FOREIGN TRADE AND ECONOMIC GROWTH: EVIDENCE FROM NIGERIA

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ABSTRACT

Foreign trade enlarges the market for a country’s output. Exports may lead to increase in national output and may become an engine of growth. Expansion of a country’s foreign trade may energize an otherwise stagnant economy and may lead it on to the path of economic growth and prosperity. The relationship between trade and growth is envisaged through an export led growth strategy. The study focuses on the impact of trade on Nigeria economic growth. In carrying out this project, linear multiple regression analysis techniques was used in assessing various components of foreign trade. Data used in this study were extracted from CBN statistical bulletin, 2011 edition. The regression analysis was carried out using E－views statistical tool. From the analysis the results shows that export, exchange rate, and per capital income are positively related while economic openness, import are negatively related to output (proxy by GDP) of Nigeria with 60%, 0.4%, 101%, 41%, 1.2% respectively and the Adjusted R^2 is 0.99 for the period of 1980-2010. This study has examined the performance of foreign trade in relations to economic growth. It is therefore concluded that, conscious efforts should be made by government to fine-tune the various macroeconomic variables in order to provide an enabling environment to stimulate foreign trade by engaging in more of export trade and in effect curtail on import trade which has a negative effect or strain the economy.
1.0 INTRODUCTION

Trade is widely accepted as a major engine of economic growth. This has been the experience of Nigeria since the 1960s even though the composition of trade has changed over the years. Foreign trade has been an area of interest to decision makers, policy makers as well as economists. It enables nations to sell their locally produced goods to other countries of the world (Adewuyi, 2000). Foreign trade is the exchange of capital, goods and services between countries. Foreign trade allows a country or nation to expand her markets for both goods and services that otherwise may not have been available to her citizens. Foreign trade means per capita income has been based on the domestic production, consumption activities and in conjunction with foreign transaction of goods and services.

It has been established in the literature that export trade is an engine of growth. It increases foreign exchange earnings, improves balance of payment position, creates employment and development of export oriented industries in the manufacturing sector and improves government revenue through taxes, levies and tariffs. These benefits will eventually transform into better living condition for the nationals of the exporting economy since foreign exchange derived would contribute to meeting their needs for some essential goods and services. However, before these benefits can be fully realized, the structure and direction of these exports must be carefully tailored such that the economy will not depend on only one sector for the supply of needed foreign exchange.

According to (Grossman and Helpman 1997) a theoretical view and (keller 2002) an empirical view has argued that openness is important for growth because it generates channels for technology diffusions, which makes the less developed countries to import such goods from the developed countries.

Foreign trade has been regarded as an engine of growth (Adewuyi, 2002). Foreign trade as it has been regarded as an engine of growth must lead to steady improvement in human status by expanding the range of people’s standard and preference. Since no country has grown without trade, foreign trade plays a vital role in restructuring economic and social attributes of countries around the world, particularly the less developed countries.
Before 1972, most of Nigerian exports were agricultural commodities like cocoa, palm produces, cotton and groundnut. Thereafter, minerals, especially petroleum, became significant export commodities. By 1960, imports were valued at N432million. They increased to N758.99million and N8.132million in 1970 and 1978 respectively, rising to N124, 162.7million in 1 and N681, 728.3million in 1987.

Food import became noticeable in Nigeria foreign trade. The country had an unfavorable trade balance from 1960 to 1965, partly because of the aggressive drive to import all kinds of machinery to stimulate the industrialization strategy pursued immediately after independence. Thereafter, export of crude petroleum guaranteed a favorable trade balance. The oil sector dominates export while the non-oil sector dominates import.

Growth performance of the Nigerian economy has been determined by both domestic production and consumption activities as well as foreign transactions in goods and services. Before her political independence, Nigeria has been an active player on the field of foreign trade, initially with predominately agrain products, but presently dominated by petroleum products.

Since the discovery of oil in commercial quantity in Oloibiri in the present day Delta State, Nigeria has been an important player in world affairs, economically and otherwise, particularly being the 6th largest producer of crude oil in the organization of petroleum exporting countries (OPEC).

Prior to the discovery of oil in 1960s, the Nigerian government was able to execute investment projects through domestic savings, earnings from agricultural product exports and foreign aids. However, the capacity of the economy to accumulate domestic savings to finance investment was limited.

