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IMPLEMENTING TRADE OPENNESS TO LIBERALIZE THE GLOBAL MARKET SPACE FOR ECONOMIC GROWTH IN NIGERIA

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Abstract

The inability of developing countries to fully embrace trade openness in their economic and development process is making them to participate marginally in the world economy. It is becoming difficulty for them to find options on how to minimize restrictions from multilateral agreements. The objective of the study is to find ways of reducing barriers to global trade so as to translate into a long run economic growth in Nigeria. the study used secondary data of time series on real GDP, the index of openness, ration of export of GDP, foreign direct investment and the naira-dollar exchange rates. Sourced from CBN. The econometric analytical techniques employed in this study are the Augmented Dickey-Fuller Unit Root Test for stationarity and Johansen Cointegration was used to establish the long-run relationship between the variables. The findings of the R-Square 0.984944 suggest a strong relationship between the dependent variable and the independent variables. The study concluded that liberalization can play an important role in raising the long-run sustainable rate of productivity growth in Nigeria. the study recommended that there is need to enhance human capital development which is important as a primary determinant of industry output growth and country competitiveness among others.

KEYWORDS: *Trade openness, foreign direct investment, liberalization, export, exchange rate, economic growth.*

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Introduction

The Nigerian trade policies since its adoption of trade liberalization in 1986 has aimed at liberalization of the economy as well as achievement of greater openness and greater integration with the world economy. In a bid to expand her market, Nigeria has signed a bilateral, regional, multilateral and preferential agreements with different countries of the world among which are China, United States of America, Turkey, Benin Republic, India, European countries among others. In recent times Nigeria has renewed her investment promotion and protection treaties with France, China, United Kingdom, and United States of America. Nigeria is one of the community of West African states and world trade organization and a signatory of the lome convention (Ogunkola and Oyejide, 2001). It is imperative to evaluate the economic liberalization policy implementation in 1986 through the adoption of the Structural Adjustment Programme (SAP) and the successive reforms aimed at further liberalizing the economy. With the liberalization policy, it is expected that Nigeria economy would be further open to the rest of the world with attendant economic growth. But the reverse is the case as the nation's economy is still faced with epileptic power supply, low manufacturing capacity utilization, infinitesimal marginal production in the agricultural sector and monumental infrastructure decay.

Statement of the Problem

Export diversification may not materialize without government intervention through targeting and protecting certain sectors. Trade liberalization in less developed countries is expected to proceed gradually and at a pace that will allow for technological learning and capability formation such that it will not result to the untimely exit of firms from the market. Edward (1992) assert that expanding export markets are widely accepted as beneficial, increases in imports can be seen as threatening, replacing domestic production with goods and service from abroad. Government are often under pressure to respond by protecting manufacturing sectors from international competition. The inability of developing countries to fully embrace trade openness in their economic and development process is making them to

participate marginally in the world economy. The World Trade Organization (WTO) and related multilateral and bilateral agreements have eroded the policy space and have become one of the favoured industrial policy instruments of the advanced countries to protect and support their own industries to the detriment of the development of industries in less developed countries. It is therefore, becoming increasingly difficult for less developed countries to find options on how to minimize the restrictions from multilateral agreements, and how to avoid being caught up in bilateral arrangement.

Objective of the Study

To find ways of reducing barriers to global trade so as to translate into a long run economic growth in Nigeria.

Literature Review

Conceptual Framework

Trade Openness and Trade Liberalization

Obadan (2004) assert that trade openness involves economic liberalization that has generated new markets for various economic actors within the global space and it has simultaneously brought about intense competition among them. Trade openness in this paper, represents the degree to which unfettered markets are used to coordinate trade across national boundaries and hence, indicates the extent to which such markets can efficiently allocate scarce resources where they are valued the most. Economic theory indicates that there is reason to believe that relatively open economics will achieve higher than those with substantial barriers that retard trade. Increased trade openness is usually considered as an increase in the size of a country's traded sector in relation to total output. Increased openness can be the result of trade liberalization. Therefore, trade liberalization is the removal or reduction of all barriers to trade to ensure a free flow of trade between countries of the world.

