Determining The Impact Of Trade Liberalization On Annual Export Trade In Nigeria Using The Time Series Analysis

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ABSTRACT: This study examined the impact of trade liberalization on annual export trade in Nigeria using Time Series Analysis. The objective of this study is to determine the trend of annual export in Nigeria, to ascertain the best model that best describes the behavior of annual export trade in Nigeria and to determine the level of association between import restriction and export promotion in Nigeria. The source of data employed in this study is secondary data obtained from the Central bank of Nigeria Statistical Bulletin 2010. The statistical tools used include the Augmented Dickey-Fuller test, curve estimation analysis, and the S-Curve trend analysis. The result of the analysis showed that the behavior of annual Export in Nigeria over the observed period has unit root with a t-test statistic values of -1.6951 and a p-value of 0.7133 which falls on the acceptance region of the hypothesis assuming a 95% confidence level. Also, it was denoted that the model which fits best on estimating annual Export in Nigeria given Year is the S-Curve model with a coefficient of determination value of 93.8%. This result implies that the observed period (Year) was able to explain about 93.8% behavior of annual export in Nigeria. The trend of annual export was found to be steeply increasing from the year 2003 which could be attributed to stability of democracy in Nigeria. It was revealed that there is a strong association between import restriction and export promotion in Nigeria.

Keywords: S-curve, trade liberalization, unit root, export trade, stability, Time Series

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1 INTRODUCTION

International trade is the activity of exchange of goods, capital and services across international borders. Trade is often considered the engine of development strategies in any nation because it can create job, expend market, raise income, facilitate competition and disseminate knowledge. Globally, trade is recognized as a vital catalyst for economic development. For developing countries, the contribution of trade to overall economic development is immense, owing largely to the obvious fact that most of the essential elements for development such as, capital goods, raw materials and technical know-how, are almost entirely imported because of inadequate domestic supply. Increased domestic demand in any nation invariably solicits corresponding expansion in exports. To enhance export capacity, improved technology must be addressed and this in turn further pushes up demand for imports. Like other developing countries, the Nigerian economy considers trade as a principal engine for growth. This is based on the implicit belief that trade creates jobs, expands markets, facilitates competition; disseminates knowledge and raises income both to the individuals and to the government [1]. The removal of obstacles of free trade such as tariffs and quota is known as trade liberalization. This is the process of systematically reducing and eventually eliminating all tariff and non-tariff barriers between countries as trading partners. Trade liberalization stimulates growth and efficiency by allowing producers to exploit areas in which they have a comparative advantage over foreign producers and by reducing their real cost. One way trade contributes to an increase in economic output is through comparative advantages which create more value with the same resources. Competition typically stimulates real cost reduction and the more competitive situation that prevails after liberalization, the more hard work to reduce real cost than would be under the umbrella of protection. Politically, trade liberalization brings about the interdependence of nations and encourages prospects for world peace. [2], argued that trade liberalization aids growth, which in turn aids poverty alleviation, but adds that trade policy, should not none the less, be manipulated too closely with an eye to direct poverty consequences. He argues that it should rather be set on a sound basis over-all. He added that

the primary way to deal with poverty is through cross-cutting anti-poverty policies. He concluded that given the different accounts stated in the literature, there is difficulty in establishing an empirical link between trade liberalization and growth. In other words, openness brings advantages not only on its own but also as part of a constellation of policies designed to ensure efficiency and competition in markets, and transparency and predictability in policy-making. Consequently, and notwithstanding the fact that a number of pressing research questions remain, a liberal trade regime almost certainly boosts poverty alleviation in the long run. He stressed that liberalization should therefore be part of the armory of a poverty-conscious government, but this does not imply a call for the immediate dismantling of all trade restrictions. Neither does it imply that opening up the borders is all that is needed, although it does advocate for a serious commitment to openness in the foreseeable future. The mercantilist theory of trade was of the view that to export is good but to import should be avoided, this is true especially for a developing country like Nigeria that plans to meet the millennium development goal tagged vision 20:20:20. In addition, it was explained further that when a country exports, the country receives payment currency based on the gold standard. To gain as many goals as possible, it is best to export as much as possible. International trade theory argues that developing countries benefit from primary specialization because of the existence of comparative advantages and the utilization of the countries' relative abundant factors. Moreover, the latter specialization promotes foreign direct investment flow. But at the same time, international specialization implies a high commodity dependence which is criticized by some development economists. One of the arguments underlines the negative effects of the exports earning's instability and more particularly the cost of commodity prices unpredictability. Price variability induces macroeconomic fluctuations mainly defined as the national income instability that may result in a gap between the potential and effective advantages from international specialization. The integration of the Nigerian economy into the global market through the establishment of a liberal market economy forms the major part of the overall objectives of Nigeria's trade policy. No discussion on Nigeria's

