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Trade growth and economic development in developing economies – Evidence from Nigeria

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Abstract

This study examined the relationship between international trade relations and the economic development of Nigeria for the period spanning from 1974 to 2019. The causal relation between trade and development has generated controversies both empirically and theoretically. The increase in trade relations between Nigeria and the rest of the world have recorded a substantial rising profile within the period under review. Despite this growth, economic development appears to be non- responsive to such growth and as such calls for investigation. The objective of this study is to ascertain if it is trade growth that drives economic development or vice versa. The specific objectives of this study are to ascertain the causality between- exports and economic development, imports and economic development, and balance of trade and economic development. The source of data is secondary obtained from the Statistical Bulletin of the Central Bank of Nigeria of various issues. The econometric tools used are the unit root tests, the co integration tests and the Granger causality tests. The finding revealed that there is a bidirectional causality between import and gross domestic product, there is a unidirectional causality between balance of trade and economic growth running from balance of trade to economic growth and there is no causality existing between export and economic growth. This implies that there is trade- led growth in Nigeria, however this is import-led. The recommendations among others include that government should put in place initiatives and policy framework that will induce export oriented and import substitution. Again diversifying the economy from mono- product economy to multi product economy has become inevitable to cushion the shock of unforeseen price fall of the mono product in the global market, also there is need to explore ways of reviving the nation's huge agricultural potential which has been neglected since the discovery of oil in addition to exploiting its rich untapped solid mineral deposits in order to promote diversification of the economy away from a mono- cultural product base. This no doubt will stimulate exportation resulting to economic development.

Keywords- Export -led growth, import- led growth, **t**rade growth
JEL classification- F10, E23

Introduction

The concept "trade" simply means buying and selling. Madely (1996) opines that Trade can be domestic when transacted within the boundaries of a particular nation or foreign when it cuts across the frontiers of the nation. Our focus here is the international or foreign aspect of trade. The Central Bank of Nigeria (CBN) (2009) asserts that foreign trade comprises basically of export and import. Exports are goods and services that bring receipts and foreign exchange to the country. Exports can be categorized into two. According to CBN (2009), exports in Nigeria are made up of non oil exports (including agricultural exports, semi processed goods, and services etc), and oil exports (crude oil). In the pre 1980s agriculture was the major foreign exchange earner in Nigeria. Regrettably, crude oil is the major export of the country as the economy is a mono product economy. This has an enormous dangerous threat on the economy as the foreign exchange depends on the rise and fall of crude oil prices globally. In fact, this was felt in 1982 as there was global glut in the price of the product. The situation becomes more worrisome as the product is subject to depletion and is exhaustive. The need arises for the nation to look inwards to explore other export sources.

Imports are goods and services brought from other nations to the country. In recent years, Nigeria has been best described as an "importing and consumer country". Almost all the products and services consumed in the country are imported including toothpicks and others. This no doubt has a toll on the overall foreign exchange as it depletes the scanty foreign exchange. Balance of trade depicts a nation's receipts and payments for the traded goods and services over a given time period usually a year. It records the balance of the visible and invisible exports and imports. While visible trade are the tangible goods and products bought and sold, invisible trade are the services that are intangible also traded among the countries.

Economic development is manifested and measured by the Gross Domestic Product (GDP). It is described to mean a sustained general economic growth in the economy over a long period of time. It is argued that a developed economy has the potential of driving trade relations (exports and imports) with other countries.

Trade- growth Hypothesis emphasizes that external trade relations between a country and the rest of the world (ROW) drives and stimulates economic growth of that country. This is argued in view of the enormous benefits accruable from trade among nations. Such include – increase in aggregate of the global output of goods and services since every country specializes in the production of goods and services on the basis of comparative advantage, technology transfers, encouraging healthy competition among nations, and so on. Trade no doubt accelerates economic development especially in developing economies (such as Nigeria) where modern equipment can be used for industrial and agricultural purposes bringing about economic stability. Again since no nation can produce all the needs of its citizens, trade becomes inevitable for countries to import the goods and services it has no comparative advantage.

