

THE ECONOMIC EVALUATION OF TRADE IN NIGERIA: A DISAGGREGATED ANALYSIS FOCUSING ON LONG-RUN EFFECTS

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Abstract

The examination of the economic impact of trade in Nigeria; a dis-aggregated analysis within the period of 1986 to 2023 is carried out in this research. The variables utilized comprised of GDP, proxied for economic expansion, exports and imports made up of oil and non-oil each, inflation rate, exchange rate and equally gross capital formation. The outcomes of ADF test, showed the presence of mixed order of integration. Consequently, the key findings of this research using ARDL indicated that exports with respect to oil and non-oil have significant positive impact on the expansion of Nigeria's economy, whereas oil imports negatively and insignificantly influenced the output expansion in Nigeria. Lastly, non-oil imports affected the output expansion in Nigeria positively and significantly. In view of these discoveries, we recommend that federal authority should focus on investing oil revenue wisely, improving local processing/refining, and stabilizing policies against price shocks so as to avoid the "resource curse" by leveraging oil wealth for broader development.

Keywords: Trade, Economic Growth, ARDL, Nigeria

1. INTRODUCTION

The degree of integration between a country and other nations ascertains the economic expansion of such a nation. This simply entails that no country can survive on its own without engaging in trade relationships with other countries (Owan, 2023). Hence, trade is the voluntary exchange of goods, services, or both between different parties, acting as a fundamental economic activity to fulfill needs and wants of the people. It involves buying and selling for money or bartering in kind, occurring domestically (within a country) or internationally (between countries).

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Generally, trade is crucial because, it drives economic growth, creates jobs, lowers prices, expands consumer choice, and improves quality of life by allowing specialization, efficient resource use, and access to goods beyond what a single nation can produce. It fosters innovation, strengthens businesses, reduces poverty, and builds relationships between countries, making economies more resilient and interconnected.

However, foreign trade is more paramount to the economy, as it leads to the provision of raw materials for industrial improvement, thereby making raw materials acquirable for local investment (Maria, 2020). This is simply the reason for regarding foreign trade as an engine of expansion in the economy, since it has the capacity of accelerating international exchange earnings, accessibility of assorted commodities in the world market, expansion of technological know-how as well as improving the eudaemonia of the people with higher job chances (Attahir & Kamal, 2015).

Trade in Nigeria, heavily reliant on oil exports, plays a significant but volatile role in economic growth, with GDP expanding by 2.98% in Q1 2024. While export-driven growth is essential, high import dependency and limited diversification hinder sustained development. Historically, it has been validated that globally active nations are more amentaceous than the ones that mainly create for internal market. Albeit, the association between foreign trade and economic growth of a country can be either positive or negative, but what determines the nature of the relationship is the economic frameworks like trade openness that are put in place to manage the trade (Samuelson & Nordhaus, 2010). Hence, nations with greater external commerce deal, appears to expand their nation quicker than the ones with little foreign trade engagement.

In view of export led expansion hypothesis which posits that growth in exports is one of the chief factors, that can boost a nation, we observed for instance, that in 1986, oil and non-oil exports stood at 4%, while oil and non-oil imports recorded 46.36%. In this period, GDP stood at 0.06%. However, oil and non-oil exports increased from 20% in 1996 to 26% in 2006, while oil and non-oil imports decreased from 22% in 1996 to **14.55%** in 2006. Within these periods, GDP increased from 4.2% in 1996 to 6.73% in 2006. Again, oil and non-oil exports increased from 6.5%% in 2016 to 65.4% in 2023, while oil and non-oil imports increased from -10.361%% in 2016 to 35.58% in 2023. In these time internal, GDP rose from -1.51%% in 2016 to 2.74% in 2023 (CBN, 2023). This suggests that variations in exports and imports, comprising of oil and non-oil, over the years, did not bring a comparable rise in output growth in Nigeria. It is against this backdrop that the desire to economically evaluate the impact of trade in Nigeria is deeply touched.