This study is going to take a position, whether Nigeria’s economic under-development can be attributed to international trade or whether her relative economic prosperity, in terms of growth and development can be attributed to her taking part in the field of international trade. In other words, how effectively has trade contributed to Nigeria’s economic growth and development? This is the important question which this study attempts to answer.
Since the last twenty years, economic policy in Nigeria can be characterized by trade liberalization and regional integration which is defined by the radical reducing or removal of trade barriers. The World Trade Organization (WTO) the IMF and especially the World Bank (WB) have obtained considerable powers to sway policies in countries towards this path. As a part of the global Structural Adjustment Programme, it is assumed and argued that trade liberalization improves the welfare of consumers and trims down poverty. The assertion was two-fold and simple. First, it is argued that liberalization offers wider room for choice from an array of quality goods and cheaper imports also find more lucrative markets in which their products can be sold. A second argument is that, the production of goods in which a country has comparative advantage expands, while the sectors without comparative disadvantage minimize. This is believed to lead to an overall rise in real GDP since there would be reallocation of the productive factors from less efficient sectors to more efficient sectors.

The importance of foreign trade in the development process has been of interest to development economists and policy makers alike. Imports and exports are key parts of foreign trade and the import of capital goods in particular is vital to economic growth.

Promotion of economic growth is one of the objectives of foreign trade but in recent times, this has not been the case because the Nigerian economy still experience some element of economic instability such as high level of unemployment, price stability and adverse balance of payment to mention a few.

One of the major obstacles why benefits of foreign trade cannot be translated into economic growth is the macroeconomic policy distortions resulting from the trade which turned the country into an import dependent economy. The import of the country grew from N0.7 billion in 1970 to over N562 billion in 1996 and later increase to N1, 266 billion in 2001, (CBN Annual Report, 2004). More so, foreign trade has not accrued into economic growth because some of the goods imported into the country were those that cause damage to the local industries by rendering their product inferior and being neglected, this thereby reduces the growth rate of output of such industries and this later spread to the aggregate economy.

Due to the reasons stated above, it is worthy of note to analyze the influence of foreign trade on economic growth in Nigeria. To this ends, to what extent should Nigeria allow the importation of goods and services to avoid damages to local industries? And what kind of standard should be
adopted for upgrading the exportation of goods and services. The main objective of this study is to evaluate the performance of foreign trade and its contribution to economic growth in Nigeria. Specifically the research work will focus on the following objectives: (i) to investigate the impact of foreign trade on the Nigerian economy and (ii) to investigate the problems affecting foreign trade and make suggestions on how they could be resolved.

This study will be essential to policy maker to know more about the performance of foreign trade and economic growth. It will also assist in providing the framework of where work has been done by earlier researchers. It will also provide a framework on which further research in foreign trade could be carried out. The study will basically cover a period of 30 years (1980-2010). This study is limited to external trade as it affects the growth and development of the Nigeria economy.

2.0 LITERATURE REVIEW
2.0.1 PREAMBLE

Literature on the dynamic interaction of openness, resilience and economic performance are large. Whereas some scholars argued that trade promote economic growth and development, others argued that it does not. For instance, Winters (2002) submitted that trade liberalization is beneficial because it affords a country the opportunity to trade in larger markets and therefore the risks associated with trading in smaller markets are significantly reduced. Winters et al (2004) argued that one of the consequences of international trade is that it exposes the participating countries to foreign shocks, but the intensity or otherwise of these shocks would depend on the nature of existing institutions, policy measures and the capacity of the country to absorb or counter the shocks. Studies conducted by Edwards, (1993); Frankel and Romer (1999); Dollar and Kraay (2001 and 2002) laid emphasis on the positive effect of trade liberalization on economic growth and poverty reduction. Dollar and Kraay (2001 and 2002) studies supported the view that trade openness has a positive effect on economic growth and development by submitting that foreign trade increases the domestic income of participating countries. This is because opening the economy to international commerce allows domestic entrepreneurs to learn new methods of using or producing quality inputs quicker at lower cost, increasing total factor productivity, human capital accumulation and in harnessing overall national technological
capacity. This argument is consistent with the findings of Romer, (1992); Barro and Sala-i-Martin (1995); Obstfeld and Rogolt (1996).

