the R2 was (0.878961)indicating that 87% of the variation of balance of payment (BOP) was explained by the autonomous factors, while Prob.F-stat.(0.0000) implies the overall model was significant at 5% level and CointEq (--2.723692) coefficient indicating that the speed of adjustment coefficient was negative which shows the short run disequilibrium converged at the speed of 272% in the long run annually. The implication of this finding is that trade policy indicatorshelps to mitigate macroeconomic shocks by fostering convergence and as demonstrated in the short run dynamics to long run equilibrium annually. Findings in the third model showed that the effect of trade policy indicators on unemployment rate was negative but significant at 5% level with Prob. (F-stat. 0.016238) indicates that the overall model was significant at 5% level while the R2 (0.720981) implies that 88% of the variations of balance of payment was explained by the autonomous factors and the CointEq (--0.322587) was negative which indicates the short run disequilibrium converged at the speed of 32 % in the long run annually. The implication of this finding is that trade policy indicatorshelps to promote macroeconomic shocks by enhancing convergence of the short run to long run. The study therefore recommends that policy makers should ensure proper implementation of trade policy indicators on macro-economic activities specifically on exchange rate regimes, employment schemes and balance of payment for sustained economic performance.

Keyword: Fiscal Policy, Socio-Economic Development, Realgdp, Unemployment and BOP.

INTRODUCTION

Background to the study

The essential roles of trade policy cannot be over emphasized in Nigeria, especially in terms of economic administration and macroeconomic performance. Particularly, the quest to achieve sustainable macroeconomic objectives explains the vital role played by trade policies in both developed and developing economies like Nigeria. Teti, (2020) established that the goal of government is to improve the living conditions of her populace through major economic policy such as trade policy etc. Once more, these economic policies are mostly used to stabilize and sustain the economic development, especially during the period of economic crisis. In like manner, government initiates trade policy with the aim of improving trade relation and build the necessary safety net against external shocks through stabilized exchange rate.

Trade policy embraces any policy that directly affects the flow of goods and services between countries, comprising import tariffs, import quotas, voluntary export restraints, export taxes, export subsidies (Sosanya, Olayibo and Olabopo, 2021). Therefore, trade is a major catalyst for growth (Busse and Koniger, 2012), a promoter of competitiveness and economic outcome (Organization of Exporting Countries and Development and World Trade Organization (OECD-WTO, 2015) and it fosters inclusive and sustainable growth among economies (World Bank, 2017). The cross-country pattern of trade and output is heavily influenced by trade policies.

Consequently the prevailing view in trade policy circle in Nigeria is that recent economic history provides a conclusive answer in the affirmative. Multilateral institutions such as the World Bank, the IMF and the OECD regularly promulgate advice predicated on the belief that openness generates predictable and positive consequences for growth. A recent report by the OECD (2017) states that more open and outward oriented economies consistently out-perform countries with restrictive trade and foreign investment regimes (IMF, 2017; Adeagbo, 2020).

Recall that the overall objective of Nigeria trade policy is the encouragement of production, distribution of goods and services to satisfy both the domestic and international markets for the purpose of achieving accelerated economic development. The specific objectives include: the promotion and

development of domestic trade, intra-trade, trade and inter-trade commerce, the development and promotion of oil and non-oil exports, deregulation and liberalization of trade and promotion of Nigeria bilateral and multilateral trade interests (Aniekan, 2021).

In other words, the twin objectives of Nigeria trade policy have been to promote export and to restrict the level of imports to the level of foreign exchange available to the government. The basic problem of a developing country like Nigeria is the non- availability or acute shortage of crucial inputs like industrial raw materials, capital goods and technology. The bottleneck can be removed only by importation in the short run, which can be financed through foreign aids, borrowings, but in the long run, it must be financed by additional export earnings. The primary objective of the trade policy, therefore, revolves around the instruments and techniques of export promotion and import administration (Trade Policy Review, 2017).In Nigeria trade policy is one of the many economic instruments used to ensemble the requirement of economic growth.