2. LITERATURE REVIEW

Adelowokan, Okwu and Osisanwo (2024) ascertained the effect of international commerce and economic expansion in Sub-Saharan Africa, with the use of panel data under System (GMM) technique. From the results produced, we observed that export and import stifled economic expansion, whereas institutional quality showed insignificant linkage between commerce flows and expansion of their economies.

Owan (2023) empirically analyzed the effect of foreign commerce on the expansion of Nigerian economy using the data ranging from 1986 to 2021. The variables used in this study comprised of

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gross domestic product as a dependent variable, while imports and exports, comprising of oil and non-oil, as well as exchange rate were employed. ARDL was used and outcome revealed that exports have important and direct effect on the expansion of the Nigerian economy. While imports inversely and crucially impacted on the economic development Nigeria.

Sunday, Ali, Flora and Esther (2023) carried out an investigation on the effect of global commerce on the economic expansion in Nigeria using the range of data covering 1981 to 2019. Utilizing ARDL technique, they found that import trade, FDI and exchange rate had inverse and unimportant effect on the expansion rate Nigeria's economy; while that of export trade showed positive as well as crucial effect on the economic development in Nigeria.

With the data covering 1986 to 2018, Zubair, Salihu and Gyang (2021) examined the impact of non-oil external commerce on the expansion of Nigeria's economy. Adopting ARDL method, they found that importation of non-oil products, as well as exchange rate unimportantly effected economic development in the country Nigeria.

With the method of OLS, Suriaganth and Mohamed (2021) investigated the effect of external commerce on the expansion of Indian economy. Their results indicated that that export and import had paramount and direct effect GDP while trade openness influenced GDP inversely in India.

The impact of oil export earnings on growth rate of Nigeria's economy was carried out by Olayungbo (2019). This researcher made use of Bayesian time-varying parameter (TVP) model with data ranging from 1970 to 2015. The results showed that during the period of study, oil revenue export was found to be positively and significantly contributing to economic expansion in Nigeria.

Ebimobowei (2022) studied the relationship between oil revenue and economic output in Nigeria. Adopting OLS they discovered that Petroleum profit tax positively and crucially related GDP, whereas crude oil export has influenced output in the country inversely.

In the examination of oil earnings and economic expansion in oil-producing nations, Mohammed, Karimu., Fiador and Abor (2020), adopted Panel Vector Autoregressive (PVAR). The outcome of their research revealed that federal investing in oil earnings positively impacted on the expansion of the nation not absolutely on the growth banking segment with no impact on the growth of their stock market.

3. THEORETICAL FRAMEWORK

Export-Led Growth Theory

This Export-led growth theory is attributable to Ricardo and Smith's classical hypothesis of trade (Ram, 1987). The proponents of this theory maintained that plausible exports impart to profit resulting from creation of adequate output that can stem from improved allocation of resources. The *Export-Led Growth Hypothesis* (ELGH) remains highly relevant in international trade and economic growth studies, as it proposes that export expansion drives growth via increased demand, productivity, innovation, and economies of scale. However, this theory has limitations, including **inconsistent empirical evidence** showing small or negligible impact for some nations, vulnerability to **external demand shocks**, potential for **neglecting domestic sectors**, issues with **causality direction** (growth might drive exports, not just vice versa), reliance on **primary**

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products (volatile prices, few spillovers), and the need for **strong infrastructure/policies** which many developing countries lack, making its success context-dependent (Owan, 2023).

4. METHODOLOGY

Based on the fact that research design comprises the plan for the gathering, mensuration, and interpretation of data (BigBen, 2016), the study adopted an ex-post-facto research design. With the data gotten from the CBN report from 1986-2023, the researchers adopted Unit root test and Autoregressive Distributed Lag (ARDL) model for determining the rank of integration and responsiveness of the coefficients of the autonomous variables as related to babelike variables. Thus, the model for this work is expressed as:

$$GDP = f(OXP, NOXP, OIMP, NOIMP, INF, EXR, GFCF) \quad (1)$$

Where: GDP represents gross domestic product, OXP is oil exports, NOXP is non-oil exports, OIMP is oil imports, NOIMP is non-oil imports, INF = inflation rate, EXR is exchange rate and GFCF = gross fixed capital formation.