Nigerian literature on openness, resilience and economic performance are scanty. Most Nigerian studies investigated the relationship between openness and factor productivity or on economic growth, and the determinants of economic growth. In particular, Iyoha (2000) and Dike (1995) used growth accounting framework to investigate the determinants of economic growth. Whereas Iyoha (2000) constructed a time series data on capital stock, Dike (1995) used investment data. In comparison, the novelty of Iyoha’s work lies in the use of capital stock. This is because capital stock is crucial in total factor productivity.

Adewuyi (2006) used the Data Envelop Analysis to quantify the contribution of factor productivity to real output growth. Among others his findings show that albeit total factor productivity increased during the period of Structural Adjustment Programme (SAP) but could not be sustained in the post-SAP era.

2.1 Mercantilist Trade Theory

The neoclassical economist Adam Smith, who developed the theory of absolute advantage, was the first to explain why unrestricted free trade is beneficial to a country. In the 1600 and 1700 centuries, mercantilisms stressed that countries should simultaneously encourage imports and discourage imports. Although mercantilism is an old theory, it echoes in modern politics and trade policies of many countries.

Mercantilist provided the earlier idea on foreign trade. The doctrine was made up of many features. It was highly nationalistic and considered the welfare of the nation as of prime importance. According to the theory, the most important way for a nation to be become rich and powerful is to export more than its import. Some of the mercantilists are Jean Baptiste Colbert and Thomas Hobbes. This was achieved by ensuring that the volume of export was better than the volume of import. Trade has to be controlled, regulated and restricted. The country was expected to achieve favorable balance of payment. Tariffs, quotas and other commercial policies were proposed by the mercantilism to minimize imports in order to protect a nation’s trade position. Mercantilism did not favor free trade. Mercantilism development theory also advocated colonialism.
Accordingly, the leaders of those nations who were involved in mercantilism intervened extensively in the market; imposing tariffs on foreign goods restrict import trade, and granting subsidies to improve export prospects for domestic goods. Mercantilism represented the elevation of commercial interests to the level of national policy. Mercantilist countries practiced the so-called zero-sum game, which meant that world wealth was limited and that countries only could increase their share at expense of their neighbors.

Despite the criticism faced by the foundation of mercantilism, mercantilism is still alive today. New mercantilism now emphasized employment rather than holding some gold. They also postulate that exports are beneficial as jobs are provided domestically. Import are considered bad as jobs are taken away and transferred to the foreign workers. To the new mercantilist, trade is a zero sum activity which a country must loose for the other to gain. And that there is no acknowledgment that trade can provide benefits to all countries.

2.2 Absolute advantage theory

The Scottish economist Adam Smith developed the trade theory of absolute advantage in 1776. The theory emerged as a result of the criticism held against mercantilism. A country that has an absolute advantage produces greater output of a good or service than other countries using the same amount of resources. Smith argued that a country should concentrate on production of goods in which it holds an absolute advantage. No country would then need to produce all the goods it consumed. According to the absolute advantage theory, foreign trade is a positive-sum game, because there are both gains for both countries to an exchange. Thus, a nation need not gain at the expense of other nations, all nations could gain simultaneously.

2.3 Comparative advantage

The most basic concept in foreign trade is the principle of the comparative advantage, first introduced by David Ricardo in (1817). It remains a major influence in foreign trade policy and is therefore important in understanding the modern global economy. The principle of comparative advantage states that a country should specialize in producing and exporting those goods in which it has a comparative or relative cost advantage compared with other countries and it should import those goods in which it has a comparative disadvantage. Out of such advantage, it is argued that it will accrue greater benefit for all. The theory also assumed the
level of technology to be fixed for both nations. Different nations may use different technology but all firms within each nation utilize a common production method for each commodity. It also assumed that trade is balanced and rolls out the flow of money between nations. The distribution of income within a nation is not affected by trade.

2.4 Hecksher-Ohlin theory

In the early 1900s, a foreign trade theory emerged by two Swedish economists Eli Hecksher and Bertil Ohlin. This theory is called the Hecksher-Ohlin theory. The theory stresses that countries should produce and export goods that require resources (factors) that are abundant and import goods that require resources in short supply. This theory is quite different from the comparative advantage and absolute advantage since these theory focuses in the productivity of the production process for a particular good. On the contrary, the H-O theory states that a country should specialize in production and export using the factors that are most abundant, and thus the cheapest.