Statement of the Problem

Sosanya, Olayibo and Olabopo (2021)defined trade policy as goals, rules, standards, and regulations that are involved in the trade between countries. They observed that trade policy consist of any policy that directly affects the flow of goods and services between nations, comprising import tariffs, import quotas, voluntary export restraints, export taxes, export subsidies. Therefore, trade is a major catalyst for growth (Busse and Koniger, 2012) an advocate of competitiveness and economic performance (Organization of Exporting Countries and Development and World Trade Organization (OECD-WTO, 2015) and fosters comprehensive and sustainable growth among economies (World Bank, 2011) the cross-country configuration of trade is heavily influenced by trade policies.

The fundamental problem of a developing country like Nigeria is the non- availability or acute shortage of crucial inputs like industrial raw materials, capital goods, technology and trade policy application. The bottleneck can be removed only by importation in the short run and can be financed through foreign aids, borrowings, but in the long run it must be financed by additional export earnings. The primary objective of the Nigeria trade policy revolves around the instruments and techniques of export promotion and import administration (Trade Policy Review, 2017). Trade policy is one of the many economic instruments used to ensemble the requirement of economic growth in Nigeria.

Objectives of the Study

The broad objective of this study was to evaluate the effect of trade policies indicators on the macroeconomic performance in Nigeria (1985-2021). The Specific objectives of the study are to:

(i). Determine the effect of trade indicators (trade openness, tariff, exchange rate, crude quota) on real gross domestic product (RGDP) in Nigeria

(ii). Determine the effect of trade indicators (trade openness, tariff, exchange rate, crude quota) on balance of payment level (BOP) in Nigeria.

(iii). Determine the impact of trade indicators (trade openness, tariff, exchange rate, crude quota) on unemployment rate (UNEM) in Nigeria

LITERATURE REVIEW

Theoretical Framework

Richardian Theory of Comparative Advantage

David Ricardo (1817) developed the classical theory of comparative advantage to explain why countries engage in international trade even when one country's workers are more efficient at producing *every* single good than workers in other countries. He demonstrated that if two countries capable of producing two commodities engage in the free market (albeit with the assumption that the capital and labour do not move internationally, then each country will increase its overall consumption by exporting the good for which it has a comparative advantage while importing the other good, provided that there exist differences in labor productivity between both countries.Widely regarded as one of the most powerful[7] yet counter-intuitive[8] insights in economics, Ricardo's theory implies that comparative advantage rather than absolute advantage is responsible for much of international trade

Heckscher -- OhlinModern Theory of Trade

The Heckscher-Ohlin theory explains why countries trade in goods and services with each other. One condition for trade between two countries is that the countries differ with respect to the availability of the factors of production. They differ if one country, for example, has many machines (capital) but few workers, which another country has a lot of workers but few machines. According to the Heckscher-Ohlin theory, a country specializes in the production of goods that it is particularly suited to produce. Countries in which capital is abundant and workers are few, therefore, specialize in production of goods that it is particularly require capital. Specialization in production and trade between countries generates, according to these proponents a higher standard-of-living for the countries involved. The production of goods and services requires capital and workers. Some goods require more capital - technical equipment and machinery and are called capital intensive.

Conceptual Framework

In Nigeria trade policy is one of the many economic instruments used to ensemble the requirement of economic growth. The twin objectives of Nigeria trade policy have been to promote export and to restrict the level of imports to the level of foreign exchange available to the government. The basic problem of a developing country like Nigeria is the non- availability or acute shortage of crucial inputs like industrial raw materials, capital goods and technology. The bottleneck can be removed only by imports, in the short run, import can be financed through foreign aids, borrowings, but in the long run, imports must be financed by additional export earnings. The basic objective of the trade policy, therefore, revolves around the instruments and techniques of export promotion and import management (Trade Policy Review, 2017).

Dexports (2021) established that trade policy uses seven main instruments: tariffs, subsidies, import quotas, voluntary export restraints, local content

requirements, administrative policies and anti-dumping duties. A tariff is a tax levied on imports or exports. They are divided in two categories: Specific tariffs: are levied as a fixed charge for each unit of a good imported. Ad valorem tariffs: are levied as a proportion of the value of the imported good (WT/TPR/S/27).