Trade – growth hypothesis can be categorized into export- led growth and import- led growth. Export led growth emphasizes that sustained and increased exportation of goods and services is a driving force for a long run economic growth. It stresses that for an economy to be on the path of growth, it must not only produce goods and services for domestic distribution and consumption, but for exportation to other nations. This will enhance improved foreign exchange earnings. Conversely, import-led growth proponents such as Lawrence and Weinstein (1999) argue that advanced technology transfer and modernization resulting from importation of sophisticated materials and capital remain a *sine qua non* for economic advancement and development especially for the less developed economies (LDCs).

The increase in trade relations (exports and imports) between Nigeria and the rest of the world according to the Central Bank of Nigeria (2004) have recorded a substantial rising profile over the years. Despite this growth, economic development appears to be non responsive to such growth and thus this calls for investigation.

Trade – growth studies are replete in literature and had ignited controversies on which one drives the other. However, despite the great effort devoted in studying the issue, there is little persuasive evidence concerning the causal relationship between them in Nigeria. This calls for investigation, hence this study.

The findings from the study would provide the monetary authorities with another economic policy framework to help tackle the deteriorating growth in the Gross domestic product and or to pursue policies to drive trade in the country.

The rest of the paper is comprised of Literature review in Section 2, while Section 3 is the methods and methodology, Sections 4 and 5 deal on the results and analysis, recommendations and conclusion respectively.

Literature Review

Conceptual Review

Madely (2012) opines that trade has the potential of transforming poorer undeveloped nations to prosperity. Since rich nations has become even richer as a result of trading with each other, it is arguably certain that less endowed nations has the probability and possibility of increased foreign exchange earnings, create employment, fight poverty and consequently drive their economies towards growth and development.

Trade which comprises of export and import no doubt drives the economy in view of its enormous benefits. Various studies have laid support for export as a driving force for growth. In the *East Asian miracle*, the World Bank (1993) opines that policies based

on promotion of exports triggered accelerated economic growth by way of utilizing modern technologies that improved the productive capacity of export industries and the economy as a whole. Helpman and Krugman (1985) argue that an expanding export increases productivity by offering greater economies of scale.

On the other hand, other studies have portrayed importation as a catalyst for growth. Lawrence and Weinster (1999) in disagreeing with the assertion of the World Bank (1993) as stated above, observed that the Bank limited its findings on the basis of export growth relationship thus neglecting the enormous role of importation in improving the productive base of the economy and thereby stimulating economic growth. Their study that encapsulated imports found that protection was actually harmful to productivity and growth and concluded that for Japan, United States of America and Korea, the import- led growth has a strong evidence than the export- led growth that has limited evidence. These imply that innovation, competition and technological pressures resulting from relevant imports are important catalysts for increased total factor production (TFP) and economic growth.

Nigeria trade relations has shown significant increase over the years. For instance, the CBN Statistical Bulletin reveals that the exports rose from 206059.2 in 1994 to 950661.4 in 1995 and stood at 8309758.3, 9907611.5 and 8832413.8 in 2007, 2008 and 2009 respectively (all in millions of naira).

The same source reveals that import in the same vein has recorded tremendous increase within the period under review. It stood at N3984888.4 million, N5284455.3 million and N5022162.6 million in 2007,2008 and 2009 respectively While the balance of trade has recorded a swing within the period, it has undoubtedly recorded an improvement. The figures show that in 2007,2008 and 2009, it was N4324869.9 million, N4523156.2 million and N3810251.2 million respectively. Also, economic growth in Nigeria as proxy by the Gross Domestic Product (GDP) has been on a steady

improvement over the years. For instance it was recorded that within the period of 2007 to 2009 it stood at N20657317.7 million, N24296329.3 million and N24712669.9 million respectively(CBN, 2021)

Empirical Review

Empirically, replete literature exists on the trade –growth relationship. We will now review some of these empirical works. Qazi (2013) studied trade –led growth hypothesis: an empirical analysis of South Asian countries examined the trade-growth nexus using data for six Asian countries. The econometric tools used were the Augmented Dickey Fuller unit root test (URT) to test for stationary of the variables, the autoregressive distributed lag (ARDL) approach for a long run relationship among exports, imports (independent variables) and economic development (the dependent variable); while for the direction of causality, the modified Granger causality test was adopted. The study revealed that export led growth applied to all countries except Bangladesh, and Nepal. The growth-led import model and export –import model are relevant for all the countries in the sample. The results imply that domestic and foreign demand contribute to economic growth and employment generation. Also, their study portrays that there is a e potential for growth through tapping of domestic demand in the event of global recession.