The model suggests that the less developed countries that are labor abundant should specialize in the production of primary product especially agricultural product because the labor requirement of agricultural is high except in the mechanized form of farming. On the other hand, the less developed countries should import capital-intensive product mostly the manufactured goods from developed countries that are capital intensive.

2.5 Theories of Economic Growth

Economic growth can be defined as the increase in GDP and per capita income of the country. It is also defined as the efficient utilization of resources to attain optimization. A nation’s economic growth can be measured in terms of varied objects. Economic growth could be said to combine three progresses. Capital accumulation, population growth and labor force. Capital accumulation involves a trade-off between present and future consumption, giving up a little now so that more can be had later. Population growth and the associate increase in labor force have been considered a positive factor in stimulating economic growth. A larger labor force means more productive workers, and a large population increases the potential size of domestic markets.
Furthermore, economists have long been interested in factors which cause different countries to grow at different rates and achieve different levels of wealth. One of such factors is trade. Nigeria is basically an open economy with international transactions constituting a significant proportion of her aggregate output. To a large extent, Nigeria’s economic development depends on the prospects of her export trade with other nations. Trade provides both foreign exchange earnings and market stimulus for accelerated economic growth.

Empirical literature overwhelmingly suggests that increased trade or less protectionism is associated with greater growth. Harrison (1991) synthesized previous empirical studies between openness and the rate of GDP growth, comparing the results from cross section and panel estimates while controlling for country effects. She concluded that correlation across openness measures seem to be positively associated with GDP growth. The more open the economy, the higher the growth rate or the more protected the local economy, the slower the growth in income.

In Nigeria, some authors had examined the performance of foreign trade and economic growth. For instance, Fajana (1979) investigates the impact of export and foreign capital on economic growth. He finds that export has greater impact on GDP growth than foreign capital inflows over eleven years period, 1964 to 1974. He recommends that Nigeria should de-emphasize reliance on foreign capital while export should be promoted.

Obadan (1989) also writes on the impact of export instability on the economic development of Nigeria, during 1960 – 1977. More importantly, the study examines whether or not fluctuations in Nigeria’s export earnings have adverse effects on the economy. The results of the study using multivariate analysis as the framework, confirm the hypothesis that export instability is an important obstacle to Nigeria’s economic development. In particular, export instability is found to be highly detrimental to the growth rate of investment as well as resulting in smaller proportions of national income being invested. The result also supports the claim that Nigeria’s economic growth is export led.

Akerele (2001), relying on appropriate quantitative techniques identified sources of instability in export earnings for the Nigeria economy for the period 1980-1997. He observed that political as well as economic factors provided sources of instability in Nigeria’s export earnings. The
influence of political factors is not surprising, since the period of the study coincided with the imposition of various sanction on Nigeria for failing to adopt western-style democracy.

Ogbokor (2001), investigated the macroeconomic impact of oil exports on the economy of Nigeria. Utilizing the popular OLS technique, he observed that economic growth reacted in a predictable fashion to changes in the regressors used in the study. He also found that a 10% increase in oil exports would lead to 5.2% jump in economic growth. He concluded that export-oriented strategies should be given a more practical support.

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

Consequently, several Methods of foreign trade in general differ in several studies. Prevalently, the trade to GDP ratio has been used by many as a proxy for foreign trade. In the analysis, I also included the growth rate of exports as a proxy also to vary the concept of causality due to Granger (1969) is appropriate and used by most of the studies for testing the relationship between economic growth and exports.

According to the Granger causality approach a variable Y is caused by X, if Y can be predicted better from past values of Y and X than from past values of Y alone. Four patterns of causality can be distinguished: (a) unidirectional causality from X to Y; (b) unidirectional causality from Y to X; (3) feedback or bi-directional causality; and (d) no causality results on a long-run relationship between economic growth and foreign trade.

Onayemi and Akintoye (2009); Used the time series data, to avoid spurious regression results, they tested for stationarity of the data by using Philip Perron Unit Root Test, then tested for co-integration with the use of Johansen (1988) technique. Estimates were obtained by employing Vector Error Correction Model.

