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International Trade and Standard of Living in Nigeria

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ABSTRACT

This study investigated the relationship between International Trade and Standard of Living in Nigeria. International trade is the independent variable with dimensions as import, export, foreign direct investment and exchange rate while Standard of Living is the dependent variable with gross national income per capita as measure. The objectives of the study are to find out if any significant relationship exist between each of the proxies used for international trade and gross national income per capita. Ex Post facto research approach was adopted for the study. A total of 200 observations, covering the period from 1981 to 2020, were used for this study. Data analysis involved Unit root test for stationarity of data and Auto Regressive Distributed Lag (ARDL) tests to determine the existence of short and long run relationships. The results of data analyses suggest that increase in import causes increase in gross national income per capita; increase in foreign direct investment leads to increase in gross national income per capita. Increase in exchange rate leads to reduction in gross national income per capita. The study suggest that export does not have any significant relationship with gross national income per capita. The study concludes that there is a significant short run relationship between international trade and standard of living in Nigeria and recommends that government should take deliberate steps to attract foreign direct investment in Nigeria through formulation and implementation of appropriate policies and incentives. Considering the negative impact of exchange rate on standard of living, the Central Bank of Nigeria should continue to protect and hedge the Naira against sustained devaluation pressure so that the value of the naira does not fall to unacceptable levels. Efforts should be made to boost export and earn foreign exchange. This will help to stabilize the Naira.

Key Words: International trade, foreign exchange, foreign direct investment, gross national income per capita, life expectancy and standard of living.

Introduction

The United Nations in 2015 came up with Agenda 2030 which is a universal agenda aimed at eradicating poverty and achieving sustainable development of countries of the world, especially the Least Developed Countries. The United Nation seeks to transform the world, as set out in Agenda 2030, by building on the earlier Millennium Development Goals and completing what they did not achieve. Agenda 2030 document contains 17 development goals and 169 targets to be achieved before the end of 2030. The UN Agenda 2030 highlighted the role of international trade as a powerful enabler of transformative shifts towards the achievement of sustainable development especially in Least Developed Countries (LDC) of the world including Nigeria (United Nations, 2015).

International trade, also referred to as foreign trade, is the exchange of capital, goods and services between two or more countries (Nwinee, 2021). Over the past several decades, the economies of the world have become greatly interconnected through international trade and globalization. Foreign trade statistics in 2014 by Economic Complexity Index (ECI) shows that Nigeria is the 119th most complex economy and the 41st largest export economy in the world. In 2013, Nigeria exported $94.8B worth of goods and imported $53.3B worth of goods, leading to favorable trade balance of $41.6B. In the same year, the per capita GDP of Nigeria was $5.6k and her GDP was $521B. Further analysis of the components of export and import indicates that the top exports of Nigeria are Refined Petroleum ($3.07 Billion), Cocoa Beans ($561Million), Crude Petroleum ($75.3Billion), Petroleum Gas ($10.3 Billion), and Special Purpose Ships ($463 Million), while her top imports are Wheat ($1.42 Billion), Rolled Tobacco ($1.34 Billion), Refined Petroleum ($9.5 Billion), Cars ($1.87 Billion), and Special Purpose Ships ($1.01 Billion). Expressed in percentage, the exports are led by Crude Petroleum which stands for 79.4% of the total exports of Nigeria, followed by Petroleum Gas, which accounts for 10.9% whereas the imports are led by Refined Petroleum which accounts for 17.9% of the total imports of Nigeria, followed by Cars, which contribute 3.51%. Nigeria recorded a trade surplus of N197, 187.70 million in September, 2015. Balance of Trade in Nigeria averaged N201, 370.76 million from 1981 until 2015, reaching an all-time high of N2,177,553.08 million in October of 2011. (CBN, 2014).

Like many other developing countries, Nigeria operates an open economy. The goal is to tap many of the benefits of trade as opined by the classical economists. The Nigerian government like many other developing countries considers trade as the main engine of its development strategies, because of the implicit belief that trade can create jobs, expand markets, raise incomes, facilitate competition and disseminate knowledge (Ogbaji & Ebebe, 2013). Nevertheless, while trade between countries may generate growth globally, there are no guarantees that its aggregate benefits are distributed equitably among trading partners. There are winners and losers in any trading relationship. Over the years, trade relations do not seem to result in great benefits as envisaged (Ajayi, 2003). However, trading partners may all gain at differing degrees. Many factors determine the extent to which a country may benefit from a trading relationship. These include the terms of trade a country faces in relation its trading partners, the international exchange rate among the traded goods and the market characteristics of the country's export goods (Eravwoke & Oyovwi, 2012).

Standard of living is the level of income, comforts and services available, generally applied to a society or location, rather than to an individual. Standard of living is relevant because it is considered to contribute to an individual's quality of life. Standard of living is generally concerned with objective metrics outside an individual's personal control, such as economic, societal, political and environmental matters – such things that an individual might consider when evaluating where to live in the world, or when assessing the success of economic policy. One of the indicators of the level of human development in any country is the standard of living of citizens. The United Nations Development Programme defines human development as "the process of enlarging people's choices", said choices allowing them to "lead a long and healthy life, to be educated, to enjoy a decent standard of living", as well as "political freedom, other guaranteed human rights and various ingredients of self-respect". Thus standard of living is an important component of human development which is measured using Human Development Index(HDI).

The Human Development Index (HDI) is basically a statistical tool used to measure a country's overall achievement in its social and economic dimensions. The social and economic dimensions of a country are based on the health of people, their level of education attainment and their standard of living. The indicator used to measure standard of living is the gross national income per capita.

Statement of the Problem

Nigeria has the biggest economy in Africa with a GDP of about $500 billion. Despite this, Nigeria is still undeveloped despite her abundant human and material resources. Nigeria has a population of about 200 million and is faced with so many challenges which include poor infrastructure, power challenges, inadequate health facilities, poor educational system, high unemployment rate, insecurity and prevalence of every other indices indicative of an under developed nation. Few years ago, Nigeria was declared the poverty capital of the world which is a confirmation that all is not well with Nigeria and its citizens.