Economic Growth

According to Jhingan (1997) economic growth is the quantitative increase in a country's GNP per capital accompanied by expression in its labour force,

consumption, capital and volume of trade. It is a persistent rise in the national income over a range of time of not less than five years. In economics, "economic growth" typically refers to growth of potential output, i.e., production at "full employment", which is caused by increase in aggregate demand or observed output. For example, a growth rate of 3% means that real goods domestic product is 3% higher this year than the previous year and that more goods and services have been produced.

Trade Openness and Nation's Economic Growth

Sala-i-Martin (1997) affirmed positive relationship between openness to trade and economic growth. This view is in line with economic orthodoxy which presupposes that the greater the intensity of competition resulting from openness to trade, the better will be the level of economic performance of nations. Ajayi (2001) noted that a more open economy based on a single but influential premise, economic integration, would improve economic performance; offer new opportunities via expanded market and the acquisition of new technologies and ideas.

Strategies for Trade Openness in Nigeria

According to Tarzoor (2011) trade openness evolved in Nieria1hrough the following policies:

i. Privatization and commercialization of some government establishment and divesting from certain commercial activities respectively.
ii. Remover of Non-Tariff Barriers,
iii. The liberalizing of the rural market, and
iv. Harmonizing and Reduction of Import Taxation and Encouraging Input Importation
v. Remover of Exchange Rate Regime,
vi. Liberalization of Export Policies,

Argument against Trade Openness

According to Onwioduokit (2006) free trade as practiced, does not allow for protection of infant industries and the domestic economy generally. The

following are the drawbacks against trade openness in developing economies like Nigeria;

i. Under trade openness between developed and developing countries, there are no restrictions on imports and this causes a negative Balance of Payment and unfavorable terms of trade.
ii. Another shortcoming of trade openness is unequal exchange. That is the exportation of primary and importation of manufactured goods by primary producing countries.
iii. Industries still in their early stage of operation incur heavy fixed costs. As output increases so does their average cost fall.

Benefits that could be drive from Trade Openness

Trade openness has the potential to lift millions of people out of poverty. Developing countries like Nigeria stand to gain substantially from reduction in trade barriers. A significant reduction in trade barriers strengthens the drivers of productivity through the following important and mutually reinforcing routs as noted by Emmanuel and Terfa (2011)

i. Economies of scale. In the absence of trade, economies of scale are constrained by the size of the domestic market. Trade removes this constraint, allowing industries and firms to produce on a more efficient scale than would otherwise be possible.
ii. Access to new technology. Trade can provide direct access to goods and services that incorporate new technologies, particularly where more open trade regimes have led to different stages of the production process being undertaken in different countries.
iii. Greater competition. Trade openness exposes domestic firms to greater competition. This helps to encourage exit from the marketplace of the least productive firms; reduces monopoly rents; drives down margins; and reduces prices for consumers.
iv. More efficient allocation of resources. Trade enables each country to specialize in the production of those goods and services which it can produce most efficiently. Countries can raise overall consumption by

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exchanging their surplus production for surplus production of other countries which have a different comparative advantage.

v. Incentive for investment. Better access to imports and exports markets increases the scope for productive investment by creating new business opportunities. Foreign direct investment (FDI) enables technology and innovation developed abroad t be applied to domestic production, enhancing competition and leading to faster diffusion of more efficient and innovative processes.

Empirical Studies

Sachs and Warner (1995) argued that countries that were open had experienced economic growth at a rate of 4.5% annually in the 1970s and 1980s while countries that were closed, barely managed to grow at a rate of 0.7%. In the same vein, Ndiyo and Ebong (2004) using Vector autoregression (VARs) model empirically investigated the dynamic influence of openness, exchange rate, fiscal deficit, average world prices and balance of payments disequilibria on growth in Nigeria. Alege and Ogun (2005) explored the link between openness to trade and industrialization by examining the impact of various indices of globalization such as degree of openness, volume of trade, inflow of foreign direct investment and increased technological innovations on aggregate manufacturing production in Nigeria. The study indicated that openness to trade, volume of trade, and increased information technology (IT) had significant influence on the level of manufacturing output. Aiyedogbon and Ohwofasa (2010) assess the relationship that exist between trade liberalization and economic growth in Nigeria. the study develops two equations with common explanatory variables namely, terms of trade, real export and degree of openness. The dependent variables consist of index of industrial production and economic growth respectively. Utilizing a vector error correction model on a data spanning 1980-2009, the study finds among other things that economic growth is significantly and positively responsible to changes in degree of openness. In a similar study, Echekoba, Okonkwo and Adigwe (2015) studied the impact of trade liberalization on economic