Sangho(2007) studied the relationship between exports, imports and economic growth in Republic of South Korea. They used quarterly data from 1980 to 2003. Results suggest that imports have a positive significant effect on productivity and growth while exports did not. This according to the results was attributable to competitive pressures culminating from importation of capital goods and services that consequently triggered fierce competition among local firms producing import substitute products.

Helpman and Krugman (1985) opined that improved export sector stimulates productivity through provision of variety of economies of scale. Awokuse (2007) examined the causality between export, import and economic growth: evidence from transition economies. The study examined the problem of economic growth of the CEEC markets liberalization and increasing trade access to the large European Union (EU) market and examined the impact of export and import expansion on the growth of three transition economies. The results indicated that trade stimulates economic growth.

Laszlo (2006) investigated the possibility of Granger causality between the logarithm of real exports and real GDP in 24 Organization for Economic Cooperation and Development (OECD) countries between 1960 to 1997. The study employed panel data approach based on SUR system and Wald tests with country specific boostrap critical values. Two different models were used – bivariate (GDP –exports) model; and a trivariate (GDP-export-openness) model; both without and with a linear time trend. Results indicate a one-way causality from exports to GDP in Belgium, Denmark, Iceland and Ireland, Italy, New Zealand, Spain and Sweden; one-way causality from GDP to exports in Austria, France Greece, Japan, Mexico, Norway and Portugal; two-way or bidirectional causality between exports and growth in Canada, Finland and the Netherlands; while in the case of Australia , Korea, Luxemburg, Switzerland, the UK, USA, there is no evidence of causality in either direction.

Hendrick van den (1997), studied The relationship between International trade and Economic development in Mexico. Using data spanning from 1960 to 1991 and applied simultaneous equation time series regression model, it was found that a positive relationship exists between trade and economic growth in Mexico.

From the reviewed literature, it is obvious that there exists little or dearth literature on whether international trade drives economic activity and growth or vice versa

between 1974 to 2019 in Nigeria. This paper bridges the gap and goes further by making recommendations in order to chart a way forward

Methodology

Model Specification

This study seeks to investigate the relationship between international trade relations and the economic development of Nigeria for the period spanning from 1974 to 2019. The research is an *ex post facto* or causal comparative. It adopts a time series data. Time series is a sequence of data points, typically consisting of successive measurements made over time. The trade growth variables (export- Exp, import-Imp, and balance of trade- BoT) are the independent variable while economic development proxy by GDP is the dependent variable. Data collection is by secondary sources gotten from the Central Bank of Nigeria (CBN) Statistical Bulletin of various issues. The results of the tests is interpreted which forms the basis of the research findings and enable the recommendations to be proffered in the study.

The following linear model is estimated

$$L\Delta GDP = \beta_0 + \beta_1 LExp + \beta_2 LImp + \beta L_3 BoT + _t \quad (1)$$

In order to achieve the objective of the study (to examine if it is trade growth that drives economic development or vice versa), the following models are adopted-

i. to ascertain the relation between export and economic development, we adopt

$$L\Delta GDP = \beta_0 + \beta_1 LExp + _t \quad .... \quad (2)$$

ii. to ascertain the relation between import and economic development, we adopt

$$L\Delta GDP = \beta_0 + \beta_1 LImp + _t \quad (3)$$

iii. to ascertain the relation between balance of trade and economic development

$$L\Delta GDP = \beta_0 + \beta_1 BoT + _t \quad (4)$$

where

L = logarithm, Δ= rate of variations in the employed variables

InGDP = nominal gross domestic product, β_0 = constant, β_1, β_2 = explanatory power of the variables, *InExp* is exports, InImp is imports, InBoT is the balance of trade $_t$ = stochastic error term.