One of the major challenges confronting international trade in Nigeria is the country's balance of trade. A country's balance of trade is defined by its net exports (exports minus imports) and is thus influenced by all the factors that affect international trade. These include factor endowments and productivity, trade policy, exchange rates, foreign exchange reserves, inflation, and demand. An unfavourable balance of payment negatively affects international trade financing leading to deficit in foreign exchange required to fund developmental projects. Nigeria like most African countries are exporters of primary goods and do not contribute significantly to world trade as it is not a manufacturer of finished product which comes about through industrialization. This has made Nigeria not to gain maximally from International trade, a situation that can only change when Nigeria is able to diversify its economy and trade on finished products. Attempt by Nigerian government to diversify Nigeria's economy and set it on the path of sustained economic growth has led the government to series of external borrowing to fund economic development projects. There is concern that huge external borrowing made by the government of Nigeria in recent years may push Nigeria into a debt trap that will strangulate its development efforts unless diversification of the economy is achieved with the borrowed funds, which brightens the chance of meeting up with the loan obligations as and when due.

Crude Oil is the main revenue earner for Nigerian government as it is the main product, by value and volume, traded by Nigeria in the international market. Nigeria is Africa's largest producer and exporter of crude oil and sixth largest oil producing country in the world with crude oil production capacity of 2.5 million barrels per day. Unfortunately, Nigeria is still importing refined petroleum product despite having three petroleum refineries with a combined production capacity of 445,000 bdp which is just about 18% of the daily crude oil production capacity. The current combined daily production of the three refineries operating in Nigeria are not able to meet the 305,000bpd daily domestic consumption requirement of the nation because of mismanagement and lack of maintenance of the refineries over the years. In order to bridge the shortfall in supply of refined petroleum products, the Nigeria National Petroleum Company (NNPC) embarked on massive importation of refined petroleum products. The importation of refined petroleum products takes big toll on the nations scarce foreign exchange reserve and negatively affects funding of economic development projects. The inability of the Nigeria government to diversify the economy and become a net exporter of finished goods has led to stunted development and lack of appreciable improvement in standard of living of Nigerians. Nigeria has not made any reasonable progress in improving the standard of living of its citizens. There is still so much poverty, high unemployment rate, inequality and low standard of living in Nigeria. Citizens appear not to have benefited from the gains of international trade. This study is an attempt to contribute in solving this problem by critically examining the impact of international trade on standard of living in Nigeria.

Aim and Objectives of the Study

The aim of this study is to determine the relationship between International Trade (with import, export, Foreign Direct Investment, and Exchange Rate as proxies) and Standard of Living in Nigeria (with gross national income per capita as proxy). The specific objectives of the study are to:

(i). Determine the relationship between import and gross national income per capita;

(ii). Ascertain the relationship between export and gross national income per capita;

(iii). Examine the relationship between foreign direct investment and gross national income per capita; and

(iv). Determine the relationship between exchange rate and gross national income per capita.

Research Hypotheses

The following four null hypotheses were formulated for this study.

$H_0$1. There is no significant relationship between import and gross national income per capita in Nigeria.

H_0:2. There is no significant relationship between export and gross national income per capita in Nigeria.

H_0:3. There is no significant relationship between foreign direct investment and gross national income per capita in Nigeria.

H_0:4. There is no significant relationship between exchange rate and gross national income per capita in Nigeria.

Significance of the Study

The significance of this study will be categorized into theoretical and practical significance.

This study is theoretically significant because the findings revealed the nature of the relationship between the various dimensions of international trade (import, export, foreign direct investment and exchange rate) and standard of living in Nigeria using gross national income per capita as measure. This study added to the body of knowledge in the area of International trade and standard of living in Nigeria. Future researchers in this area or related area can leverage on some information contained in this study, thus contributing to knowledge and literature.

The practical significance of this study is apparent in view of the benefits to the Nigerian government and other stakeholders, derivable from the implementation of the recommendations of this study. The various stakeholders include government and its regulatory agencies and general public. Ultimately the findings and recommendations of this study will help policy makers and government functionaries to seek ways of achieving improvement in standard of living in Nigeria through formulation and implementation of appropriate policy and regulations on international trade.

LITERATURE REVIEW

The Concept of International Trade

The concept of trade between countries, which is referred to as international trade, arose in the 17th and 18th century centred on the doctrine of mercantilism. There are features that distinguish international trade from domestic trade. The basis of international trade lies in the diversity of economic resources in different countries. All countries are endowed by nature with the same production facilities. There are differences in climatic conditions and geological deposits as also in the supply of labour and capital. The standard theory of international trade is based on Adam Smith's postulations in his book *Wealth of Nations*, where he stated that, "If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it off them with some part of the produce of our own industry, employed in a way in which we have some advantage."

International Trade involves buying and selling of goods and services across countries. International trade is the exchange of capital, goods, and services across international borders or territories because there is a need or want of goods or services. In most countries, such trade represents a significant share of gross domestic product (GDP). A product that is transferred or sold from a party in one country to a party in another country is an export from the originating country, and an import to the country receiving that product. Imports and exports are accounted for in a country's current account in the balance of payments. Trading globally may give consumers and countries the opportunity to be exposed to new markets and products. Almost every kind of product can be found in the international market, for example: food, clothes, spare parts, oil, jewellery, wine, stocks, currencies, and water. Services are also traded, such as in tourism, banking, consulting, and transportation (Wikipedia, International trade).

While international trade has existed throughout history, its economic, social, and political importance has been on the rise in recent centuries. Carrying out trade at an international level is a complex process when compared to domestic trade. When trade takes place between two or more states factors like currency, government policies, economy, judicial system, laws, and markets influence trade. To ease and justify the process of trade between countries of different economic standing in the modern era, some international economic organizations were formed, such as the World Trade Organization. These organizations work towards the facilitation and growth of international trade. Statistical services of intergovernmental and supranational organizations and governmental statistical agencies publish official statistics on international trade.

