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Trade openess and Economic Growth in Nigeria (1981 – 2009) An Empirical Analysis

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ABSTRACT: *The study empirically examined the impact of trade openness on economic growth in Nigeria. The study employed ordinary least square regression to find out the relationship between trade openness and economic growth. Our result suggest that the positive sign of the coefficient of non oil export, trade openness underscore their increasing relationship with gross domestic product, increasing in there value link to increase in GDP all other things being equal. The negative sign of the exchange rate and balance of payment show that a depreciating exchange rate and unfavourable bank payment lead to a decline in gross domestic product. The joint significance of all coefficient estimate was evaluated using F test and the outcome of the evaluation indicate that the coefficient is statistically insignificant which means that GDP is a poor estimate.*

On this note, we therefore recommend that appropriate policy guideline should be formulated. Also, the need for government to entrench a much stable political atmosphere. In addition, the government needs to invest heavily on infrastructural development by encouraging private participation through enabling act. Conclusively, the government should restructure the financial market in term of physical and human structure so as to propel FDI into the economy.

KEYWORDS: *Trade openness, FDI, Economic growth and Balance of payment*.

I. INTRODUCTION

Nigeria is basically an open economy, which has never been in autarky (Okpokpo, 2005). Her involvement in the international transaction constitutes a significant proportion of her aggregate activity. Ever since the period of the Trans-Sahara trade Complex of the 16th century, the pre and post independence she has been involved in trade. As at then, the states in the northern Nigeria were in touch with North Africa and Arabia to exchange their goods, which were made up of the metal wares of gold, silk, and wooden, beads and horses. The colonial period saw increased trade, which was the major pre-occupation of the imperialist leasing to even more openness to trade with discovery of crude oil deposit in commercial quantity.

Interestingly, the new world economic order of Globalization has brought about an increased openness, trade and foreign capital inflow across borders. Globalization is a process of integrating economic decision-making such as consumption, investment, and savings across the world. It is a process of creating a global market place in which, increasingly, all nations are required to participate (Todaro: 2006). Key elements in this process are interconnection of sovereign nations through trade and capital flows, harmonization of the economic rules that govern relationship among these sovereign nations, creation of structures to support and facilitate dependence and interconnection and the development of a global market.

All economies are increasingly open in today's economic environment of globalization. Trade plays a vital role in shaping economic and social performance and prospects of countries around the world, especially those of developing countries. No country has grown without trade. However, the contribution of trade to development depends a great deal on the context in which it works and the objectives it serves. In recent decades, a number of developing countries, most notably the East Asian newly industrializing countries, have been able to purposefully use the elemental force of trade to boost growth and development within a relatively short time span. At the same time many other developing countries, especially the least developed country (LDCs), have embarked on unilateral trade liberalization in recent years, with very limited results at best in terms of increase growth and development.

These basic facts are symptomatic of something bigger and more profound in most developing economic especially the countries in sub-Sahara African of which Nigeria belongs. One of the hallmarks of policy reform in the 1980s and 1990s was the embrace of international economic integration (or globalization) by many poorer parts of the world.

Having obtained independence in 1960, Nigeria being a young nation seems to be nursing a rising awareness and appreciation of globalization's advantages, allowing national economies to allocate resources more efficiently through specialization and exchange in both static and dynamic terms to reap productivity gains and higher growth through widening the geographic range of markets and increasing exposure to world-class competition and technology transfer, among other things.

Despite the huge campaign about the attraction of foreign direct Investment especially by the past Obasanjo's administration, the real growth of FDI in Nigeria remain contentious. The non-implementations of effective policies and poor strategies of Nigerian government towards foreign direct investments are shaped by two principal objectives of self desire for economic independence and the demand for economic development though which targets could hardly be attainable. However, many multi national corporations were expected to bring into Nigeria, foreign capital in the form of technical skills but which they were discourage due to the levels of insecurity for multinational companies, poor entrepreneurship, low levels of technology and infrastructures, and poor investment fund. The effects of foreign direct investments on the Nigerian economy as well as the nation's ability to attract adequate amounts, sufficient enough to accelerate the pace of the economic growth and development were sabotage by the corrupt leaders.

Trade in the recent times especially the non-oil export has on the downturn. The Agricultural sector which used to be the backbone of the economy in the 1960s had become the ghost of itself consequent upon its negligence by the government due to the discovery of crude oil deposit in commercial quantity.

In the light of this background, the study aims at examining the impact of trade openness on Gross domestic product in Nigeria the rest of this study is structured as follows. Following the introduction is literature review that is being discussed in section two. Section three gives the stylized fact about trade openness in Nigeria. While section four presents model estimation, result and empirical findings. The last section gives the summary, conclusion and recommendations.

II. SELECTED EXISTING LITERATURE

2.1 Introduction

Globalization, since World War II, is largely the result of planning by politicians to breakdown borders hampering trade to increase prosperity and interdependence thereby decreasing the chance of future war. Their work led to Bretton Woods Conference, an agreement by the World's leading politicians to lay down the frame work for international commerce and finance, and the founding to oversee the process of globalization.