5. RESULTS

Table 1: Augmented Dickey-Fuller Unit Root Test Results

Variables	Level			First Difference			Remarks
	t-Statistics	5% critical	p-value	t-Statistics	5%-critical	p-value	
LGDP	-4.167002	-2.945842	0.0024	-----	-----	-----	I(0)
LOXP	-3.407196	-2.943427	0.0170	-----	-----	-----	I(0)
LNOXP	-4.344717	-2.954021	0.0016	-----	-----	-----	I(0)
LOIMP	-3.094259	-2.945842	0.0359	-----	-----	-----	I(0)
LNOIMP	-3.315073	-2.945842	0.0215	-----	-----	-----	I(0)
INF	-3.522581	-2.945842	0.0130	-----	-----	-----	I(0)
LEXR	-2.083522	-2.945842	0.2521	-7.012427	-2.945842	0.0000	I(1)
GFCF	-1.183246	-2.943427	0.6714	-4.720516	-2.945842	0.0005	I(1)

Sources: Researcher’s computation from E-view 9

ADF unit root test in above table, voiced that the gross domestic product, oil export, non-oil export, oil import, non-oil import and inflation rate were motionless at level while exchange rate and gross fixed capital formation became motionless at difference one; indicating presence of a blended integrating order among-st the employed variables.

Table 2: ARDL Long-run Coefficients Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOXP	0.630823	0.233205	2.705013	0.0140
LNOXP	0.119506	0.037684	3.171253	0.0043
LOIMP	-0.201349	0.224459	-0.897042	0.3809
LNOIMP	0.004151	0.000817	5.080798	0.0000
INF	-0.024046	0.010155	-2.367810	0.0287
LEXR	-0.381125	0.200484	-1.901028	0.0726
LGFCF	0.068090	0.033269	2.046659	0.0423

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C	-1.770230	1.358893	-1.302700	0.2082
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Sources: Researcher's computation from E-view 9

From the results in table 2, oil export (LOXP) and non-oil export (LNOXP) showing the coefficients of 0.630823 and 0.119506 and probability values of 0.0140 and 0.0043 respectively, had direct and paramount impact on GDP in Nigeria. However, oil imports with the coefficient of -0.201349 and probability value of 0.3809 had negative effect on GDP but statistically not crucial in the long run. However, non oil import having the coefficient of 0.004151 and probability value of 0.0000 has positive and significant impact on GDP in the long run. On the contrary, inflation rate with the coefficient of -0.024046 and probability value of 0.0287 has negative and significant effect on GDP. Similarly, exchange rate with the coefficient of -0.381125 and probability value of 0.0726 has negative and insignificant impact on GDP, while that gross fixed capital formation with the with the coefficients of 0.068090 and probability values of 0.0423, impacted positively and crucially on GDP in the long term in the country.

6. CONCLUSION

The study evaluated the long-term effect of trade in Nigeria within the epoch of 1986-2023. Autoregressive distributed lag (ARDL) model was employed in the research. Variables sculptured comprised GDP, exports and imports, comprising oil and non-oil in each, inflation rate, exchange rate and gross fixed capital formation. Existence of mixed order of integration was observed, which made us to apply ARDL. Estimated outcomes proved that exports as a whole had impacted positively and significantly on output expansion in the economy, while oil imports exerted negative and insignificant impact on gross domestic product in Nigeria. Similarly, non-oil imports impacted positively and significantly on gross domestic product in Nigeria. Hence, considering the paramount nature of trade, there is need to diversify the economy of Nigeria and equally leveraging oil wealth for broader development.

7. RECOMMENDATIONS

The following recommendations among others are made

- 1). Nigerian government should focus on investing oil revenue wisely, improving local processing/refining, and stabilizing policies against price shocks so as to avoid the "resource curse" by leveraging oil wealth for broader development.
- 2). The government of Nigeria should simplify export procedures, invest in value-added production (like agriculture/manufacturing), build better logistics, and create an attractive environment for non-oil sectors, so as to reduce reliance on oil, and achieve sustainable development.
- 3). Lastly Nigerian government should focus on **de-risking the economy from external oil price shocks, by improving on domestic energy efficiency** so as to stimulate the economy.

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