International trade is, in principle, not different from domestic trade as the motivation and the behavior of parties involved in a trade do not change fundamentally regardless of whether trade is across a border or not. However, in practical terms, carrying out trade at an international level is typically a more complex process than domestic trade. The main difference is that international trade is typically costlier than domestic trade. This is due to the fact that a border typically imposes additional costs such as tariffs, time costs due to border delays, and costs associated with country differences such as language, the legal system, or culture (non-tariff barriers). Another difference between domestic and international trade is that factors of production such as capital and labor are often more mobile within a country than across countries. Thus, international trade is mostly restricted to trade in goods and services, and only to a lesser extent to trade in capital, labour, or other factors of production. Trade in goods and services can serve as a substitute for trade in factors of production. Instead of importing a factor of production, a country can import goods that make intensive use of that factor of production and thus embody it. An example of this is the import of labor-intensive goods by the United States from China. Instead of importing Chinese labor, the United States imports goods that were produced with Chinese labor. One report in 2010, suggested that international trade was increased when a country hosted a network of immigrants, but the trade effect was weakened when the immigrants became assimilated into their new country (Wikipedia).

Nations trade internationally because of lack of resources or capacity to satisfy domestic needs. By developing and exploiting their domestic resources, countries can produce surplus. They may use this surplus to buy goods they need from abroad, i.e., through international trade. International trade has

existed for more than 9,000 years. Long distance trade-before the existence of nation states and national boarders-goes back much further. In fact, it goes back to where pack animals and ships first came onto the scene. Our modern industrialization world would not exist in countries did not import and export. Put simply; international trade is at the heart of today's global economy. Global interdependence is a fact of life for every country today.

The six basic reasons why trade may take place between countries are summarized below.

A. Difference in Technology. Advantageous trade can occur between countries if the countries differ in their technological abilities to produce goods and services.

B. Differences in Resources Endowments. Advantageous trade can occur between countries, if the countries differ in their endowments of resources. The factors mentioned in the resource endowments reason are described as follows :1) the uneven distribution of resources around the world is the one of the basic reasons why nations began and continue to trade with each other; 2). Favourable climatic conditions and terrain are very important for agricultural produces; 3) Natural resources; 4) skilled workers; 5) capital resources; 6) Favourable geographic location and transport costs;7)Insufficient production, some countries cannot produce enough items they need.

C. Economic Resources: In addition to getting the products they need; countries also want to gather economically by trading countries.

D. Differences in Demand: Advantageous trade can occur between countries if demands are preferences differing between countries?

E. Existence if Economic s of Scale in Production: The existence of economics of scale of production is sufficient to generate advantageous trade between two countries.

F. Existence of Government Polices: Government tax and subsidy programs can be sufficient to generate advantageous in production of certain products.

There are also other considerations that gave rise to international (or Foreign) trade such as; uneven distribution of natural resources; expansion of market for products; difference in taste; difference in skills; difference in climatic condition; desire to improve the standard of living and difference in efficient use of natural resources.

There are factors that affect international trade that is not noticeable in the domestic market. These factors pose as barriers to international trade. These are barriers resulting from difference in currency; difference in culture and beliefs; difference in language; distance; political instability; problem of documentation; transportation and communication; government policy; difference in legal system/emigration laws; difference in weight and measurement.

2.2 Dimensions of International Trade

This study used four dimensions of international trade which are import, export, foreign direct investment and exchange rate.

Import

Importing refers to buying goods and services from foreign sources and bringing them back into the home country. An import is a good or service bought in one country that was produced in another. Imports are a major component of international trade. Imports of goods and services represent the value of all goods and other market services received from the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude compensation of employees and investment income (formerly called factor services) and transfer payments. If the value of a country's imports exceeds the value of its exports, the country has a negative balance of trade, also known as a trade deficit. Imports are important for the economy because they allow a country to have access and make use of certain products and services that is not produced locally or that is scarce and very expensive. Imports can also be used to bring in raw materials from other countries that is needed for production in the home country.

In 2020 the top imports of Nigeria were Refined Petroleum ($7.75B), Cars ($3.03B), Wheat ($2.15B), Packaged Medicaments ($1.38B), and Telephones ($771M). These goods were imported mostly from China ($17.4B), Netherlands ($4.58B), United States ($4.49B), India ($3.46B), and Belgium ($1.99B) (Simoes & Hidalgo, 2021).

Export

Exporting is defined as the sale of products and services in foreign countries that are sourced or made in the home country. Exports of goods and services represent the value of all goods and other market services provided to the rest of the world. They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude compensation of employees and investment income (formerly called factor services) and transfer payments.

Nigeria is one of Africa's largest economies and its leading oil exporter, with the largest natural gas reserves. The country is a leader in various types of agricultural production, such as palm oil, cocoa beans, pineapple, and sorghum. It is the largest producer of sorghum in the world just after the United

States, and ranks fifth in the production of palm oil and cocoa beans. The country's economic growth is mainly driven by strong performance in the agricultural, trade, telecommunications, manufacturing and the film industries.

The top exports of Nigeria are Crude Petroleum ($30B), Petroleum Gas ($5.89B), Scrap Vessels ($1.29B), Special Purpose Ships ($775M), and Refined Petroleum ($613M). Nigeria's exports are mostly to India ($6.27B), Spain ($4.8B), China ($2.54B), Netherlands ($2.24B), and South Africa ($2.17B) (Simoes & Hidalgo, 2021).

Foreign Direct Investment

Foreign direct investment refers to direct investment equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Ownership of 10 percent or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment relationship. Foreign Direct Investment(FDI) is an investment made by a firm or individual in one country into business interests located in another country. Generally, FDI takes place when an investor establishes foreign business operation or acquires foreign business assets in a foreign company. Foreign direct investments are commonly made in open economies where you have skilled workforce and above average growth prospects for the investor, as opposed to tightly regulated economies. Most FDIs are more than capital investment as it usually includes provision of management or technology as well. The main feature of FDI is that it establishes effective control over the decision making of a foreign business. FDIs are distinguished from portfolio investments in which an investor merely purchases shares of foreign based companies. Thus FDIs are the physical investments and purchases made by a company in a foreign country, typically by opening plants and buying buildings, machines, factories and other equipment in the foreign country. These types of investments are preferred and favored because they are generally considered long-term investment and helps boost the economy of the host country (Chen, 2020).

In 2020 the total inflow of foreign direct investment to Nigeria stood at $2.40Billion. An overview of the trend in foreign direct investment for the last few years is as follows;

Nigeria foreign direct investment for 2019 was $2.31B, a 197.34% increase from 2018.

Nigeria foreign direct investment for 2018 was $0.78B, a 67.87% decline from 2017.

