ANALYSIS OF TRADE OPENNESS AND INDUSTRIAL OUTPUT GROWTH IN AN OIL-RICH ECONOMY: FURTHER EVIDENCE FROM NIGERIA

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Abstract

The performance of the manufacturing sector in an oil-rich country like Nigeria has been a subject of debate among scholars. Some believe that it has not been impressive due to the preference and reliance on imported goods while others share different opinions. This study therefore investigates the relationship between trade openness and industrial output growth in Nigeria using time series data, endogenous growth framework as well as export-led growth model. The paper also examines the direction of causality between trade openness and manufacturing output using Toda-Yamamoto Causality Approach. The adopted framework contends that domestic policies on trade liberalization cannot be avoided but harnessed for optimal benefit of the economy. The empirical results shows that trade openness contribute positively to industrial output growth. In the short-run, the dynamic impact of trade openness on industrial output growth is insignificant while its long-run impact is significant. The paper also reveals a bidirectional causality between the two core variables. As the paper suggests, this could be a pointer to the government that there is need to diversify the economy and stop depending on a mono product. Again, the government should be careful while implementing trade openness policies to avoid making the country a dumping ground for unwanted developed countries' goods and service. This is particularly important when signing bilateral trade agreements and other treaties.

Key Words: Trade, Openness, Industrial Output, Growth, Nigeria

JEL Classification: F13, F14, L50, L60, O24

1. Introduction

Many economists and policy commentators see industrialization or modernization as a sine qua non for economic development (Akintunde, et al, 2021). It is also widely accepted that the speed of industrial development is dependent on domestic policies and organization of international trade; hence the importance of studying how economy grows is also linked to trade openness, industrial output and diversifying away from traditional commodities. Essentially, in many developing economies, discussions on trade openness and industrial output determinants have received some serious attention (Khobar and Moyo, 2021). This is largely due to various contenting arguments in the literature and the relatively declining performance of the industrial sector in these economies (Bateer et al, 2020). Having realized the backwardness associated with protected trade policies to earn economic success; developing countries in Africa including Nigeria are implementing trade liberalization policies. However, to achieve some sustainable levels of growth and greater diversification in any economy through the expansion of the industrial sector, domestic policies on trade openness and liberalization have critical roles to play.

Nigeria is a monoculture economy which depend majorly on crude oil production with neglect in other areas of investments resulting to fall in foreign exchange earnings, high rate of unemployment and inflation due to lack of investment in other key areas. Indeed, industrialization has been a top priority of government to move population out of poverty. Thus, focus has been on identifying factors capable of boosting industrial performance in Nigeria, among the key issues are openness of trade and industrial output growth leading to diversification.

The manufacturing sectors performances in Nigeria have not been impressive due to the preference and reliance on imported goods. The poor performance may be for other reasons such as policy instability, poor macroeconomic environment, bureaucratic bottlenecks, legal environment which does not guarantee property rights and safety, poor governance, corruption and low commitment of governments to industrial development (Albaladejo, 2003). It could be the case of high rise of importation of production input that may hinder industrial performance in Nigeria. Ajakaiye, Jerome and Alaba (2016) argued that the sharp depreciation of the naira adversely affected the manufacturing firms because of the increasing cost of importation of spare parts and infrastructural deficit, weak demand resulting from declining domestic purchasing power, high interest rate and gross under-utilization of capacity.