growth using data covering the period 1971-2012. The study finds that imports and exports had positive and significant impact on economic growth in Nigeria. Yakubu and Akanegbu (2018) document the extent to which trade openness affect economic growth in Nigeria. the study covered the period of 1981-2017, the findings revealed an unidirectional causality running from real gross domestic product (growth) to trade openness. It also finds a co-integrating relationship between trade openness and growth. The study employs the OLS techniques for the analysis.

Theoretical Framework

This theories guide empirical studies and give backing and differentiate the study from mere inquiry, they are:

Comparative Cost Advantage Theory

This theory postulated by David Ricardo that an economy will tend to be relatively effective at producing goods using factors with which the country is relatively well endowed at a lower cost possible. In other words, comparative cost advantage provides that when nations specialize, they become more efficient in producing a product (and indeed a service), and thus if they can trade for their other needs, they and the world will benefit.

Endogenous Growth Theory (EGT)

This theory reflects the contribution to productivity from structural and governance reforms on the one hand, and to the adoption of new technology on the other. Trade openness is seen as affecting long-run growth through its impact on technological change. Endogenous growth models, therefore, hold that trade provides access to imported products, which embody the new technology which can be imitated. Additionally, trade openness alters the effective size of the market facing producers which raises returns to innovation; and it affects a country's specialization in research-intensive technologies and production systems.

Methodology

The study used secondary data of time series on real GDP, the index of openness, ratio of export of GDP, foreign direct investment and the naira-

dollar exchange rates. Sourced from CBN. The econometric techniques was employed to determine the relationship between trade liberalization and economic growth in Nigeria. The economic analytical techniques employed in this study are the Augmented Dickey-Fuller Unit root tests for stationarity and Johansen Cointegration was used to establish the long-run relationship between the variables.

The model is stated as:

GDP = f(OPEN, EXP, FDI, EXH)

Where:

GDP = Gross Domestic Product (dependent variable)

OPEN = Index of openness

EXP = Ratio of Export to GDP

FDI = Foreign Direct Investment

EXH = Exchange rate of naira-dollar

} independent variables

The equation from the model is:

$GDP = b_o + b_i EXh + b_2 EXP + b_3 FDI + b_4 OPEN + ei$

Data Presentation

Year	*Foreign Direct Investment (Inflow) (₦' Million)*	*Total Export (₦' Billion)*	*Gross Domestic Product at Current Basic Prices - Annual (₦' Billion)*	*Average Exchange Rate*	*Trade Openness Index*
2000	16453.60	1945.72	6897.48	102.11	0.425
2001	4937.00	1867.95	8134.14	111.94	0.397
2002	8988.50	1744.18	11332.25	120.97	0.287
2003	13531.20	3087.89	13301.56	129.36	0.389
2004	20064.40	4602.78	17321.30	133.50	0.380
2005	26083.70	7246.53	22269.98	132.15	0.451
2006	41734.00	7324.68	28662.47	128.65	0.364
2007	54252.20	8309.76	32995.38	125.83	0.370
2008	37977.70	10387.69	39157.88	118.60	0.408
2009	56297.30	8606.32	44285.56	148.90	0.318

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2010	65130.40	12011.48	54612.26	150.30	0.369
2011	72428.40	15236.67	62980.40	153.90	0.417
2012	80822.50	15139.33	71713.94	157.50	0.347
2013	90526.80	15262.01	80092.56	157.30	0.308
2014	93411.30	12960.49	89043.62	158.60	0.264
2015	94218.40	8845.16	94144.96	192.40	0.212
2016	96255.30	8835.61	101489.49	253.50	0.180
2017	98292.20	13988.14	113711.63	305.80	0.218
2018	99065.90	19280.04	127762.55	306.10	0.256