Concept of Real Gross Domestic product (RGDP)

The term growth broadly connotes quantitative increase. This is driven by Kuznets (1955) assertion that economic growth is essentially a quantitative phenomenon, thus providing the basis for making substantial advancement in the empirical and theoretical analysis of the growth phenomenon. In conceptualizing economic growth in this sense, it is argued that economic activity is a purposive activity, that is, an economic activity can only be identified and its outcomes quantified if there is a prior identification of the underlying purpose of that activity.Sharma (2015) defined economic growth as population plus productivity. This measureseconomic growth by adding the rate at which the labour force is expanding to the rate at whichproductivity is increasing overtime. Uwakaeme (2015) posits that economic growth is viewed asthe positive and sustained increase in total goods and services produced in an economy within a specificperiod of time. When measured with the population of a given country, then it can be conceptualized in termsof per capita income according to which the aggregate production of goods and services in a given year divided by the population of the country in the given period.Economic growth can equally be conceptualized in nominal and real terms. When the increase in aggregate level of goods and services is deflated by the rate of inflation, it is referred to asreal economic growth, otherwise when measured without deflating; it is called nominaleconomic growth. In economic literature, the notable proxy for economic growth is the gross domestic product.

Concept of Unemployment

Al-Sawaiea (2020) in World Bank (1998) defined unemployment as the number of an economically active population who are without work but available for and seeking for work, including people who have lost their jobs and those who have voluntarily left work. Nigeria Bureau of Statistics (2020) also defined unemployment as the proportion of the labour force that is available for work but did not work for at least thirty-nine hours in the week preceding survey period. The International labour organization (2018) maintain that only those belonging to the age group of 15 to 65 years should be included in the labour force of a country, therefore, anyone who fall within this group but could not find a job are classified as unemployed person and sees unemployment as a state of joblessness that happens once individuals are willing to work but there is unavailability of job unemployment is conceptualized as a scenario where an individual is involuntarily out of labor Al-Manaseer and Al-Qudah (2018) in Balami (2006) this implies that people are willing and able to work however cannot realize any work. The classical economists have outlined employment as the excess offer of labour over the demand for labour is high because of adjustment in real wage. The Classical or real-wage unemployment happens once real wages for job are set on top of the market-clearing level, inflicting variety of job seekers to exceed the amount of vacancies.

In line with Aminu and Anono (2012) unemployment is conceptualized as total group of individuals willing and able to work, and build themselves out for job at the prevailing wage however no job opportunities for them. This implies that unemployment may be a state of joblessness within the country. It was also defined by Jajere (2016) as a gap that exists between the potential full employment and the number of employed persons. There are different types of unemployment as mentioned by Jajere (2016), these are frictional unemployment, seasonal unemployment, structural unemployment and cyclical unemployment. All these contributed to the increase rate in the unemployment in Nigeria. Essentially some of the causes of unemployment are the neglect of agriculture, neglect of indigenous industries and lack of patronage of the locally made goods, non-investing acquired profit by the industrialist, corruption, fraud, embezzlement and failure of leadership and adoption of structural adjustment programme which later put Nigeria economy into problems (Xesibe and Nyasha,2020).

Concept of Balance of Payment

The balance of payments of a country is a systematic record of all economic transactions between the residents of a country and the rest of the world. It presents a classified record of all receipts on account of goods exported, services rendered and capital received by residents and payments made by them on account of goods imported and services received from the capital transferred to non-residents or foreigners (CBN, 2017). In other words, the balance of payments (BOP), also known as the balance of international payments, is a statement of all transactions made between entities in one country and the rest of the world over a defined period, such as a quarter or a year. It summarizes all transactions that a country's individuals, companies, and government bodies complete with individuals, companies, and government bodies outside the country (Sultani and Faisal).