Trade growth hypothesis posits that trade relations drive, stimulate and therefore is a determinant factor of economic growth of the country participating in the trade. This hypothesis is categorized into the export led growth and import led growth hypothesis.

Export led growth (ELG) hypothesis suggests that an increased exportation of goods and services by a nation is an indicator and determinant of the growth of the economy in the long run. It is basically argued that exportation stimulates and drives growth both for the demand and supply side. On the supply side, exports results to efficiency gains in view of global competition, while on the demand side, exports primarily promote growth. However the hypothesis ignores the limitations imposed by restrictive trade, problems associated with exchange rate and such other problems as lack of comparative and absolute advantage. These limit exportation and create avenues for windows to attract transference of products from other nations into the economy to stimulate growth of the domestic economy.

Import led growth (ILG) hypothesis- this developed lately. It stresses the process of modernization and technological transfer from one country to another in the acquisition of the much desired capital and material involving high technical and financial outlay. Since this capital cannot be totally sourced locally, there is need for importing to bridge the yawning developmental and economic gap. Since it is argued that countries that are on threshold of development (LDCs) are characterized by foreign exchange constraints, imports provide succor for such constraints and according to Esfahani (1991) and Serletis (1992), countries should be allowed to import

essential inputs and capital goods having sophisticated technology that are invariably not produced domestically.

Estimation procedure

To achieve the objective of the study, the following tests were run: the unit root test (URT)- the Augmented Dickey Fuller (ADF);the Cointegration test – the Johansen Test and the Granger Causality test- Pairwise Granger Causality Test

The unit root test (URT)- the Augmented Dickey Fuller (ADF)

Usually the ordinary least squares (OLS) statistic is adopted for time series tests. However, the OLS at times is associated with simultaneity bias and spurious influences. To avoid this problem, it is important that the time series properties of the data set employed in estimation of the equations is ascertained. We perform the Augmented Dickey Fuller (ADF) unit root test in order to test the stationary of the variables. The Unit Root Test is a series statistics. Dickey and Fuller (1979) opines that "a series, say, X_t is said to be integrated of order k, that is, X_t [] $I(k)$, if it is stationary after differencing it k times". If calculated t-ratio is less than the critical value (table value), the null hypothesis of unit root (non stationary) is rejected in which case the level of time series X_t is characterized as integrated of order zero i.e. I (0). But if it is observed that the individual time series in the equation are integrated of order one I(1), then the series is said to be non stationary. If the variables are integrated of the same order I(1), we move a step further to employ the Johansen (1991) co integration test procedures to test the co -integration among the variables. The ADF test is based on the following equation

$$\Delta X_t = \alpha_o + \alpha_1 t + \beta X_{t-1} + \sum_{j=1}^{m} \mathbf{Y}_j \Delta X_{t-j} + \mu_1 \quad (5)$$

where

X_t is integrating series (independent variable), β is coefficient, Y_j is integrating series (dependent variable), Δ is the first difference operator; t is the time trend; α_o is a drift; $_t$ represents the linear time trend; m is the lag length; $\boldsymbol{\mu}_1$ is a white noise process.

The Cointegration test – the Johansen Test

The next step is testing for co integration among the variables. The co integration test is a group and descriptive statistics. The Johansen methodology is the generalization of the ADF test. Two likelihood ratio tests (Trace and Maximum Eigenvalue) were used to test the presence of no co integration regarding the co-integrating vectors. In other words , the trace and maximum eigenvalue is used to test the presence of cointegrating vector among the variables at 5% significant level.

A set of variables are said to be cointegrated if a linear combination of their individual integrated series I(d) is stationary. Generally speaking, " two variables are said to be co integrated if they have a common stochastic trend, that is, if they move together for a long period of time. Succinctly put, a set of variables that are stationary in their first differences but not stationary in their levels are said to be co integrated if their exits a stationary linear combination between them".

To test for co integration among the variables, we used the Johansen (1991) co integration test as in equation (ii) below;

$$X_t = \sum_{j=1}^{m} A_i X_{t-Ii} \quad (6)$$

Where μ_i is the column vector of error term, X_t is the vector of the variable to be determined.