policy of trade liberalization can be complete without resource to her agricultural and oil sector, which contribute immensely to the Gross National Product (GNP) of the nation. In spite of decades of planning and budgeting Nigeria has remained a mono-crop economy with preponderant influence of one commodity in determining the nation's revenue-expenditure profile and the balance of payment position. Nigeria produces unrefined raw material for export, manufacturing has been at a very rudimentary stage and industrialization has remained an inconsequential factor in the nation's economic equation. The policy strategies on trade have been the use of tariff instrument and prohibition to protect infant industries. Industrialization has remained a mirage after 50 years of national planning and reforms which always have trade as its development engine. It is based on this background that the researcher intends to examine the impact of trade liberalization on annual export trade in Nigeria. In addition, because models and forecasts of economic variable such as export is often useful for general use and the specific cost or loss function of all potential users cannot be taken into account in fitting an appropriate model that best describes the behavior of the variable of interest or computing a forecast. Hence, there is need to determining the model that best describes the trend of annual export in Nigeria to help potential users draw proper conclusion; considering the importance of economic variable like export in economic planning and price statistic for developing nation like Nigeria. The objective of this study is to determine the trend of annual export in Nigeria, to ascertain the best model that best describes the behavior of annual export trade in Nigeria and to determine the level of association between import restriction and export promotion in Nigeria.

1.1 LITERATURE REVIEW

[3], in their review of the impact of trade on labor relationship between increased international competition and monopoly rents enjoyed by the firms protected in the past, observed that there is no strong evidence of a negative effect of increased trade on unionism either in the United States of America or in the United Kingdom. In addition, [4], in their study did not find evidence that trade liberalization has any overall widening effect on wage differentials for a panel of eighteen Latin American countries; including Brazil for the period 1977 to 1998. Speaking on trade liberalization, [5], pointed out that the impact of trade liberalization on informal manufacturing sector and the existence of possible spillover effects on the rest of the economy have been overlooked. This is important because if dual labor markets are important in developing countries, then to overlook the implications of trade liberalization for the wage differential between formal and informal workers and on their mobility pattern may yield an incomplete description of its impact on the entire labor market. [6], explained that the types of commodities exported by a country are key determinant of a country's vulnerability to exogenous economic shocks. The majority of developing countries are dependent on primary commodities for export revenues and, of the 141 developing countries, 95 depend on primary commodities for at least 50 percent of their export earnings. From the perspective of developing countries, especially those whose principal means of foreign exchange earnings come from the export of primary commodities; unstable commodity prices create macro-economic instabilities and complicate macroeconomic management. Erratic price movements generate erratic