Udah, E. B. (2011) adopted the time series characteristics. The purpose is to determine the order of integration. The paper conduct unit root test on the variables included in the regression by
employing the Ng and Perron (2001) modified Unit Root tests. The objective here is to determine
the underlying properties of the process that generate the result and discussion of the analysis.
The choice of the Ng and Perron (2001) modified unit root test is based on the fact that the tests
are more suitable for small samples than the traditional tests. In addition, as observed by Sinha
(2007) the null hypothesis of a unit root is not over-rejected when Ng and Perron (2001),
modified unit root tests are employed.

Second, the paper proceeded further to test the long-run (co-integration) relationship
between the variables used in the model by employing the (ARDL) bounds testing approach to
cointegration proposed by Pesaran et al (2001). In the paper, the Autoregressive Distributed Lag
(ARDL) bound test used extensively by Pesaran and Pesaran (1997); Pesaran and Smith (1998)
and Pesaran et al (2001) are employed. The technique has a number of advantages over Johansen
cointegration techniques. Whereas the Johansen techniques require large data sample, a luxury
that most developing economies do not have, the ARDL model is the most useful method of
determining the existence of cointegration in small samples (Ghataka and Siddiki 2001).

Folorunso Sunday Ayadi, adopted the country data-annual time series (1980-2007). The variables
of the models and their relationships are defined thus; FDI, FDI/GDP ratio or FDI growth rate
(FDIGRO) is assumed to be caused by – labour productivity growth (LPGROW), real gross
fixed investment (RGFINVBN), government size (GOVSIZE) measured as the ratio of
government consumption to GDP (Ayanwale, 2007), trade openness (TRAOPEN) measured as
import plus export over RGDP. Other determinant includes exports (EXPBN). In order to
measure the linear relationship between measures of growth and that of FDI we utilized the
Spearman’s rho.

3.0 RESEARCH METHODOLOGY
3.0.1 INTRODUCTION
In the course of conducting a study on the effect of foreign trade on economic growth in Nigeria,
it is important to look at how foreign trade and its attendant factors have contributed to economic
growth in Nigeria. Fosu (1990) and Sachs and Warner (1997) through studies on various African
countries, agreed that trade restrictions impact negatively on growth. In fact, they found that lack
of openness was the most significant contributor to the dismal economic growth performance in
sub – Saharan Africa. Cline (2004) who also noted that the ultimate source of global poverty
reduction is sustained economic growth. The study therefore set up an econometric model to test
the relationship between foreign trade (exports) and economic growth (GDP shall be used to measure economic growth). Many of the Macroeconomic time series are characterized by a unit root so that their first differences are stationary (Engel and Granger, 1987).

3.3 DATA ANALYSIS TECHNIQUE AND SOURCES OF DATA

The data employed in this study are drawn from the central bank of Nigeria statistical bulletin, annual report and statement of account for the year 2010 over the period 1980-2010. Time series data is used for all variables over the period, 1980 to 2010.

While analyzing the data on the effect of foreign trade on economic growth, an open economy is assumed in evaluating foreign trade performance in Nigeria. Gross domestic products at constant prices is the explained variable, while the explanatory variables are export value, import value, economic openness, foreign exchange rate, and per capital income. Economic openness is used as one of the variables to represent trade intensity and this shows the extent in which goods and services are allowed in a particular economy.

Since naira is not used everywhere and transactions is made with different countries, there is the need to include foreign exchange rate as one of the variables in the model. The living status of people who engage in trade also calls for per capital income. Logarithm is used in the model to show elasticity, that is, the degree of responsiveness.