Nigeria foreign direct investment for 2017 was $2.41B, a 30.12% decline from 2016.

Nigeria foreign direct investment for 2016 was $3.45B, a 12.7% increase from 2015.

(World Bank –WDI data).

Foreign direct investment is significant for economic growth in developing countries like Nigeria because it affects the economic growth and development by stimulating domestic investment, capital formation expansion and the advancement of technology transfer in the host countries (Falki, 2021). Foreign direct investment also has positive impact on human development index. Government bodies should be well aware of this relationship and ensure that growth persists economically, socially, or politically. This ensures that its citizens enjoy decent living standards and long healthy lives (Almozaini, 2022).

The inflow of Foreign Development Investment (FDI) into host countries brings considerable benefits, such as a direct external source of capital, the transfer of advanced technologies, and better management practices. Capital is regarded as the driving force of economic growth and development, and hence the FDI bringing in the capital in the countries allows further economic growth and development (Mollaesmaeili et al., 2012). Various studies show that there is a solid and positive relationship between FDI and HDI; however, according to Ngo (2021), these positive outcomes are not always guaranteed.

Exchange Rate

The foreign exchange rate is the price of one currency in terms of another. It can also be seen as the amount of foreign currency that can be bought with one unit of the local or domestic currency or cost in domestic currency of purchasing one unit of the foreign currency. The venue where foreign exchange activities takes place constitutes the foreign exchange market.

In the foreign exchange market, two foreign exchange rates are usually quoted by dealers. The rate at which the foreign currency is offered for sale which is referred to as the bid price and the lower rate at which the foreign currency will be purchased which is referred to as the ask price. The difference between the bid price and the ask price constitutes the 'spread' which is the gross profit margin of the dealer. Foreign exchange market facilitates international trade and the key participants in the foreign exchange markets are commercial banks, foreign exchange brokers, monetary authorities and other authorized dealers (Olulu, 2003).

Nigeria has over the years adopted different exchange rate policies that included fixed exchange rate, floating exchange rate and managed exchange rate which we are currently practicing. The Nigeria's exchange rate has been on the decline as the currency has been losing its value against the US dollars and other major world currencies. As at 1981 $1 exchanged for N0.61(ie 61k). In 1990 $1 exchanged for N8.04, in 2000 $1 exchanged for N102.11; in 2010 $1 exchanged for N150.30; in 2020 $1 exchanged for N358.51. The trend in the decline in the exchange rate of the Naira to the Dollar and other major currencies has continued up to 2022.

Standard of Living

The right to an adequate standard of living is a fundamental human right. It is part of the Universal Declaration of Human Rights that was accepted by the General Assembly of the United Nations on December 10, 1948. Everyone has the right to a decent standard of living which provides for adequate health and well-being of himself/herself and of his/her family, including food, clothing, housing and medical care and necessary social services. It also includes the right to security in the event of unemployment, sickness, disability, widowhood, old age or lack of livelihood in circumstances beyond one's control.

The decent living standard revolves around the idea and principle that a majority of the population are in demand for the basics that will allow them to have shelter, food and water, however it is not always able to be maintained for a long period of time. The standard of living varies between individuals depending on different aspects of life. The standard of living consists of the individuals having the basics such as food, shelter, social safety and interaction which all contribute to their wellbeing and what is considered to be a decent living standard. Standard of living is a component of Human Development Index which is a measure of human development. Most scholars agree that it is people that are developed and it is the people that should determine what constitutes their development in consonance with their wants and values. Development will ultimately lead to improvement in the welfare and standard of living of the people.

Measures of Standard of Living

Standard of living is generally measured by standards such as inflation-adjusted income per person, poverty rate, health care, income growth inequality, and educational standards. The popular measure for standard of living which was used for this study is the gross national income per capita, which is used in the computation of the standard of living component of the Human Development Index.

Gross National Income(GNI) Per Capita

The gross national income (GNI), also known as gross national product (GNP), is the total domestic and foreign output claimed by residents of a country, consisting of gross domestic product (GDP), plus factor incomes earned by foreign residents, minus income earned in the domestic economy by nonresidents. More explicitly GNI is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. GNI per capita (formerly GNP per capita) is the Gross National Income(GNI) divided by the midyear population.

GNI, calculated in national currency, is usually converted to U.S. dollars at official exchange rates for comparisons across economies. To smooth fluctuations in prices and exchange rates, a special Atlas method of conversion is used by the World Bank. This applies a conversion factor that averages the exchange rate for a given year and the two preceding years, adjusted for differences in rates of inflation between the country, and through 2000, the G-5 countries (France, Germany, Japan, the United Kingdom, and the United States).

Nigeria's GNI per capita for the year 2020 was $2,000 using Atlas method of conversion used by the World Bank. An analysis of Nigeria's GNI per capita trend for the last few years shows that Nigeria GNI per capita for 2019 was $2,030, a 3.57% increase from 2018. Nigeria GNI per capita for 2018 was $1,960, a 6.22% decline from 2017 GNI per capita of $2,090 (World Bank Data).

Theoretical Literature

Theory of International Trade

The theories of international trade include; the classical theories which includes theory of absolute advantage, comparative advantage theory, the neo-classical theory - factor endowment theory (Hecksher- Ohlin theory) and the contemporary theories of international trade.

The classical trade theory rests on certain basic assumptions which are as follows:

i. That there are two countries engaged in international trade.

ii. That two commodities only are involved in the trade

iii. That there is fixed resources of labour and labour is the only factor of production in both countries.

iv. That the production process exhibits constant returns to scale.

v. That perfect competition prevails in all factor and product markets.

Potters (2021) described absolute advantage as the ability of an individual, company, region, or country to produce greater quantity of a good or service with the same quantity of inputs per unit of time, or to produce the same quantity of a good or service per unit of time using a lesser quantity of inputs than another entity that produces the same good or service. Thus, an entity with an absolute advantage can produce a product or service at a lower absolute cost per unit using a smaller number of inputs or a more efficient process than another entity producing the same good or service. The concept of absolute

advantage was developed by Adam Smith in his book "Wealth of Nations" to show how countries can gain from trade by specializing in producing and exporting the goods that they can produce more efficiently than other countries.