movements in export revenue, give birth to instability in foreign exchange reserves and are strongly associated with growth volatility. They noted that while low commodity prices create obvious problems, even high prices can create a trap of sorts, forcing countries and producers to choose between immediate profits and future sustainability. They pointed out that countries like Algeria, Nigeria and Venezuela fall prey to over optimistic spending habits during commodity booms, using current and expected profits to finance social and politically motivated projects. Not visualizing that such program can quickly become unsustainable when commodity prices drop. This is typically very tricky for politicians to cut because they tend to get funded out of borrowed money there by adding to a country's debt burden. At the national level, fluctuating revenues make fiscal planning extremely difficult and this in turn makes it extremely difficult to plan sustainable social and economic development programmes. A continued and sustained decline in commodity prices also jeopardizes the debt sustainability positions of countries, since a drop in commodity prices increases the debt service to export earnings ratio. [7], reported that import prices translate at higher rate in Asian emerging economies than developed economies. This raises the question of efficient pricing between exporters of goods to Nigeria and importers. The improvements in the lives of the people are more seen in their ability to consume imported goods at the micro level and the impact this trend has on the economy is to create pressure on the exchange rates (both official and autonomous). Alternatively more imported goods are taken as components of the index. He added that the Nigerian elite has developed a penchant for purchasing imported goods to show the new middle class status it has achieved, even sending children to study overseas. The ability to purchase some goods having been enhanced, has fuelled this trend, where most of the goods available for purchase from consumer loans granted by commercial banks are those imported into the country. [8], revealed that most economists especially those that specialize in development and international economists have argued in favor of international trade as it relates to global and domestic economic growth and development. They believed that international trade leads to specialization, increase in resource productivity, large total output, creation of employment, generation of income and relaxation of foreign exchange restraints. The positive relationship that exists between global trade and economic growth may be as a result of the likely positive externalities due to the involvement of different countries in the international trade. Many empirical studies have argued in favor of the importance of global trade on economic growth using the degree of trade openness, terms of trade, tariff and exchange rate as variables to explain the claim that open economies grow faster than closed economies [9]. [10], in his study identified and analyzed some channels through which trade reform impact on growth to include government policy (macroeconomic policy and size of government), allocation and distribution (price distortion and factor accumulation) and technological transmission (technology transmission and foreign direct investment). Trade policy reforms through binding commitments provide required external anchor for government policies. The consequences of not been virtuous in other policy handles are usually devastating such as in the case of capital flight and migration of skilled manpower. It is generally agreed that effective trade policy reform potentially tied the hands of government

especially when the commitments are binding at regional and multilateral levels. The effects of trade policy reforms on government activity and its size is subject to empirical verification as large government size may insulate consumers from various shocks. However, the need to ensure that the economic activities are competitive may limit the size of government and in this sense large size of government is inconsistent with liberal trade reform. An open economy is expected to be characterized by a lower degree of price distortion. [11], explained that new growth theory emphasizes the role of human capital through research and development activities. A major part of the growth theory focuses on the relationship between trade and growth. The implication of the relationship between trade and growth for trade policy reform can be traced through changes in relative prices. However, the effect of trade reform on growth is not definite. Trade reform may increase or decrease growth rate depending on the pattern of imports and exports. [12], explored the relationship between the real exchange rate and economic activities in Nigeria considering the aggregate demand and supply transmission mechanism. The result of his study showed that while depreciation of real exchange rate encourages the cost of production, internal competitiveness of domestic goods and raises export in the former, it increases cost of production and distributes income against the poor in the later. The empirical result showed that only real exchange rate and interest rate are not significantly related to gross domestic product, though they are rightly signed. [13], in their study examined the revenue implication of trade liberalization in South Africa using an Ordinary Least Square (OLS) estimation technique for data covering 1974 to 2000. Their study found that trade liberalization had significant influence on custom revenue and that increase in import may lead to a reduction in trade tax revenue. The study therefore suggested that supportive macroeconomic policies are a prerequisite for successful effect of trade liberalization of trade tax revenue. [14], explained that in theory, trade liberalization in addition to its other benefits, is expected to increase the proportion trade tax revenue in its share of total revenue to the federal government through the imposition of tariff and excise duties on both imports and exports respectively. According to [15], "attempts were made to use trade policy to promote manufactured exports and enhance the linkages in the domestic economy, to increase and stabilize export revenue, and scale down the country's reliance on the oil sector in Nigeria". [16], argued that in assessing the performance of trade policy, the view has often been expressed that trade policy in itself may not be able to accomplish the desired policy objectives, in the absence of appropriate complementarities. Studies of trade liberalization since the 1980s have shown that trade liberalization has failed in many instances due to lack of appropriate accompanying measures, and not so much as a result of faulty design of the trade policies themselves. Such associated policies are macroeconomic policies, pro-growth regulatory and competition policy, investments in infrastructure, human resource development, governance and the rule of law. [17], noted that exports of goods and services represent one of the most important sources of foreign exchange income that ease the pressure on the balance of payments and create employment opportunities. An export led growth strategy aims to provide producers with incentives to export their goods through various economic and governmental policies. It's also aims to increase the capability of producing goods and