Source: Central Bank of Nigeria (CBN) Statistical Bulletin Vol 28, 2019

DATA ANALYSIS AND INTERPRETATION OF RESULT

In econometric analysis attempt is usually made in discovering and establishing existing relationship between the different economic variables involved in the analysis. To this effect, this paper would serve as an attempt to evaluate Liberalizing Global market Space through Trade Openness for Economic Growth in Nigeria (2000 – 2018)

This should be done by checking the type of relationship that exists between the dependent variable (Gross Domestic Product) and the independent variables: Foreign Direct Investment, Total Export, Average Exchange Rate and Trade Openness Index. The paper used Econometric views (E-views 12) for Regression Analysis, Augmented Dickey-Fuller Unit root tests for stationarity and Johansen Cointegration for long-run relationship.

Unit Root Test

Table 1.2.2 Augmented Dickey-Fuller Unit Root Test

The Result of the unit root tests are presented in table 1.2.2

Table: 1.2.2: Results of Unit Root Test

Variable	*ADF Lags*	*ADF test statistics with constant but no linear trend*	*Critical Value for ADF at 95%*	*Order of Integration*
D (FDI)	2	-5.325234	-3.052169	1
D (EXPORT)	2	-4.160145	-3.098896	1
D(GDP)	2	-5.030527	-3.065585	1
D(EXCHANGE RATE)	2	-2.959760	-3.065585	1

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D(TRADE OPENNESS)	2	-5.161754	-3.052169	1

The results in Table 1.2.2 show that the entire variables are stationary trend in their first difference. The ADF test statistics of each is less than the absolute value that is; the 95 percent critical value. Thus, the entire trend except Exchange Rate affects Economic Growth in Nigeria. For the variables to be stationary, it is expected that the Augmented Dickey-Fuller test statistic is greater than the chosen critical values. As it is shown in the table 1.2.2, all the variables except Exchange Rate are stationary at 2nd different level of differencing. However, the levels of the differencing shows that Gross Domestic Product, Foreign Direct Investment, Total Export and Trade Openness Index are stationary after second differencing.

Co-Integration Test

Table 1.2.3.1: Johansen co-integration test Result

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
*None **	0.989218	151.1569	69.81889	0.0000
*At most 1 **	0.863324	74.14898	47.85613	0.0000
*At most 2 **	0.718270	40.31653	29.79707	0.0022
*At most 3 **	0.548922	18.78086	15.49471	0.0154
*At most 4 **	0.265555	5.246886	3.841465	0.0220

Trace test indicates 5 cointegrating eqn(s) at the 0.05 level
** denotes rejection of the hypothesis at the 0.05 level*
***MacKinnon-Haug-Michelis (1999) p-values*

In searching for co-integrating sector, unit root test residuals are conducted with ordinary least square (OLS) regression analysis, using the Johansen co-integration test. From the Johansen co-integration test result, there is a presence of co-integration vectors in the non-stationary time series. The presence of co-integration however implies that a stationary long-run relationship among the series is present. And also, from the Johansen co-

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integration test at 5% significance level there is a stationary long run equilibrium relationship between the variables (Exchange Rate, Gross Domestic Product, Foreign Direct Investment, Total Export and Trade Openness Index). In this analysis, the hypothesis of existence of any long-run equilibrium relationship between the variables tested by using Johansen co-integration methodology. Thus, by co-integrated variables, it will be constrained to equilibrium relationship in the long-run. The Johansen method applies the maximum likelihood estimations to determine the presence of co-integrating vectors in non-stationary time series. The trace test and eigen value test determine the number of co-integrating vectors. This implies stationary long-run equilibrium relationships between the variables.