Adding $X_{t-1}, X_{t-2}, \ldots X_{t-m}$ and $A_1X_{t-1}, A_2X_{t-2}, \ldots A_mX_{t-m}$ to both sides of sides of equation (ii), equation (i) can now be expressed in first difference form as

$$\Delta X_t = \sum_{i=1}^{m-1} di\, \Delta X_t\text{-}m + \prod X_{t-1} + \mu_1 \quad (7)$$

where

$\prod_{rxq} = (K_{rxq}\text{-}A_1\text{-}A_2 \ldots A_m)_t$, $K = -K + A_1 A_2 +, \ldots Am$ and K is $n \times n$ square matrix. Also, the coefficient matrix $\prod$ contains the long run relationship among the variables in the vector of data

The Johansen's cointegration proposed two test statistics through Vector Autoregressive (VAR) model that are used to identify the number of cointegrating vectors, namely the trace test statistic and the maximum eigenvalue test statistic. These test statistics can be constructed as,

$$\lambda_{trace}(r) = -T \sum_{i=r+1}^{n} In(1 - \hat{\lambda})$$

(8)

$\lambda_{max}\ (r,r+1) = --T\ In\ (1-- \hat{\lambda}_{r+i})$

(9)

where

$\hat{\lambda}$ are the eigenvalues obtained from the estimate of the A_k matrix

T is the number of usable observations.

The λ_{trace} tests the null that there are at most r cointegrating vectors, against the alternative that the number of cointegrating vectors is greater than r

λ_{max} tests the null that the number of cointegrating vectors is r,

against the alternative of $r + 1$.

Critical values for the λ_{trace} and λ_{max} statistics are provided by MacKinnon–Haug–Michelis (MacKinnon, Haug, & Michelis, 1999).

If the calculated values of the individual time series in the equation are greater than the critical values, using Johansen-Juselius (1990), it means that the independent variables are not statistically significant in influencing or affecting the dependent variable. Hence, the null hypothesis is accepted.

Granger Causality test- Pairwise Granger Causality Test

Ideally, when the series are found to be cointegrated, we construct the standard Granger causality test by augmenting with an appropriate error correction term derived from the cointegration equation. The concept of causality according to Granger (1969), is appropriate and by most of the studies for testing the relationship

between economic growth and exports. Also Ighodaro and Oriakhi (2011) adopted the Granger causality test in testing for causality relationship between financial development and economic growth in Nigeria.

The test for Granger causality was performed by estimating equations in the form:

$$\Delta LGDP_t = \sum_{i=1}^{m-1} \beta \Delta LTrG_{t-1} + \sum_{i=1}^{m-1} \delta_j \Delta LGDP_{t-j} + \varepsilon_t \quad (10)$$

$$\Delta LTrG = \sum_{i=1}^{m-1} \beta \Delta LTrG_{t-1} + \sum_{i=1}^{m-1} \lambda_j \Delta LGDP_{t-j} + \mu_1 \quad (11)$$

where

$LGDP_t$ is the log of gross domestic product;

$LTrG$ is the log of trade growth i.e. Exp, Imp, BoT;

μ_1 is the white noise disturbance term,

ε is also the white noise disturbance term

The impact of one period lagged error correction term on the left –hand – side variable captures the extent that the variables are out of equilibrium and can be interpreted as long run causality. There are four possible scenarios of causality- unidirectional causality running from X to Y; unidirectional causality running from Y to X; feedback or bi directional causality running in both directions; and no causality.

The decision rule is thus- if the probability value (the probability) is equal to, or greater than 0.05, we accept the null hypothesis that there is no causality (or that one variable does not Granger cause the other) between the variables, hence we reject the alternative hypothesis. However, if the p-value (the probability) is lesser than 0.05, we reject the null hypothesis that there is no causality (or that one variable does not Granger cause the other) between the variables hence we accept the alternative hypothesis that one variable Granger cause the other. Thus if probablity = or > 0.05 , accept (do not reject) the null hypothesis, if probability < 0.05, reject (do not accept) the null hypothesis.