The comparative advantage theory by David Ricardo (1772-1823) came about as a result of some defects noticed in the absolute advantage theory. David Ricardo believes that even if a nation has absolute disadvantage in the production of the two commodities traded on with respect to the other nations, mutually advantageous trade can still take place between the two nations. This can be achieved when the less efficient nation specializes in the production and export of the commodity in which its absolute disadvantage is less. This in other words is the commodity in which the nation has a comparative advantage. Consequently, the country should be prepared to import the commodity in which its absolute disadvantage is greater. It therefore means that countries should specialize in the production of the commodities they can efficiently produce, in the end, the countries involved in external trade will be better off (Olulu, 2003).

The Heckscher-Ohlin theory of international trade also referred to as factor endowment theory is the main variant of the modern or neo-classical theory of international trade. Factor Endowment Theory (Heckscher- Ohlin Trade Theory) states that the single most important cause of international differences in marginal opportunity cost, and hence trade, is the differences in relative factor endowment environmental conditions and factor prices between nations as the most important cause of trade. The theory explained differences in relative factor endowment among countries to international differences in relative factor supplies, defences in production, function between nations and differences in the pattern of demand in various countries (Olulu, 2003).

The Heckscher-Ohlin theorem is based on certain assumptions which are:

(i). That there are two countries, two commodities and two factors of production.

(ii). That the supplies of factors are fixed, and do not grow internally or through migration either exogenously or in response to trade.

(iii). That perfect competition prevails in all product and factor markets. That there is no cost of transportation or information in carrying on trade.

(iv). Government do not interfere with free trade through tariffs, quotas, taxes or any other regulations.

(v). That all production functions are homogeneous to degree one. That is all production functions face constant return to scale.

(vi). The theory of natural and acquired advantages was modified. In its place the trade advantage was explained in terms of factor endowment with the neo classical production theory.

(vii). The labour theory of value was replaced with monetary evaluation of productions costs involving land, labour and capital.

The expectation or prediction of the Heckscher-Ohlin theorem is that countries should export commodity produced with its relatively abundant and cheap factor and import commodities the productions of which will require the use of a great deal of its relatively scarce and expensive factors. By this theorem the authors believe that efficiency of the free market will lead to maximization of worlds welfare. The Heckscher Ohlin theory was adopted for this study because its postulation on factor endowment as basis for international trade is in line with the Nigerian international trade experience.

Human development theory

Human development theory is a theory which uses ideas from different origins, such as *ecology*, *sustainable development*, *feminism* and *welfare economics*. It wants to avoid *normative politics* and is focused on how *social capital* and *instructional capital* can be deployed to optimize the overall value of *human capital* in an economy.

Amartya Sen and Mahbub ul Haq are the most well-known human development theorists. The work of Amartya Sen is focused on *capabilities*: what people can do and be. It is these capabilities, rather than the income or goods that they receive (as in the Basic Needs approach), that determine their wellbeing. This core idea also underlies the construction of the *Human Development Index*, a human-focused measure of development pioneered by the *UNDP* in its Human Development Reports; this approach has become popular the world over, with indexes and reports published by individual counties, including the *American Human Development Index and Report* in the United States. The economic side of Sen's work can best be categorized under *welfare economics*, which evaluates the effects of economic policies on the *well-being* of peoples. Sen wrote the influential book *Development as Freedom* which added an important *ethical* side to *development economics*.

Empirical Review

Hamid and Amin (2013) in carried out a research work titled "Trade and Human Development in OIC Countries: A Panel Data Analysis," The study examined the relationship between trade and the OIC countries' social developments as measured by the Human Development Index (HDI). The generalized method of moments (GMM) procedure in a panel data distributed lag model was used for the years 1980 to 2005, with a five-year increment. Also annual data was used from 2000 to 2009. The research addressed two questions which are: (i) whether trade has a positive relationship with human development as reflected by longevity, educational attainment and income in the HDI measurement, and (ii) whether trade still has a positive relationship with human development, when the income component of the HDI is excluded. Comparisons are made across OIC countries based on three World Bank Classifications by Income, namely, high income, middle income and low income countries. The findings of the research showed that trade is has a significant positive relationship with HDI for all income categories, but insignificant relationship with non-income HDI. The finding indicates that trade

is associated with human development only through income channels, and it is not associated with other components, such as longevity, literacy level and educational attainment.

Davies and Quinlivan (2006) carried out a study titled "A Panel Analysis of the Impact of Trade on Human Development". The study adopted a generalized method of moments procedure in a panel data framework to evaluate the impact of trade on countries social developments as measured by Human Development Index- a composite measure of education, literacy, and income published by United Nation Development Program every year. There is the assumption that trade improves income but degrades quality of life. The study found out that increases in trade are positively associated with future increases in social welfare.

Grace Mbabazi (2017) conducted a study on the impact of trade on human development in sub-Saharan Africa. The study examined the impact of trade on income, education and life expectancy in Sub-Saharan Africa. The research method used was the generalized method of moments (GMM) approach in a panel data setting comprising 34 countries over a period of 11 years from the period 2004 to 2014. Trade is the independent variable while human development is the dependent variable. The components of the dependent variable are GNI per capita, enrollment in secondary school and life expectancy while that of the independent variable are gross capital formation per capita and labor force. Data analysis was carried out using the System-GMM estimator developed for dynamic panel data models. The findings of the study revealed that growth in trade enhances growth in income, education and longevity in Sub-Saharan Africa. The study recommended that countries can promote human development by reducing tariffs and non-tariff trade barriers and by implementing other policies that facilitate trade.

Frankel and Romer (1999) investigated the impact of trade on income. They used data from 150 countries for the year 1985. In other to take account of endogeneity of trade, Instrumental Variable (IV) technique was used while country's geographic characters such as distance from trading partners was used as instruments of trade. The study showed that trade has significant impact on income across countries. Irwin and Tervio (2002) expanded on the work of Frankel and Romer (1999) by examining the impact of trade on income using data for different time periods: pre-World War 1 period (1913), the interwar period (1923), the great depression (1938), the early post war period (1954) and for many years in the post-war period (1964, 1975, 1985, 1990). The data analysis was carried out using both Ordinary Least Square (OLS) and Instrumental Variable (IV) techniques. Both techniques produced similar results and confirmed earlier findings that trade has significant impact on income across countries and across different time periods.