The balance of payment represents the history of international transactions (Sujianto, 2020), describes the external economic position, and economic health of a country (Jadhav, 2020). A BOP provides necessary information on the demand and supply of goods, services, and money (Tijani, 2014), and shows the structure of exports, imports, and the labor market of the reporting country. Besides showing how an economy performs in the international market, a BOP performance substantially affects the performance of domestic firms in a country as they are all vulnerable to external shocks (Ocampo, 2016). Imbalanced BOP demonstrates the uncompetitive position of a country in the international market because it is unable to maintain a relative balance between its long-term investment and short-term consumption (Mittal, 2018). Likewise, a persistent BOP disequilibrium undesirably influences economic growth, employment, and price stability (The Bank of Uganda, 2003). Therefore, a country must put BOP management as an essential

objective of economic policy and overemphasize the sustainability of the health of the BOP.

Empirical Literature review

Real Gross Domestic Product (RGDP) and Trade Policy Indicators

Ishola and Titiloye (2020) examined the effect of fiscal and monetary policies on growth of Nigeria economy using ARDL technique. The study found that supply of money through government spending and revenue stimulates Nigerian economic growth. The study recommended that there is a need for the government to allow expansionary monetary policy to stabilize economic growth.

Sitajdazic and Methic (2017) examined trade openness and economic growth, empirical evidence from transition economic of 1995 to 2013. Among the relationship between changes of real gross domestic product percentage applied tariff in the country, domestic investment, export and import. Multiple linear regression (OLS) was used to estimates the model. Data were mainly sourced from international monetary fund (IMF). The results revealed the three different specifications models used to estimates, trade openness export, import and total trade to GDP. The results also was in favour of the hypothesis that trade volumes are positively associated with growth performance. The finding indicates with growth performance. The results indicates the elasticity on openness as measured to trade GDP (model 1) 0.079, which indicates that a 10 percent increase in contribution will increase GDP per capita growth by an average of about 8 percent. The additional effect of exports and imports contribution to GDP is also statistically significant at 0.15 and 0.14 which shows that exports and imports positively affect economic growth with a similar magnitude.

Lawal and Ezeuchenne (2017) examined international trade and economic growth in Nigeria, using annual time series data from international trade and economic growth in Nigeria. Findings indicate explanatory variables have no relationship with real gross domestic product except export that indicates positive relationship. The elasticity of the variables indicates a unit increases in import with reduced 2.3 units decrease in real domestics product, a unit increase in export will increase 2.7 units increase in real gross domestic product, a unit increased in balance of trade will reduced to0.56 decrease in real gross domestic product. When government increases open to trade, real gross domestic will decrease by 3.3 units. Granger causality test showed 10% significant level, real gross domestic product reduces trade openness, export reduces import, balance of trade and trade openness. The model calculations is not consistent with statistical significant as r^2 is 0.38 shows 38% variation in the real gross domestic as a product was accounted for import, export, balance of trade and trade openness. The researchers recommended government trade policy protectionism will serve as a measure to save infant industries.

Sulaiman and Migiro (2014) investigated the nexus between growth of Nigerian economy and monetary policy. The study found that monetary policy supports economic growth, and the study also found that economic growth is unrelated to monetary policy. The study concluded that the mechanism for transmitting monetary policy makes a positive contribution to the productivity of the Nigerian economy, thereby improving economic growth. The study recommended that the regulatory framework for the financial sector be strengthened to contribute to the efficiency of the government's monetary policies.

METHODOLOGY

Research Design

Research design is the overall plan and methods that guide the data collection and analyses so as to adequately answer the research questions (Okolo, 2009). The research design is an integral part of an empirical investigation as it acts as a logical model of proof that the researcher draws inferences about the causal relationship between the variables under investigation (Olulu, 2007). In this regard, the framework that was adopted in this study is a quasi-experimental design. This design is chosen because the study seeks to explore the effect of the explanatory variables on the response variables within this specified period of time 1985-2021.

Data Collection Method and Sources

The dataset for this research study was time series data from secondary sources spanning from 1985 - 2021. The data was sourced from Central Bank of Nigeria (CBN) statistical bulletin, National Bureau of Statistics and International Monetary Fund (IMF).