These institutions include the International Bank for Reconstruction and development (the World Bank), and the International Monetary fund (IMF). Globalization has been facilitated by advances in technology which have reduced the cost of trade, and trade negotiation rounds, originally under the auspices of the General Agreement on Tariffs and Trade (GATT), which led to a series of agreements to remove restriction and free trade. Since World War II, barriers to international trade have been considerable, lowered through international agreements - GATT. Globalization therefore means increased Trade; increased Openness; and increased foreign capital inflow into the domestic economy (Okpokpo: 2005).

2.2 International Trade And Globalization

Exchange of goods and services between countries is the simplest and most often used form of international economic cooperation. Despite the rapid growth of capital flows, trade will be the basis for globalization also in the future. Trade leads companies to search for the best market that could supply them with necessary raw materials, semi-products but also with machinery and technology. Through trade, enterprises are looking for the markets where they can sell their products and services. Therefore international trading connects manufacturers, which capital belongs to various capital owners throughout the World and it can be seen as global production basis. All in all, economic globalization can be described through quantitative and qualitative development of international trade. Quatitative side shows volume growth and relations between various sectors. Qualitative aspect of World trade involves free market access and equal trade of conditions, as well as transparence.

International trade has risen relatively fast in recent years. Countries or groups of countries integrating into the World economy can be characterized through the growth of their export volume and changes in competitiveness. The importance of countries or particular groups of countries is changing world export. The table below depicts world export dynamics and structure by industrial, developing and transition countries.

2.3 Fdi And Globalization

Empirical evidence has revealed that investment is one of the major determinants of sustainable long-term economic growth. In recent years, there has been mounting debate about the importance of domestic investment to economic development especially in developing economies.

According to OECD: 2001, a country's economic performance over time is determined to a large extent by its governance performances (i.e. political, institutional, and legal environment). It is generally accepted that long-term economic growth of a country will lead to a significant improvement in the standard of living of its citizens. A reduction in the widespread poverty which is a major feature of the Nigeria economy can be achieved through a sustained increase in domestic investment.

There has been deficiency in the capital accumulation needed for increase level of investment in Less Developed Countries (LDC), Nigeria in particular. This is due to the fact that there exist low level of savings which is caused by factors such as high level of poverty, weak financial system which cannot properly mobilized funds internally, low level of entrepreneurial spirit among local entrepreneurs, among others. Nigeria is a monoculture economy, over depending on the oil sector. This has also been seen to be responsible for deficiency in investment capital in the country. Amadi (2002) opined, "With oil as the main source of foreign exchange, a one-product monocultural economy must be continuously deficient in investment capital. Oil is subject to the vagaries of international capitalism. Therefore, revenue from it must be subject to serious fluctuations".

The above situation in the country has created savings and foreign exchange gap. This culminates to a wide gap between the actual domestic investment fund and the required investment for accelerating economic growth; so foreign capital has been regarded as an alternative to bridge the gap. Consequently, for any country, like Nigeria, with this investment gap to achieve a desired rate of economic growth, FDI has to be given due consideration. This is because FDI provides funds from other parts of the world to bridge the investment gap. In Nigeria, FDI has been given prominence by past and present administrations. This is because they see it as an antidote for slow rate of economic growth, which has been experienced in the country. The federal government of Nigeria has, since 1986, embarked on sustained effort to encourage FDI. The most significant of those policy measures was the introduction of the Structural Adjustment Programme (SAP), which provided the basis for deregulation of the economy (CBN, 2001).

The country has witnessed high inflow of FDI as a result of investment in the Global System of Mobil (GSM) telecommunication. The oil sector of the economy has also witnessed an increased level of FDI as evidenced by the increasing numbers and operations of oil Multinationals Corporation in the country. However, there have been a lot of controversies in the country over the effectiveness of foreign investment in stimulating the rate of economic growth. It is this controversy that the study intends to settle.

A closer look at the pattern of domestic investment in Nigeria is imperative in order to be able to achieve sustained growth. Over the years, the Nigerian economy has gone through periods of economic and political instability, which have hindered domestic investment into the country. The stability of a country's socio-economic and political system reflects the soundness of its level of governance and this is seen as a major factor in decision-making by investors. The role of good governance in growth has been a central debate among global policy makers in recent years. The major stumbling block to the implementation of many macroeconomic policies in the developing and low-income economies has been the absence of the political `will' imbedded within the leadership structure. The extent to which a country's governance can impact on the socioeconomic environment and productive capacity cannot be underestimated (Globerman & Shapiro, 2002).

Renewed research interest in FDI stems from the change of perspectives among policy makers from "hostility" to 'conscious encouragement", especially among developing countries. FDI had been seen as "parasitic" and retarding the development of domestic industries for export promotion until recently. However, Bende-Nabende and Ford (1998) submit that the wide externalities in respect of technology transfer, the development of human capital and the opening up of the economy to international forces, among other factors, have served to change the former image. Caves (1996) observes that the rationale for increased efforts to attract more FDI stems from the belief that FDI has several positive effects. Among these are productivity gains, technology transfers, the introduction of new processes, managerial skills and know-how in the domestic market, employee training, international production networks, and access to markets. Borensztein et al. (1998) see FDI as an important vehicle for the transfer of technology, contributing to growth in larger measure than domestic investment. Findlay (1978) postulates that FDI increases the rate of technical progress in the host country through a "contagion" effect from the more advanced technology, management practices, etc., used by foreign firms.