Zhang and Ondrich (2004) studied how cross country differences in export openness and import openness separately affect the real per capita income levels. Instrumental variable estimation technique was employed. The study found out that export and import have distinct effects. Results showed that export has positive correlation with income while import does not. The study concludes that countries with high export intensity, as opposed to high import intensity, have higher per capita income. However, when taken together as "total trade openness effect" the result is positive and significant which is in conformity with earlier finding.

Effiong and Okon (2020) conducted an empirical investigation titled "International Trade for Economic Development: Is Nigeria Benefitting from It? The aim of the study was to examine the contribution of international trade to economic development of Nigeria from 1981 to 2018. The variables used in this study are trade openness (measured by sum of imports/GDP + exports/GDP), government expenditure-current and recurrent, real per capita income, exchange rate and inflation rate from 1981 to 2018. The sample size is 37 annual observations ranging from 1981 to 2018. Secondary data (time series data) is used and were obtained from Central Bank of Nigeria (CBN) publications of 2008, 2014 to 2018. Stationarity test was done on each of the variables using the Augmented Dicker Fuller (ADF) and Phillip -Perron (PP) tests to ensure that the variables are suitable for analysis. The Johanson Cointegration technique was employed to ascertain if there is co-integration among the variables. The Vector Error Correction (VEC) model is often applied to determine the dynamic influence of international trade (trade openness) on economic development (per capita income) in both the short-run and long-run relationship among the co-integrating variables as far as the presence of cointegration is established (Asika, 2004). The study also employed the multiple regression technique which offers explanation on the relationship between a dependent variable and two or more explanatory variables.

METHODOLOGY

Research Design

Researches such as this, which involves testing of hypotheses of the relationship between variables require a design which permits inferences in addition to minimization of bias and maximization of reliability (Kothari & Garg, 2015). This study adopted the Ex-Post Facto research method. Time series data spanning a period of 40 years (1981-2020) was used to investigate the relationship between the independent variable (international trade) and the dependent variable (human development). The study was based on secondary data sourced from official websites and statistical bulletins of Central Bank of Nigeria, World Bank, and United Nations and its agencies.

Model Specification

The dependent variable used in this study is standard of living while the independent variable is International Trade. The proxies for international trade are import(IMPT), export(EXPT), foreign direct investment(FDI) and exchange rate (EXR) while the measures of standard of living is gross national income per capita.

The simple regression equation is stated thus;

Y = B1 + B2X2 + U ..... (1)

Where, Y =dependent variable; X =explanatory (or dependent) variable; B1 =intercept of Y; B2 =slope coefficients; U =stochastic variables (Gujarati, 1995). We write the functional equation of the model as follows:

SL(GNI) = f(IMPT, EXPT, FDI, EXR)----------(2)

Where SL is standard of living which is the dependent variable. The SL is made up of GNI which represent Gross National Income Per Capita. IMPT, EXPT, FDI, and EXR are import, export, foreign direct investment, and exchange rate respectively for the independent variable.

Therefore, in writing the model equation using the symbols of the variables we have the equation.

Model: $GNI = \beta_1 + \beta_2(IMP) + \beta_3(EXP) + \beta_4(FDI) + \beta_5(EXR) + U_{...}$…… (3)

Where,

GNI	=	Gross National Product Per Capita
IMPT	=	Import
EXPT	=	Export
FDI	=	Foreign Direct Investment
EXR	=	Exchange Rate
$\beta_{1,}$	=	Constant (Intercept)
β_2- $\beta_{5,}$	=	Coefficients of Independent Variables
U	=	Error Terms (Stockastic variables).

The model (GNI) is shown in equation 3 above, with Gross National Income Per Capita(GNI) as the dependent variable. The independent variables are import(IMPT), export(EXPT), foreign direct investment(FDI) and exchange rate (EXR). β_1 is the model constant which corresponds to the intercept on the dependent variable(LE), β_2- β_5 are the coefficients of the independent variables and U_1 is the stochastic variable or the error term of the gross national income per capita model. The apriori expectation is that import, export, foreign direct investment and exchange rate are expected to have significant influence on gross national income per capita. Mathematically, $\beta_{2,} \beta_{3,} \beta_{4,} \beta_5$ are all assumed to be greater than zero.

Method of Data Analysis

Data analysis was carried out using various techniques. Firstly, after collation and presentation of the variable data covering the period under study (1981 to 2020), the characteristics of the data and the variable trend were analysed. Descriptive statistical analysis of the individual variables was carried out to identify the characteristics of the variables. The statistical tests that were performed during data analysis included Unit Root Test for stationarity of data using Augumented Dickey Fuller Test(ADF); Auto Regressive Distributive Lag (ARDL) Test used to establish the presence of short run and long-run relationship between the variables; and Error Correction Estimation Model test. Post estimation tests included serial correlation test, Wald test and multicollinearity test. Data analysis was done with the aid of E-View version 10 software.

DATA ANALYSIS AND RESULTS

Descriptive Statistics of Variables

The descriptive statistics of the variables refer to the mean, median, standard deviation, skewness and kurtosis of the variables. The result of the descriptive statistics of all the variables in the study were obtained during data analysis are shown in table 2.

Table 1: Descriptive Statistics of Variables

	GNI	IMPT	EXPT	FDI	EXR
Mean	1243.000	28.17800	36.49800	2.487250	100.8727
Median	970.0000	15.81000	21.54000	1.270000	107.0250
Maximum	2940.000	88.74000	143.7000	8.840000	358.8100
Minimum	310.0000	2.130000	2.880000	0.190000	0.610000
Std. Dev.	813.9495	27.35271	36.43880	2.576219	100.7593
Skewness	0.576976	0.779240	1.291445	1.176713	0.885311
Kurtosis	1.945860	2.175640	3.875194	3.151209	2.987528
Jarque-Bera	4.071360	5.180715	12.39548	9.269124	5.225433
Probability	0.130592	0.074993	0.002034	0.009710	0.073335
Sum	49720.00	1127.120	1459.920	99.49000	4034.910

Sum Sq. Dev.	25838040	29178.65	51783.66	258.8392	395945.2
Observations	40	40	40	40	40