Models Specifications

Mathematically:

RGDP = f (TOP, TAR, EXR, QUO) Eqtn(1)

UNEM = f (TOP, TAR, EXR, QUO) Eqtn(1)

BOP = f (TOP, TAR, EXR, QUO) Eqtn(1)

Functionally:

$RGDP_t = \beta_0 + \beta_1 TOP_t - \beta_2 TAR_t - \beta_3 EXR_t + \beta_4 QUO + U_i$ Eqtn(1)

$UNE_t = \beta_0 + \beta_1 TOP_t - \beta_2 TAR_t - \beta_3 EXR_t + \beta_4 QUO + U_i$ Eqtn(2)

$BOP_t = \beta_0 + \beta_1 TOP_t - \beta_2 TAR_t - \beta_3 EXR_t + \beta_4 QUO + U_i$ Eqtn(3)

Where:

$RGDP_t$ = real gross domestic product

BOP_t= Balance of payment
UNE_t = Unemployment Rate
TOP_t = Trade openness
TAR_t= Tariffs
EXR_t= Exchange rate
QUO = Quota in Crude Oil
Stochastic Variable (U_i) = Error Term

Data Analysis Techniques

The study used Autoregressive Distributed Lag (ARDL)Bound testing approach, developed by Pesaran*et al* (2001) and Granger causality test to examine the long-run relationship between the variables as well as pre-test and post estimation test.

Table 4.2: Descriptive Statistics for the series

	RGDP	UNEM	BOP	TOP	EXR	TAR	QUO
Mean	20.00	10.38	18.06	0.10	132.00	9.34	21.40
Median	20.40	7.00	13.70	0.07	132.00	9.34	19.90
Maximum	59.71	20.00	148.90	0.30	132.00	9.34	33.90
Minimum	0.94	5.10	0.15	-0.02	132.00	9.34	9.83
Std. Dev.	14.92	6.37	20.36	0.07	143.22	15.73	9.91
Skewness	0.23	0.77	.4.36	0.78	1.19	2.97	0.13
Kurtosis	2.00	2.01	26.49	3.18	3.31	13.60	1.53
Jarque-Bera	5.34	0.70	19.10	3.81	9.07	2.73	0.46
Probability	0.06	0.01	0.00	0.14	0.01	0.00	0.79
Observations	37	37	37	37	37	37	37

Source: Researcher's computation from E-views 10

ADF unit root test results

Variable	ADF statistics at levels	ADF statistics at first difference	5 per cent critical values	Order of integration
RGDP	0.850	-4.717	-2.948	I(1)
UNEM	-2.239	-7.357	-2.948	I(1)
BOP	-6.421	NA	-2.948	I(0)
EXR	- 2.289	-5.0736	-2.948	I(1)
TOP	-1.974	-6.852	-2.948	I(1)
QUO	-4.799	NA	-2.948	I(0)
TAR	-4.137	NA	-2.948	I(0)

Source: Researcher's computation from E-views 10

Dependent variable: RGDP = EXR TOP QUO TAR

Dependent Variable: RGDP

Short run results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(EXR)	1.079021	0.235855	4.574933	0.0002
D(TOP)	1.330920	0.230617	5.771127	0.0000
D(QUO)	4.872288	1.939288	2.512410	0.0000
D(TAR)	3.892519	1.280792	3.039149	0.0000
CointEq(-1)*	-0.322587	0.076266	-4.229761	0.0006

Long run results

Variable	Coefficient	Std. Error	t-Statistic	Prob.	
RGDP(-1)*	-3.182587	0.928761	-3.426701	0.0000	
EXR**	-4.176201	2.222855	-1.878755	0.0722	
TOP**	-5.922240	1.553617	-3.811946	0.0000	
QUO**	9.987895	3.338288	2.991921	0.0022	
TAR**	-0.493398	0.126487	3.43108	0.0008	-0.8933
C	-7.219166	3.118616	-2.314821	0.0001	
R-squared	0.72		Prob.(F-stat.)	0.01	