Presentation and analysis

Table 1: Unit Root test result

Variable	Intercept Only	Decision	Trend and Intersect	Decision
LGDP	-3.6268 (2.4171)*	I(1)	-4.2350 (-0.3995)*	I(1)
LExp	-3.6210 (-0.8745)	I(1)	-4.2268 (-2.0020)*	I(1)
Limp	-3.6268 (2.2787)	I(1)	-4. 2350 (-3.8706)*	I(1)
LBoT	-3.5847 (-6.7726)	I(0)	-4.2436 (-3.8501)	I(1)

* (**) *** Significant at 1% (5%) 10% level of significance

Source- Researcher's computation using E-views 10 version

The unit root tests results - The Augmented Dickey Fuller unit root test strongly revealed that the variables are integrated of order 1, that is, I(1) at 1%, 5% and 10% level of significance respectively as the case may be (except of course the intercept only for *LBoT*). For both intercept and trends and intercepts, the calculated t-test is greater than critical (t-tabulated) t- values, hence the null hypothesis of no unit root cannot be

accepted. The individual series are non stationary and thus quite suitable for the purpose intended. This is depicted in Table 1.

Table 2 Results of Co-integration Test

Sample (adjusted): 1972 2015
Included observations: 44 after adjustments
Trend assumption: Linear deterministic trend
Series: *L*GDP *L*BOT *L*IMP *L*EXP
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.526520	82.66359	47.85613	0.0000
At most 1 *	0.439260	49.76719	29.79707	0.0001
At most 2 *	0.357259	24.31328	15.49471	0.0018
At most 3 *	0.104668	4.864685	3.841466	0.0274

Trace test indicates 4 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Source- Researcher's computation using E-views 10 version

Since the variables are integrated of the same order I(1), we move a step further to employ the Johansen (1991) integration test procedures to test the cointegration among the variables. The Johansen methodology is the generalization of the ADF test. Two likelihood ratio tests (Trace and Maximum Eigenvalue) were used to test the hypothesis regarding the cointegrating vectors. The results suggest the existence of an underlying long run stationary steady state relationship between the Gross Domestic Product and imports, exports, balance of trade. The trace test indicates two

cointegrating equations at 0.05% level, so the null hypothesis of no cointegration cannot be accepted, ie r=0 among the variables. This is depicted in Table 2.

The results suggest the existence of an underlying long run stationary steady state relationship between the variables of trade growth and GDP. The trace test indicates two co-integrating equations at 0.05% level, hence, that the variables exhibit no co-integration cannot be accepted, i.e. r=0 among the variables.

Table 3 Pairwise Granger Causality Result

Null Hypothesis	F- statistic	Probability	Decision	Type of causality
LIMP ≠> *LGDP*	5.4646	0.0081	Rejected	Causality
LGDP ≠> *LIMP*	9.5000	0.0004	Rejected	Causality
LIMP≠> LEXP	7.6619	0.0016	Rejected	Causality
LEXP > *LIMP*	7.6675	0.0016	Rejected	Causality
LGDP≠> LEXP	7.6811	0.0015	Rejected	Causality
LEXP≠ > *LGDP*	0.9266	0.4044	Not Rejected	No Causality
LIMP ≠> *LBoT*	1.1982	0.3128	Not Rejected	No Causality
LBoT≠> LIMP	7.6676	0.0016	Rejected	Causality
LGDP ≠> *LBoT*	1.3717	0.2656	Not Rejected	No Causality
LBoT≠> LGDP	4.9350	0.0123	Rejected	Causality
LEXP ≠> BoT	1.1982	0.3126	Not Rejected	No Causality
LBoT≠ > *LEXP*	7.6618	0.0016	Rejected	Causality

Source- Researcher's computation using E-views 10 version

The Pairwise Granger Causality test is the next to be performed. It is a group and descriptive statistics. The probability of the causality from imports to GDP (i.e. 0.0081) is less than 0.05 depicting causality. Also the probability of the causality from GDP to imports which is (0.004) is lesser 0.05 showing causality. There is a bidirectional causality between economic development and imports. Also feedback causality exists between imports and exports. There is unidirectional causality running from-

economic development to exports, balance of trade to imports balance of trade to economic development, and balance of trade to exports.