Source: Research Data Computation, E-view output of Descriptive Statistics of Variables

The Data for the dependent variable, gross national income per capita, as seen from Table 4.1, shows that the minimum value of gross national income per capita is $310.00 which was recorded in 1994 and 1995 while the maximum value of gross national income per capita is $2940.00 which was recorded in 2014. The mean value of gross national income per capita is $1243.00 with a standard deviation of 813.95. A critical examination of the result showed that the mean is greater than the standard deviation which is an indication of data consistency. The skewness and kurtosis are 0.58 and 1.95 respectively which are both positive. The skewness test result for gross national income per capita showed positive value meaning that it has high tail. Using kurtosis benchmark of 3, it showed that gross national income per capita with kurtosis value of 1.95 which is positive but less than 3 can be described as platykurtic relative to normal and is not symmetrical. The probability of Jarque-Bera statistics suggests that the null hypothesis of normal distribution for gross national income per capita is accepted as Jarque-Bera value of 4.07 with probability of 0.13 is greater than 0.05 at 5% level of significance.

Import is one of the proxies for international trade which is the independent variable of this study. Table 2 shows that the minimum value of import is $2.13 which was recorded in 1986 while the maximum value of import is $88.74 which was recorded in 2019. The mean value of import is $28.18 with a standard deviation of $27.35. A critical examination of the result showed that the mean is greater than the standard deviation which is an indication of data consistency. The skewness and kurtosis are 0.78 and 2.18 respectively which are both positive. The skewness test result for import showed positive value meaning that it has high tail. Using kurtosis benchmark of 3, it showed that import with kurtosis value of 2.18 which is positive but less than 3 can be described as platykurtic relative to normal and is not symmetrical. The probability of Jarque-Bera statistics suggests that the null hypothesis of normal distribution for import is accepted as Jarque-Bera value of 5.18 with probability of 0.07 is greater than 0.05 at 5% level of significance.

Export is one of the proxies for international trade which is the independent variable of this study. The result in Table 2 shows that the minimum value of export is $2.88 billion which was recorded in 1986 while the maximum value of export is $143.70 billion which was recorded in 2012. The mean value of export is $36.50 with a standard deviation of $36.44. The skewness and kurtosis are both positive and have values of 1.29 and 3.88 respectively. The skewness test result for export showed positive value meaning that it has high tail. Using kurtosis benchmark of 3, it showed that export with kurtosis value of 3.88 which is positive and greater than 3 can be described as leptokurtic relative to normal and is not symmetrical. The probability of Jarque-Bera statistics suggests that the null hypothesis of normal distribution for export is rejected at 5% level of significance as Jarque-Bera value of 12.40 with probability of 0.002 is less than 0.05.

Foreign direct investment has minimum value of $190 million in 1984 while the maximum value of foreign direct investment is $8.84 billion which was recorded in 2011. The mean value of foreign direct investment is $2.49 with a standard deviation of $2.58. A critical examination of the result showed that the mean is less than the standard deviation which is an indication of lack of data consistency. The skewness and kurtosis are both positive and have values of 1.18 and 3.15 respectively. The skewness test result for foreign direct investment showed positive value meaning that it has high tail. Using kurtosis benchmark of 3, it showed that foreign direct investment with kurtosis value of 3.88 which is positive and greater than 3 can be described as leptokurtic relative to normal and is not symmetrical. The probability of Jarque-Bera statistics suggests that the null hypothesis of normal distribution for foreign direct investment is rejected at 5% level of significance as Jarque-Bera has value of 9.27 with probability of 0.01 which is less than 0.05.

The minimum value of exchange rate of $1 to N0.61 was recorded in 1981 while the maximum value of exchange rate of $1 to N358.81 was recorded in 2020. The mean value of exchange rate is N100.87 to $1.00 with a standard deviation of 100.76. A critical examination of the result showed that the mean is almost equal to the standard deviation which is cast doubt on data consistency. The skewness and kurtosis are 0.89 and 2.99 respectively which are both positive. The skewness test result for exchange rate showed positive value meaning that it has high tail. Using kurtosis benchmark of 3, it showed that exchange rate with kurtosis value approximately equal to 3 is normally distributed and is recognized as mesokurtic . The probability of Jarque-Bera statistics suggests that the null hypothesis of normal distribution for exchange rate is accepted as Jarque-Bera has value of 5.22 with probability of 0.07 which is greater than 0.05 at 5% level of significance.

ARDL Test Results

ARDL Long Run Test Results

The ARDL Long Run Test Result for Gross National Income per capita is shown in Table 2.

Table 2: ARDL Long Run Test Result for Gross National Income per capita

Variable	Coefficient	Std Error	t-Statistics	Prob
IMPT	-0.172247	0.121006	-1.423452	0.1708
EXPT	0.056902	0.047154	1.206721	0.2423
FDI	0.412948	0.457214	0.903183	0.3777
EXR	0.030616	0.017965	1.704150	0.1047

Source: Research data computation results. extract from e-view 10 output.

The analysis of the ARDL long run test results shown in Table 4.2 revealed that the coefficient of import (-0.172) is negatively signed with gross national income per capita while export, foreign direct investment and exchange rate all have positive coefficients with gross national income per capita. The results suggest weak relationship between import, export, FDI and exchange rate with gross national income per capita. The relationships are considered

insignificant as all the p-values of the independent variables are greater than 0.05 at 5% level of significance. Consequently, there is no significant long run relationship between international trade and gross national income per capita.

The results of the ARDL long run tests revealed that the coefficient of import is negatively signed with gross national income per capita while export, foreign direct investment and exchange rate all have positive coefficients with gross national income per capita. However, the probability of t-statistic coefficients of all the independent variables are greater than 0.05 at 5% level of significance meaning that import, export, foreign direct investment and exchange rate do not have any significant long run relationship with gross national income per capita. Consequently, there is no significant long run relationship between international trade and standard of living in Nigeria.

4.21 ARDL Short Run Test Results

The results of the ARDL short run test is as shown in Table 3.