services that are able to compete in the world market, to use advanced technology, and to provide foreign exchange needed to import capital goods. Exports can increase intra-industry trade, help the country to integrate in the world economy and reduce the impact of external shocks on the domestic economy. Experiences of Asian and Latin American economies provide good examples of the importance of the export sector to economic growth and development, which led economists to stress the vital role of exports as the engine of economic growth. Using Egypt as a case, [18], estimated the export tax equivalent of imports; this implies that if the average tariff in Egypt is taken to be 20.2%, the equivalent export tax would be 13.9%. Therefore, the custom duties on imports in Egypt would have an equivalent export tax of about 10 to 14% plus about 3% to 4% of supplementary charges. In addition, they observed that import tariffs of inputs used by producers of other goods or services represent an additional cost for exporters. Based on the 1997 tariff structure in Egypt, the additional cost to manufacturing was 2.7% and 4.8% for agriculture. Egypt's custom duties and tariff rates were very high compared to other developing and emerging economies, which eventually led to falling productivity, a diversion of resources and investments from the industrial sector and increasing unemployment. [19], explained that tariffs and non-tariff barriers are the two main instruments employed by the trade policy. Tariffs are more transparent in application and is based on quality price measures and therefore considered better. Non-tariff barriers on the other hand are less transparent and often ambiguous in application. This is because they appear in form of non-quantitative measures, standard, regulations and administrative measures such as sanity and policy to sanity measures. Contributing on the impact of trade policy on developing economies, [20] noted that for a typical developing country like Nigeria, the concerns have gravitated around the costs and benefits associated with import liberalization in the form of reducing the number of prohibited goods and subjecting them to tariffs and reduction of existing high tariffs. Hence, import liberalization benefits include the expansion of supply base, including access to intermediate materials, lower prices, efficiency-inducing competition to local industries, and the development of export firms which seeks trading opportunity in a more open economy. Thus, export diversification constitutes a dynamic gain from import liberalization, along with capital accumulation through domestic and foreign investment, stimulus to competition, transmission and acquisition of new technical and business knowledge and changes in attitudes and institutions. Study by [21], noted that trade theory has traditionally emphasized the link between trade liberalization and economic efficiency. A trade barrier alters consumption and production decisions, leading to a misallocation of resources. Therefore, liberalization will generally raise real incomes, except perhaps in cases in which externalities or pre-existing distortions are present or a terms-of-trade deterioration outweighs efficiency gains. They observed that results from simulation models suggest that, with few exceptions, trade liberalization raises the level of a country's real income. Speaking on the importance of export in price statistics, [22], explained that commodity export price uncertainty is typically measured as the standard deviation of the terms of trade, but this approach encounters at least three objections. First, terms of trade indices are unsuitable as proxies for commodity price movements. Secondly, the shortness of terms of trade time

series makes them inappropriate as a basis for constructing time varying uncertainty measures. Thirdly, simple standard deviation measures ignore the distinction between predictable and unpredictable elements in the price process, and therefore risk overstating uncertainty. . [23], in her study examined the impact and policy strategies of trade liberalization in Nigeria. From the findings of her study, it was found that implementation of trade instrument and strategy in Nigeria has been low over the years. Also, she claimed that policy direction for foreign trade has not been vigorously pursued in Nigeria. She recommends that the government should make effort to drastically reduce the uncertainty and unpredictability of the trade policy regime, as this serves as disincentive to investment in Nigerian economy. She added the need for Nigerian government to create a conducive and competitive environment where Nigeria enterprises can thrive and effectively compete in the global and regional economy as a way of boasting the Nigerian economy.

2   MATERIAL AND METHODOLOGY

2.1 Data Collection
The source of data employed in this study is secondary data obtained from Central bank of Nigeria Statistical Bulletin 2010. The data extracted includes total annual import and export trade from 1990 – 2009. The statistical tools used include the Augmented Dickey-Fuller test, curve estimation analysis, and the S-Curve trend analysis.

