INDUSTRIAL OUTPUT AND NIGERIAN TRADE POLICY: A DISAGGREGATED ANALYSIS

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Abstract

The study examined the symmetric and asymmetric nexus between trade policy and industrial production disaggregated into manufacturing, electricity, mining and quarrying production in Nigeria. The study adopted the ARDL and NARDL framework based on annual time series data over the period 1970-2018. The findings depict that trade policy dynamics have short run non-linear effects on industrial output and its subsectors; manufacturing, building and construction, mining and quarrying output except electricity output and these effects dovetailed into the long-run and thus the asymmetric effects of trade policies on industrial output were confirmed. The results from the short-run non-linear ARDL further revealed that trade restrictions stimulate the performance of the industrial sector and the manufacturing subsector, while this performance plummets under trade liberalization. These results were confirmed by the short-run linear ARDL, while the long-run linear ARDL results reported the contrary without altering the asymmetric status of the nexus. The study therefore recommends guided liberal trade policy like the Korea, Indonesia and Japan model where some forms of protections allowed for rapid transformation of the industry and its subsectors.

Keywords: Trade Policy, Industrial Output, ARDL NARDL, Asymmetries

JEL classification: F13, L16, L52

1. INTRODUCTION

Trade and trade policies have been found to be important determinants of industrial growth and thus, economic growth and development. International trade offers opportunities for greater specialization, increased capacity utilization, economies of scale and imports of goods and services. (Adebiyi & Dauda, 2004) Most governments have expressed a desire for the industrialization of their economies, according to Ubi and Achibong (2018). This is a result of industrialization's catalytic potential to increase economic growth and development, per capita income, employment possibilities, and other factors. A country cannot wage a protracted war on poverty, unemployment, and other social and economic issues without producing more output and income. Furthermore, United Nations Industrial Development Organization (2020) opined that industrialization, as shown theoretically and empirically, can support sustained overall economic growth more effectively than traditional primary produce because: (1) they are likely to grow faster when the global economy expands due to low-income elasticity of demand (2) industrial produce are less susceptible to price swings (3) industrial subsector offers much greater prospects for dynamic production gains. Given the importance of industrial growth in achieving economy growth and development, many countries including Nigeria since independence have introduced and implemented various trade policies to stimulate the industrial subsector.

An apparent workable suggestion out of the dilemma which Nigeria seems to confront in its industrialization efforts was provided by Roemer (1994) quoted in Oyejide (2002), which says that a typical African country which needs to be outward oriented should do so gradually, eliminate import controls but compensate partly with higher tariff protection which can be reduced over a ten-year period through a legislated schedule that is publicly announced. This is to enable infant industries adjust, give credibility to trade policy reforms and make policy reversal by officials under pressure impossible.

The literature is saturated with different trade policies and their impact on economic growth without recourse to specific sector. Given these trade policies shifts, what are the symmetric and asymmetric (if any) effects on the industrial sector? Also, which of these trade policy options is most appropriate to maximize Nigeria's industrial output amidst the African Continental Free Trade Area (AFCFTA) agreement? Answers to these questions among others form the main thrusts of this paper.

Following the introductory section, section 2, provides a review of related literature, information on the various trade policies in Nigeria. Section 3 gives a detailed explanation of the theoretical framework, model specification and analysis of results, while section 4 presents the summary and policy implications.