Table 3: ARDL Short-run Estimate for Gross National Income Per Capita

Variables	Coefficient	Std Error	t-Statistics	Prob
D(IMPT)	-0.001250	-0.003144	-0.397668	0.6953
D(IMPT(-1)	0.010057	0.002568	3.915983	0.0099
D(IMPT(-2)	-0.003576	0.003226	1.164246	0.2587
D(EXPT)	0.002423	0.001467	1.651568	0.1151
D(EXPT(-1)	-0.000707	0.001584	-0.446424	0.6603
D(EXPT(-2)	-0.001060	0.001326	-1.799577	0.4338
D(FDI)	-0.023132	0.016002	-1.445590	0.1646
D(FDI(-1)	-0.065823	0.020528	-3.206575	0.0046
D(FDI(-2)	0.051826	0.023696	-2.187083	0.0414
D(EXR)	0.002267	0.001167	1.942507	0.0670
D(EXR(-1)	-0.003632	0.001277	-2.844400	0.0104
D(EXR(-2)	-0.003366	0.001325	-2.540003	0.0200
C	0.650867	0.098330	6.619236	0.0000
ECM(-1)	-0.116339	0.016764	-6.939998	0.0000
Adj R^2 = 0.628377, F-Stat = 5.682484 (0.000154), DW = 1.874159				

Source: Extracts from E-view 10. * Level of significance at 5%

Table 3 shows the short-run estimates of the model. The previous year's lag of import has a coefficient of 0.010057 and p-value of 0.0099 which is less than 0.05 at 5% level of significance. This indicates that the previous year lag of import (IMPT) has a positive and significant short run relationship with gross national income per capita.

The previous and second year lag coefficients of export (EXPT) are both negative with p-values that are both greater than 0.05 at 5% level of significance. Hence there is a negative but insignificant short run relationship between export and gross national income per capita. Similarly, the coefficient of foreign direct investment (FDI) reported a negative but significant short run relationship with gross national income per capita (GNI) in the previous year period. However, in the second year, the coefficient of foreign direct investment (FDI) indicate a positive and significant short run relationship with gross national income per capita (GNI). Finally, exchange rate ((EXR) revealed a negative but significant short run relationship with gross national income per capita (GNI) both in the previous and second year lag period. Thus international trade has significant short run relationship with gross national income per capita.

The ECM (-1) which is the error correction term has a coefficient of -0.116339 with p-value of 0.0000 which is negative and also significant at 0.05 level of significant. It indicates that the model adjusts toward long run equilibrium at a speed of 11.6% annually. This implies that the previous year's error can be corrected with an adjustment speed of 11.6% annually. The adjusted R-Square (R^2) value of 0.628377 indicates that 62.8% of the total variation in the dependent variable, gross national income per capita (GNI), is explained by the independent variables (IMPT, EXPT, FDI & EXR) which means that the model is a good fit. The Durbin-Watson statistics of 1.874159 which is less than 2.0 DW benchmark reveals the absence of serial auto correlation problem in the model. The F-statistics of 5.682484 with p-value of 0.000154 is significant at 5% level of significance indicating that all the explanatory variables (IMPT, EXPT, FDI and EXR) are significant in explaining increase in the level of gross national income per capita in Nigeria during the period of study.

CONCLUSION AND RECOMMENDATIONS

Conclusions

The trend of the key indicator used for standard of living which is gross national income per capita has not been satisfactory as no reasonable progress was made in the last few years. The gross national income per capita with its highest value of $2940 in 2014 steadily decreased to $ 2000 in 2020 which

shows a reduction in the standard of living of Nigerians. It is safe to conclude that the standard of living in Nigeria is reducing as more Nigerians are getting poorer. The findings of the study revealed that there is a significant short run relationship between international trade and standard of living in Nigeria.

The results of the data analysis revealed that Nigeria's import has a positive and significant short run relationship with gross national income per capita. Export has no significant relationship with gross national income both in the short and long run. Foreign direct investment has positive and significant short run relationship with gross national income. Exchange rate of our local currency, the Naira, was found to have a negative and significant short run relationship with gross national income per capita. Thus the study revealed that there is a significant short run relationship between three out of four proxies of international trade with gross national income per capita. The three proxies of international trade that showed significant relationship with human development are import, foreign direct investment and exchange rate. Export did not show any significant relationship with gross national income per capita. The study therefore concludes that there exists a significant relationship between international trade and standard of living in Nigeria. The finding of this study is generally in agreement with earlier works carried out by Davies and Quinivan (2006); Hamid and Amin (2013), Mohammed and Nasirim (2013); Mbabazi (2017) and Almozaini(2022).

Recommendations

Based on the findings and conclusions of this study the following recommendations are made

1. Since import was found to positively impact on standard of living, the Nigeria government should not unduly restrict importation but strengthen the capacity and effectiveness of its regulatory agencies responsible for monitoring imports such as Customs, Nigeria Standard Organization and NAFDAC to ensure their effective and efficient operations. These agencies should be equipped with the latest technology required to enhance their operation, ensure collection of appropriate duties and enforce ban on prohibited and substandard goods.

2. This study showed that Nigeria's export does not have any significant relationship with standard of living in Nigeria which can be explained because of the very low value of Nigeria's export when compared with its population and the size of its economy. Boosting Nigeria's export significantly is likely to lead to improvement in the living standard of Nigerians as the country will earn more revenue to be used by government to provide infrastructure and provide on social amenities. In order to maximize the benefits of international trade and improve the standard of living of Nigerians, the Nigerian government and policy makers must take all necessary steps and measures to diversify the economy and move Nigeria from an import dependent nation to a net exporter of goods and services. Nigerian economy must move from consumption to production.

4. Foreign direct investment was found to have a positive and significant relationship with standard of living. The study recommends that government should put in place policies that will help to increase the level of foreign direct investment in Nigeria which dropped drastically from a peak value of $8.84 billion in 2011 to a value of $2.40 billion in 2020.

5. Considering the negative impact of exchange rate on standard of living, the Central Bank of Nigeria should continue to protect the Naira against sustained devaluation pressure so that the value of the Nigerian currency does not fall to unacceptable levels. CBN should intervene and encourage local manufacturers, through access to credit finance, to boost their production and export of their products so as to earn foreign exchange. This will boost Nigeria's export revenue and help to strengthen our currency. For Nigeria to make real progress it has to export more than it imports so as to have favourable balance of trade which will help to improve our exchange rate.

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