2.2 Data presentation

Table 1: Distribution of Export from 1990 to 2009

Year	Export (Million in Naira)
1990	109886.1
1991	121535.4
1992	205611.7
1993	218770.1
1994	206059.2
1995	950661.4
1996	1309543
1997	1241663
1998	751856.7
1999	1188970
2000	1945723
2001	1867954
2002	1744178
2003	3087886
2004	4602782
2005	7246535
2006	7324681
2007	8309758
2008	10161490
2009	8356386

Source: Central bank of Nigeria Statistical Bulletin 2010

3.0 DATA ANALYSIS AND RESULT

3.1 Unit Root Test on Trend of Annual Export in Nigeria

H00: The distribution of annual export has unit root

H01: The distribution of annual export do not have unit root

Table 2: Augmented Dickey-Fuller Test Result

			t-Statistic	Prob.*
Null Hypothesis: EXPORT has a unit root				
Exogenous: Constant, Linear Trend				
Lag Length: 0 (Automatic - based on SIC, maxlag=4)				
			t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic			-1.695072	0.7133
Test critical values:	1% level		-4.532598	
	5% level		-3.673616	
	10% level		-3.277364	
*MacKinnon (1996) one-sided p-values.				
Augmented Dickey-Fuller Test Equation				
Dependent Variable: D(EXPORT)				
Method: Least Squares				
Date: 11/13/13 Time: 13:58				
Sample (adjusted): 1991 2009				
Included observations: 19 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
EXPORT(-1)	-0.244701	0.144360	-1.695072	0.1094
C	-516287.7	540012.0	-0.956067	0.3533
@TREND(1990)	162769.2	81171.63	2.005248	0.0622
R-squared	0.201732	Mean dependent var		434026.3
Adjusted R-squared	0.101949	S.D. dependent var		968816.3
S.E. of regression	918104.3	Akaike info criterion		30.44195

Sum squared resid	1.35E+13	Schwarz criterion	30.59107
Log likelihood	-286.1985	Hannan-Quinn criter.	30.46719
F-statistic	2.021698	Durbin-Watson stat	1.708865
Prob(F-statistic)	0.164888		

3.2 Curve Estimation of Annual Export in Nigeria

Table 3: Model Summary and Parameter Estimates

Dependent Variable: Export

Equation	Model Summary					Parameter Estimates			
	R Square	F	df1	df2	Sig.	Constant	b1	b2	b3
Linear	.806	74.647	1	18	.000	-1.005E9	504272.248		
Logarithmic	.805	74.249	1	18	.000	-7.657E9	1.008E9		
Inverse	.804	73.855	1	18	.000	1.010E9	-2.014E12		
Quadratic	.807	75.046	1	18	.000	-5.014E8	.000	126.165	
Cubic	.807	75.448	1	18	.000	-3.334E8	.000	.000	.042
Compound	.937	268.761	1	18	.000	1.896E-205	1.275		
Power	.937	269.938	1	18	.000	.000	485.587		
S	.938	271.111	1	18	.000	499.784	-971050.736		
Growth	.937	268.761	1	18	.000	-471.390	.243		
Exponential	.937	268.761	1	18	.000	1.896E-205	.243		
Logistic	.937	268.761	1	18	.000	5.274E204	.784		

The independent variable is Year.

3.3 Trend Analysis of Annual Export

Trend Analysis for Export
S-Curve Trend Model
$Yt = (10^{**}8)/(-5.11580 + 588.823^*(0.797367^{**}t))$
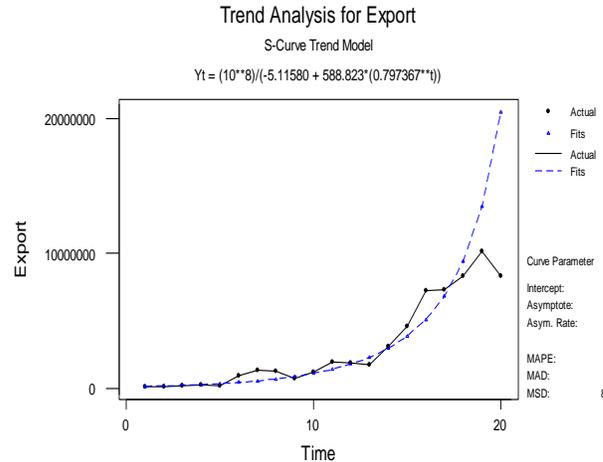
3.4 Correlation Analysis between Import restriction and Export Promotion in Nigeria

H0: There is no significant relationship between import restriction and export promotion in Nigeria

H1: There is no significant relationship between import restriction and export promotion in Nigeria

Table 4: Correlations

		Import restriction	Export promotion
Import restriction	Pearson Correlation	1	.788[*]
	Sig. (2-tailed)		.020
	N	20	20
Export promotion	Pearson Correlation	.788[*]	1
	Sig. (2-tailed)	.020	
	N	20	20

*. Correlation is significant at the 0.05 level (2-tailed).