Source: Researcher's computation from E-views 10

Dependent variable: BOP = EXR TOP QUO TAR

Dependent Variable: BOP

Short run results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(QUO(-1))	1.443431	0.834226	1.73026	0.0000
D(TOP(-1))	9.220934	3.748837	2.45967	0.0001
D(EXR(-1))	5.542299	2.748333	2.01623	0.0000
D(TAR(-1))	7.847333	2.872340	2.73204	0.0015
CointEq(-1)*	-0.272631	0.043441	6.27589	0.0000

Long run results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EXR	8.36223	3.83223	2.182079	0.0005
TOP	-5.83233	2.18933	-2.663979	0.0004
QUO	11.8392	4.98134	2.376709	0.0003
TAR	-5.83922	1.98334	2.944134	0.0009
C	4357.260	31927.87	0.136472	0.8927
R-squared	0.87		Prob.(F-stat.)	0.00

Source: Researcher's computation from E-views 10

Dependent variable: UNEM =EXR TOP QUO TAR

Dependent Variable: UNEM

Short run results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(TOP(-1))	1.431227	0.195704	7.31322	0.0000
D(TAR(-2))	1.192224	0.173904	6.85564	0.0000
EXR	2.028121	1.015855	1.99646	0.0000
QUO	2.641228	0.499288	5.28998	0.0000
CointEq(-1)*	-0.515225	0.213060	-2.41821	0.0005

Long run results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EXR	-0.398820	0.113423	3.51621	0.0002
TOP	3.872338	1.182936	3.27349	0.0000
QUO	0.433988	0.126487	3.43108	0.0008
TAR	-0.893398	0.127211	-7.02296	0.0000
EXR	-0.398820	0.113423	3.51621	0.0002
C	-0.721741	4.507072	-0.16013	0.8741
R-squared	0.69		Prob.(F-stat.)	0.00

Source: Researcher's computation from E-views 10

Conclusion

The growing level of trade policy issues in Nigeria has continued to generate concern in recent times as the Nigeria net external trade worsens. This has triggered several debates and empirical investigation into the sustainability of the international trade policies and the macroeconomic performance implications. To this end, the study investigated the empirical relationship between trade policy indicators and macroeconomic performance in Nigeria

with a focus on real gross domestic product (RGDP), unemployment rate and balance of payment equilibrium. The findings showed evidence of mixed effects of trade policy on real gross domestic product (RGDP) with a significant positive effect in the short run and negative effect in the long run. Again, the results showed that trade policy contributed significantly in improving real gross domestic product (RGDP) and reducing unemployment rate. The findings further showed that trade openness affected unemployment rate and contributed positively to balance of payment equilibrium. However, Quota was significant in explaining changes in the underlying macro-economic performance indicators and concludes from the findings that exchange rate regime had positive implications on macroeconomic performance by reducing the real gross domestic product (RGDP) outcomes and exacerbating the incidences of balance of payment and unemployment in Nigeria. Based on the findings, this study concludes that trade policy indicators offers potential opportunities for macroeconomic performance through improvements in unemployment rate and balance of payment equilibrium as well as greal gross domestic product (RGDP) in Nigeria. This is in line with Richardiantheory of international trade which provides the basis for the net benefits of free trade against the detriment of protectionist policies. ..

Recommendations

Policy Recommendations

Owing to the findings of this study, the following policy recommendations are proffered:

1. Policymakers should ensure prudent application of trade policy indicators on macro-economic activities such as exchange rate regimes that would lead to sustained long-term economic development. This will help to improve real gross domestic product (RGDP).
2. Government should strategically implement trade policies through renegotiation and concessional rescheduling of trade agreements to reduce their adverse effects on macro-economic performance. This will help to reduce the dwindling trade revenue ratio and create opportunities for improved and sustainable balance of payment (BOP).
3. Government should prioritize exports promotion by encouraging industrialization, diversification of the export based policy to maintain stable and realistic exchange rate in order to mitigate the negative effects of trade openness on unemployment rate (UNEM).

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