The model expressed as an implicit function will be;

\[ RGDP = F(X, M, EOP, FX, PCI) \]

Where;

\[ RGDP = \text{Real Gross Domestic Product} \]
\[ X = \text{Export value} \]
\[ M = \text{Import value} \]
\[ EOP = \text{Economic openness} \]
\[ FX = \text{Foreign exchange rate} \]
\[ PCI = \text{Per capita income} \]

The model expressed in linear form will be:

\[ \log(RGDP) = \beta_0 + \beta_1 \log(X) + \beta_2 \log(M) + \beta_3 \log(EOP) + \beta_4 \log(FX) + \beta_5 \log(PCI) + \mu \]

Where:

\[ \beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5 \text{ are coefficients.} \]

\[ \mu = \text{Stochastic term.} \]
Aprori expectations of variables used

From the study parameter, RGDP is expected to be positive if export is positive, import negative, with economic openness being positive alongside reduction in exchange rate and increase in per capital income. On the other hand, if exchange rate increases (positive) and economic openness is negative, then RGDP will be negative because increased exchange rate will result in diminished currency value at the international market while negative economic openness means import which sap national fund is higher than export which generates revenue for the nation.

The expected signs of the coefficient of the explanatory variable are, $\beta_0>0$, $\beta_1>0$, $\beta_2<0$, $\beta_3>0$ or $\beta_3<0$, $0\leq \beta_4 \leq 1$, $0\leq \beta_5 \leq 1$.

$\beta_0$ is expected to be positive because there are other factors that determine the GDP aside from the ones stated in the model. $\beta_1$ is expected to be positive because in macroeconomic theory, export is regarded as an injection in the economy. $\beta_2$ is expected to be negative because in macroeconomic theory, import is regarded as a withdrawal from economy. $\beta_3$ is expected to be either positive or negative depending on the value of export, import and the gross domestic product. If the values of export and GDP outweigh the value of import then, economic openness would affect economic growth positively and if the values of import and GDP outweigh the value of export then, economic openness would affect economic growth negatively. $\beta_4$ when foreign exchange rate increase, worth of the local currency is expected to decrease, this will bring about inflation and eventually reduces RGDP and vice versa. This will lie between 0 and 1. $\beta_5$ an increase in per capita income is expected to lead to an increase in RGDP and vice versa. The value lies between 0 and 1.

4.0 PRESENTATION AND ANALYSIS OF DATA

Table 2: Descriptive Analysis and Correlation Table

<table>
<thead>
<tr>
<th></th>
<th>Exchange Rate</th>
<th>Import</th>
<th>Export</th>
<th>EOP</th>
<th>PCI</th>
</tr>
</thead>
<tbody>
<tr>
<td>RGDP</td>
<td>Pearson Correlation (r)</td>
<td>0.363</td>
<td>0.951</td>
<td>0.944</td>
<td>0.949</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.048</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>N</td>
<td>31</td>
<td>31</td>
<td>31</td>
<td>31</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: Authors Computation, 2012.

The table 2 above shows the correlation coefficient between the independent variables and the dependent variable. It would be observed that all the Pearson product moment statistic computed
are positive and greater than zero which implies that there is a positive relationship between the independent variables (Exchange Rate, Import, Export, EOP and PCI) and the dependent variable (RGDP) such that the relationship is significant at 0.05 level of significance (since the sig. (2-tailed) values of each is less than 0.05).

**Graph 1: Data Diagnostic and Findings**

Graph 1 above, shows the variables to be employed in this study in line with the model specifications are: log real gross domestic product (RGDP), and log per capita income (PCI), Log import (IMPORT), log export (EXPORT) and foreign exchange (FX). A graphical diagnostic representation of the behavior of the economic variables used in this study (in their log forms) is presented in the graph as indicated above in the graph.
4.1 MODEL SUMMARY

Table 1: Cointegration Results

Series: LOGRGDP LOGPCI LOGIMPORT LOGEXPORT FX EOP
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

<table>
<thead>
<tr>
<th>Hypothesized No. of CE(s)</th>
<th>Eigenv.</th>
<th>Trace Statistic</th>
<th>Critical Value</th>
<th>Prob.**</th>
</tr>
</thead>
<tbody>
<tr>
<td>None *</td>
<td>0.822816</td>
<td>128.4671</td>
<td>95.75366</td>
<td>0.0001</td>
</tr>
<tr>
<td>At most 1 *</td>
<td>0.658438</td>
<td>80.01135</td>
<td>69.81889</td>
<td>0.0062</td>
</tr>
<tr>
<td>At most 2 *</td>
<td>0.559694</td>
<td>49.93305</td>
<td>47.85613</td>
<td>0.0315</td>
</tr>
<tr>
<td>At most 3</td>
<td>0.418931</td>
<td>26.96506</td>
<td>29.79707</td>
<td>0.1025</td>
</tr>
<tr>
<td>At most 4</td>
<td>0.343025</td>
<td>11.76424</td>
<td>15.49741</td>
<td>0.1686</td>
</tr>
<tr>
<td>At most 5</td>
<td>4.22E-05</td>
<td>0.001182</td>
<td>3.841466</td>
<td>0.9718</td>
</tr>
</tbody>
</table>