Regression Analysis

Dependent Variable: GDP
Method: Least Squares
Date: 06/22/21 Time: 13:49
Sample: 2000 2018
Included observations: 19

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*
C	5727.099	18545.80	0.308808	0.7620
EXCHANGERATE	189.3331	39.98567	4.735022	0.0003
EXPORT	1.538861	0.728249	2.113098	0.0530
FDI	0.504478	0.134223	3.758491	0.0021
TRADEOPEN	-76316.42	40105.30	-1.902901	0.0778
R-squared	0.984944	Mean dependent var		53679.44
Adjusted R-squared	0.980642	S.D. dependent var		38531.50
S.E. of regression	5360.997	Akaike info criterion		20.23262
Sum squared resid	4.02E+08	Schwarz criterion		20.48116
Log likelihood	-187.2099	Hannan-Quinn criter.		20.27468
F-statistic	228.9627	Durbin-Watson stat		2.105102
Prob(F-statistic)	0.000000			

The result of the regression equation is presented below:

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$GDP = b_0 + b_1EXH + b_2EXP + b_3FDI + b_4OPEN + ei$

GDP = 5727.09 + 189.33EXH + 1.5388EXP + 0.5045FDI – 76316.42OPEN

(0.3088) (4.7350) (2.1131) (3.7585) (-1.9029)

***** The parenthesized figures below the coefficients are the t-values.

R-Square: 0.984944
Adjusted R-square: 0.980642
Standard Error: 5360.997
F- Statistics: 228.96
Durbin Watson: 2.1051

Exchange Rate is found to be positive at a t– ratio of 4.735022 and it has a positive and significant impact on Gross Domestic Product, having the value of its coefficient as 189.33. The sign indicate that coefficient of Exchange Rate is positively related to Gross Domestic Product.

Export is found to be positive at a t– ratio of 2.113098 and it has a positive and insignificant impact on Gross Domestic Product, having the value of its coefficient as 1.538861. The sign indicate that coefficient of Export is positively related to Gross Domestic Product.

Foreign Direct Investment is found to be positive at a t– ratio of 3.758491 and it has a positive and significant impact on Gross Domestic Product, having the value of its coefficient as 0.504478. The sign indicate that coefficient of Foreign Direct Investment is positively related to Gross Domestic Product.

Trade Openness Index is found to be negative at a t– ratio of -1.902901 and it has a negative and insignificant impact on Gross Domestic Product, having the value of its coefficient as -76316.42. The sign indicate that coefficient of Exchange rate is negatively related to Gross Domestic Product.

Coefficient of determination (R^2)

The R-Square is 0.984944, which suggests a strong positive relationship between the dependent variable that is: Gross Domestic Product and the independent variables: Foreign Direct Investment, Total Export, Average Exchange Rate and Trade Openness Index. The adjusted R^2 of 0.980642 suggests that 98% of the total change in Gross Domestic Product can be attributed to the Independent variables.

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F-TEST

If F*>F, we reject the null hypothesis and if otherwise, we accept the null hypothesis. Given the results on the ANOVA table, the observed F* = 228.96 At 5% level of significance, our theoretical F, given our level of significance and degree of freedom is $F_{0.05}$ = 228.96 comparing these values

$F^* > F_{0.05}$

i.e. 228.96 > 3.23

The conclusion from such result is that we reject our null hypothesis that all bi are zero and accept our alternative hypothesis that all bi different from zero.

Conclusion

Taking together these variables means liberalization can play an important role in raising the long-run sustainable rate of productivity growth in Nigeria. This justifies both economic theory and countries' experience that economies which trade more tend to grow faster. Income growth depends importantly on a country's capacity to raise its productivity. Liberalization of trade both export and imports strengthens the drivers of productivity, by enabling a more efficient allocation of resources, by providing greater competitive pressures; by rewarding innovation and providing access to new technologies and by increasing incentives for investment.

Recommendations

The country needs an outward investment strategy that will represent a higher level of committeemen to export promotion, moving beyond information and export campaign. With regard to export, the goal of export orientation in Nigeria should be to achieve significant export diversification, through building new competitive advantages in non-traditional export.

In term of exchange rate, trade policy can only do well when the appropriate supportive macroeconomic policies are effective. Such as exchange rate stability and the rain in interest rates.

Trade openness is important to the long term economic growth of a country. Experience has shown that the spread of economic activities and the rate of growth in a global market system tend to be uneven. There is need to move aggressively to address infrastructure and transport related and transactional cost. Enhance human capital development which is important as a primary determinant of industry, output growth and country competiveness.

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