4 DISCUSSION

The result of the analysis in Table 2 showed that the behavior of Export in Nigeria over the observed period has unit root with a t-test statistic value of -1.6951 and a p-value of 0.7133. Hence, the p-value of 0.7133 falls on the acceptance region of the hypothesis since, p-value = 0.7133 is greater than α=0.05; assuming a 95% confidence level. This implies that behavior of annual export was stationary over the observed period. The advantage of stationarity of annual export was that standard inference procedures often times do not apply to regressions which contain an integrated dependent variable. Hence, it is important to test whether a series is stationary or not before fitting the model. The result of the curve estimation displayed in Table 3, showed that the model that fits best on estimation of annual Export in Nigeria given Year is the S-curve model with a coefficient of determination value of 93.8%. Hence, the

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S-curve model is the best model for estimating annual Export given year since the S-curve model recorded the highest coefficient of determination. This implies that the independent variable Year was able to explain about 93.8% of the variability or behavior of Export in Nigeria. It is desirable to choose a model that best describes the behavior of the variable of interest to minimize a wide range of plausible loss function. This is because the statistical properties of the model are of interest to enable any user to draw proper conclusions. The trend analysis, expressed the S-Curve model obtained as; Y (t) = (10**8)/ (-5.11580 + 588.823*(0.797367**t)), where t is the Year. It was equally observed that annual export in Nigeria possess a steeply increasing trend from Year 2003 (period 14). The result of the correlation analysis presented in Table 4, showed that there is a strong positive association between import restriction and export promotion in Nigeria with a correlation coefficient measure of 78.8% and a significant value of 0.02. This result implies that the association between import restriction and promotion in Nigeria is strong and there is equally presence of a significant difference.

5 CONCLUSION

This study examined the trend of annual Export in Nigeria using Time Series Analysis. The result of the analysis showed that annual Export in Nigeria expressed a unit root or was found to be stationary over the observed period and this evidence suggests that the differencing at the periods is sufficient for modelling the time series in the present study. The essence of testing for the unit root or stationarity properties of the variables is founded in the assumption of Augmented Distributed Lag (ARDL) bounds testing approach which expresses the co-integration that the time series model has the ability of making forecasts that can describe the behavior of the series (see [24]). Furthermore, the advantage of stationarity of annual export in the present study was that standard inference procedures often times do not apply to regressions which contain an integrated dependent variable. Hence, it is important to test whether a series is stationary or not before fitting the model. Also, the result of the curve estimation showed that the best model for fitting annual export in Nigeria is the S-Curve model and it expresses a steeply increasing trend of annual export in Nigeria. This implies that the independent variable Year explained the behavior of annual export more in the S-Curve model than in any other model. As noted in the discussion, it is desirable to choose a model that best describes the behavior of the variable of interest to minimize a wide range of plausible loss function. This is because the statistical properties of the model are of interest to enable any user to draw proper conclusions. Also, the steeply increasing trend of annual export from the year 2003 could be attributed to stability of democracy in Nigeria. Since, it was obtained in the present study that the best model for estimating annual trade in Nigeria is the S-Curve and the variable year was able to explain about 93.8% of the behavior of annual export in Nigeria over the observed period, we suggest studies on determining the contribution of other economic variables such as value of foreign exchange, import protection, gross domestic product and balance payment in Nigeria on the behavior of annual trade in Nigeria as area for fruitful research. Also, it was revealed that there is a strong association between import restriction and export promotion in Nigeria. We recommend that government policies on trade should respect obligations under multilateral and regional trading systems. Government should make effort to drastically reduce the uncertainty and unpredictability of the trade policy regime, as this serves as disincentive to investments. In addition, high tariffs and prohibition which are the main instruments employed by trade policy should be reduced as this provides incentives for tax evasion and has negative impact in fiscal revenue.

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