Trace test indicates 3 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Table 2: ERROR CORRECTION MECHANISM BASED IN CO-INTEGRATION REGRESSION ON EAGLE-GRANGER PROCEDURE

Dependent Variable: LOGRGDP

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.598236</td>
<td>1.698038</td>
<td>0.352310</td>
<td>0.7299</td>
</tr>
<tr>
<td>LOGPCI(-1)</td>
<td>1.638519</td>
<td>0.285724</td>
<td>5.734619</td>
<td>0.0001</td>
</tr>
<tr>
<td>LOGPCI(-2)</td>
<td>-0.168024</td>
<td>0.090868</td>
<td>-1.84903</td>
<td>0.0857</td>
</tr>
<tr>
<td>LOGPCI(-4)</td>
<td>0.139173</td>
<td>0.052088</td>
<td>2.671899</td>
<td>0.0182</td>
</tr>
<tr>
<td>LOGIMPORT(-1)</td>
<td>0.073151</td>
<td>0.028069</td>
<td>2.606085</td>
<td>0.0207</td>
</tr>
<tr>
<td>LOGEXPORT(-1)</td>
<td>0.060388</td>
<td>0.024966</td>
<td>2.418773</td>
<td>0.0298</td>
</tr>
<tr>
<td>LOGEXPORT(-4)</td>
<td>-0.062638</td>
<td>0.014689</td>
<td>-4.264256</td>
<td>0.0008</td>
</tr>
<tr>
<td>FX(-1)</td>
<td>-0.000442</td>
<td>0.000428</td>
<td>-1.031753</td>
<td>0.3197</td>
</tr>
<tr>
<td>FX(-3)</td>
<td>0.001778</td>
<td>0.000487</td>
<td>3.649010</td>
<td>0.0026</td>
</tr>
<tr>
<td>FX(-4)</td>
<td>-0.000793</td>
<td>0.000426</td>
<td>-1.862643</td>
<td>0.0836</td>
</tr>
<tr>
<td>EOP(-1)</td>
<td>-0.042767</td>
<td>0.006384</td>
<td>-6.698863</td>
<td>0.0000</td>
</tr>
<tr>
<td>EOP(-4)</td>
<td>0.015855</td>
<td>0.004326</td>
<td>3.665049</td>
<td>0.0025</td>
</tr>
<tr>
<td>ECM(-1)</td>
<td>-0.656142</td>
<td>0.140558</td>
<td>-4.668131</td>
<td>0.0004</td>
</tr>
</tbody>
</table>

R-squared: 0.998906 Mean dependent var: 12.74659
Adjusted R-squared: 0.997968 S.D. dependent var: 0.432354
S.E. of regression: 0.019490 Akaike info criterion: -4.731694
Sum squared resid: 0.005318 Schwarz criterion: -4.107772
Log likelihood: 76.87786 Hannan-Quinn criter.: -4.546169
F-statistic: 1065.102 Durbin-Watson stat: 2.102826
Prob(F-statistic): 0.000000
Table 2 indicates the results of error correction results and it could be observed that export, exchange rate, and per capital income follow a-priori expectation while economic openness indicate that the economy observed more of import since its t-statistic value is on the negative for the period reviewed. Import value also conforms to the a-priori expectation and this implies that the nation economy experience a high degree of import closely related to export.

4.4 RESULT INTERPRETATION

The result shows that export, import, and per capital income (a ratio of total trade to GDP) are positively related to real GDP for the period reviewed. A 1% change in export will lead to 0.06% increase in real output in the first period and 0.06% reduction in real output in the fourth period. A 1% change in per capita income will lead to 63% increment in real output in the first period and about 17% reduction in the real output in the second period and 13% increase in the fourth period gains in the real output for the economy, a 1% change in economic openness will lead to 0.04% reduction in real GDP in the first period and 0.02% increase in the fourth period, likewise a 1% change in import will lead to 0.073% increase in real GDP, while exchange rate has significant effect on real GDP.