Table 4 Pairwise Granger Causality Result

Null Hypothesis	F- statistic	Probability	Decision	Type of causality
LIMP ≠> *LGDP*	5.4646	0.0081	Rejected	Causality
LGDP ≠> *LIMP*	9.5000	0.0004	Rejected	Causality
LGDP≠> LEXP	7.6811	0.0015	Rejected	Causality
LEXP≠ > *LGDP*	0.9266	0.4044	Not Rejected	No Causality
LGDP ≠> *LBoT*	1.3717	0.2656	Not Rejected	No Causality
LBoT≠> LGDP	4.9350	0.0123	Rejected	Causality

Source- Researcher's computation using E-views 10 version

In Table 4 above, the probability of the causality from imports to GDP (i.e. 0.0081) is less than 0.05 depicting causality. Also the probability of the causality from GDP to imports which is (0.004) is lesser 0.05 showing causality. There is a bi directional causality between the imports and economic growth in Nigeria. This implies that importation of goods and services and technology transfer into the country has driven economic growth and vice versa. This therefore suggests that trade –led growth in Nigeria is import led.

The probability of the causality from exports to GDP (i.e. 0.4044) is greater than 0.05 depicting no causality. On the contrary, the probability of the causality from GDP to exports which is (0.0015) is lesser 0.05 showing causality. This implies that exportation of goods and services from the country has not driven economic growth rather the later has caused improved volume of exports. This therefore suggests that trade –led growth in Nigeria is not export led.

The probability of the causality from balance of trade to GDP (i.e. 0.0123) is less than 0.05 depicting causality. This further confirms trade led growth. Conversely, the probability of the causality from GDP to balance of trade which is (0.2650) is greater 0.05 showing no causality. There is a unidirectional causality between balance of trade and economic growth in Nigeria.

Findings

There is bidirectional causality between import and economic growth, there is unidirectional causality between balance of trade and growth running from BoT to growth and there is no causality existing between export and economic growth.

This implies that there is trade- led growth in Nigeria, however this is import -led. Excess importation has stimulated economic development. The foreign exchange earned from exporting crude oil is in turn used to import refined crude products while local refineries are either moribund or producing at minimal capacity

The finding concurs with that of Awokuse (2007) and Sangho (2007), however the finding negate that of Laszlo (2006) for Belgium, Denmark, Iceland and Ireland, Italy, New Zealand, Spain and Sweden;

Conclusion and policy commendation

Recommendations

The study recommends that government should put in place initiatives such policy framework that will induce export- oriented and import substitution. Diversifying

the economy from mono- product economy to multi product economy has become inevitable to cushion the shock price fall of the mono product in the global market.

It is also important for Nigeria to explore ways of reviving its huge agricultural potential which has been neglected since the discovery of oil in addition to exploiting its rich untapped solid mineral deposit in order to promote diversification of the economy away from a mono cultural product base. This no doubt will stimulate exportation resulting to economic growth.

Policy Implication

This implies that there is trade- led growth in Nigeria, however this is import -led. Excess importation has stimulated economic development. The foreign exchange earned from exporting crude oil is in turn used to import refined crude products while local refineries are either moribund or producing at minimal capacity

Conclusion

In conclusion the study finds that -

Trade growth in Nigeria is import led. Trade growth is not export led. The mono product base of the economy ans high taste for imported products and services may have led to this.

There is bidirectional causality between import and economic growth, there is unidirectional causality between balance of trade and growth running from BoT to growth and there is no causality existing between export and economic growth.

Finally, the paper explored data drawn from the Nigerian trade relations with the rest of the world from 1974 to 2019, and examined the relationship between trade growth and economic development of the country. To ascertain the stationary properties and order of integration of the variables, the unit root test was used. Also the Johansen

cointegration test was used to establish a long run relationships among the variables. The Granger causality test was adopted to ascertain if trade drives growth or vice versa. Based on our findings recommendations were proffered.

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