Similarly, It would be observed from the model summary table above that model is significant overall in estimating the dependent variable (i.e. RGDP) based on the F-staistics. The $R^2$ which measures how much of the dependent variable (RGDP) that is explained by the independent variables ($X$, $M$, EOP, FX, PCI) is 99.9%. This is a very good fit and it shows that a total of over 99% systematic variation in the RGDP is explained by the variations in the explanatory variables ($X$, $M$, EOP, FX, PCI,) for the period under reviewed (1980-2010). And the remaining 0.1% is explained by variables outside the model. The adjusted $R^2$ is 99.9% meaning that a total of 99.9% of RGDP is explained by the five variables.

Furthermore, the Durbin-Watson statistic (d) estimated i.e. 2.102826 implies that there is no autocorrelation among the variables used. Prob (F-statistic) measures the probability that all the variables tend towards zero and it is 0.000000, it means that the sum of the entire five variables is significant. This means that the probability of the entire coefficient used in the model is equal to 0.000000. At this stage, all the explanatory variables are said to explain the variation in
RGDP. However, it would be observed that some of the parameter’s t-value Sig. based on their probabilities are significant, except for foreign exchange for period one.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY AND CONCLUSIONS

From this study, it was discovered that RGDP is the term used to describe economic growth, which is one of the macroeconomic objectives. The study had depicted the pattern of export and import in Nigeria right from the earlier years of independence to present day situation. The study also made some effort in examining the problems of foreign trade over the years. The work also provides some theories on economic growth. Since trade favors countries that participate in it, this study also made mention of benefits that are attached to foreign trade. Despite the numerous benefits that accrue to nations as a result of trade, some countries go to the extent of restricting some irrelevant items; this is also examined in this work. It could also be observed that Nigeria engages in international trade negotiation so as to stimulate the economy through foreign trade.

From this study, it could be observed that the Nigeria economy employed different strategy in stimulating its economy through foreign trade. This strategies span across different stages of the economic lifecycle with different outcome.

The study had also thrown some light on the fact that the dependent and independent variable are interrelated and that decisions in one variable will affect the other variable. From this study, the components foreign trades are positively related to real GDP.

From the result above, export, import, and foreign exchange rate and per capita income acts as an engine of growth in Nigeria. This is in conformity with the conclusion of Adewuyi (2002) who referred to foreign exchange rate as an engine of growth. The result did support the claim that Nigeria economy is export-led as against Obadan (1989) statement and Oviemuno (2007) findings. There is positive relationship between RGDP and foreign trade elements as reported by Oyejide (1975) in his study. Ezenwe (1979) said that foreign trade is the most dynamic sector of the economy since independence and as far as this study is concern, foreign trade has been dynamic in the sense that most of their determinants are positively related to real GDP. The result is also backed by the study conducted by Bairam (1988) and Perraton (1990) that concluded that growth performance of a country is a function of the values of its income elasticity of both exports and imports as supported by Shuchin Yang statement which said, ‘if the
developing countries do not develop their export, it might mean slow economic growth’. From this, since the result has indicated a positive relationship between export and real output, this statement by Shuchin Yang could be said to be-worthwhile.

5.2 RECOMMENDATION
Based on the findings of this research work, it is necessary that conscious efforts should be made by government to fine-tune the various macroeconomic variables in order to provide an enabling environment to stimulate foreign trade by engaging in more of export trade and in effect curtail on import trade which has a negative effect or strain the economy. Export promotion strategy should be review and import substitution strategy should also be review so that import and export will change its dimension.

The government should encourage export diversification. Non-oil sector exports should be encouraged and concentration on oil sector export should be minimized.
Nigerian should reframe from excessive consumption of foreign goods and services so that their imports might be cut-off.

Manufacturing industries should improve on their production so that their output would be competitive in the global market. Excise duties should be lowered so as to encourage local industries to export their goods and services. Lifting of trade barriers on local output should not be followed by the introduction of new ones. Only the importation of capital goods that are essential should be encourages, since not all importation are necessary for economic growth.
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