On the basis of these assertions governments have often provided special incentives to foreign firms to set up companies in their countries. Carkovic and Levine (2002) note that the economic rationale for offering

special incentives to attract FDI frequently derives from the belief that foreign investment produces externalities in the form of technology transfers and spillovers.

Curiously, the empirical evidence of these benefits both at the firm level and at the national level remains ambiguous. De Gregorio (2003), while contributing to the debate on the importance of FDI, notes that FDI may allow a country to bring in technologies and knowledge that are not readily available to domestic investors, and in this way increases productivity growth throughout the economy. FDI may also bring in expertise that the country does not possess, and foreign investors may have access to global markets. In fact, he found that increasing aggregate investment by 1 percentage point of GDP increased economic growth of Latin American countries by 0.1% to 0.2% a year, but increasing FDI by the same amount increased growth by approximately 0.6% a year during the period 1950-1985, thus indicating that FDI is three times more efficient than domestic investment.

2.4 Concept Of Foreign Direct Investment (Fdi)

An agreed framework definition of foreign direct investment (FDI) exists in the literature. That is, FDI is an investment made to acquire a lasting management interest (normally 10% of voting stock) in a business enterprise operating in a country other than that of the investor defined according to residency (World Bank, 1996). Such investments may take the form of either "greenfield" investment (also called "mortar and brick" investment) or merger and acquisition (M&A), which entails the acquisition of existing interest rather than new investment. In corporate governance, ownership of at least 10% of the ordinary shares or voting stock is the criterion for the existence of a direct investment relationship. Ownership of less than 10% is recorded as portfolio investment. FDI comprises not only merger and acquisition and new investment, but also reinvested earnings and loans and similar capital transfer between parent companies and their affiliates. Countries could be both host to FDI projects in their own country and a participant in investment projects in other counties.

Mwilima (2003) describes FDI as investment made to acquire a lasting management interest (usually at east 10% of voting stock) and acquiring at least 10% f equity share in an enterprise operating in a country Other than the home country of the investor. DI has further been explained as the long-term investment reflecting a lasting interest and control, by a foreign direct investor (or parent enterprise), of an enterprise entity resident in an economy other than that of the foreign investor (IMF, 1999).

Equally, Mallampally and Sauvant (1999) describe FDI as investment by multinational corporations in foreign countries in order to control assets and manage production activities in those countries. Expanded explanation on the meaning of FDI has been offered by Ayanwale (2007) as ownership of at least 10% of the ordinary shares or voting stock is the criterion for the existence of a direct investment relationship. Ownership of less than 10% is recorded as portfolio investment. FDI comprises not only merger and acquisition and new investment, but also reinvested earnings and loans and similar capital transfer between parent companies and their affiliates. Countries could be both host to FDI projects in their own country and a participant in investment projects in other counties. A country's inward FDI position is made up of the hosted FDI projects, while outward FDI comprises those investment projects owned abroad. It is evident from the above that an agreed framework meaning of FDI exists in the literature.

A country's inward FDI position is made up of the hosted FDI projects, while outward FDI comprises those investment projects owned abroad. One of the most salient features of today's globalization drive is conscious encouragement of cross-border investments, especially by transnational corporations and firms (TNCs). Many countries and continents (especially developing) now see attracting FDI as an important element in their strategy for economic development. This is most probably because FDI is seen as an amalgamation of capital, technology, marketing and management. Sub-Saharan Africa as a region now has to depend very much on FDI for so many reasons, some of which are amplified by Asiedu (2001). The effort by several African countries to improve their business climate stems from the desire to attract FDI. In fact, one of the pillars on which the New Partnership for Africa's Development (NEPAD) was launched was to increase available capital to US$64 billion through a combination of reforms, resource mobilization and a conducive environment for FD.

Unfortunately, the efforts of most countries in Africa to attract FDI have been futile. This is in spite of the perceived and obvious need for FDI in the continent. The development is disturbing, sending very little hope of economic development and growth for these countries. Further, the pattern of the FDI that does exist is often skewed towards extractive industries, meaning that the differential rate of FDI inflow into sub-Saharan African countries has been adduced to be due to natural resources, although the size of the local market may also be a consideration (Morriset 2000; Asiedu, 2001).

Nigeria as a country, given her natural resource base and large market size, qualifies to be a major recipient of FDI in Africa and indeed is one of the top three leading African countries that consistently received FDI in the past decade. However, the level of FDI attracted by Nigeria is mediocre (Asiedu, 2003) compared with the resource base and potential need. Further, the empirical linkage between FDI and economic growth in Nigeria is yet unclear, despite numerous studies that have examined the influence of FDI on Nigeria's economic

growth with varying outcomes (Oseghale and Akinlo, 2004). Most of the previous influential studies on FDI and growth in sub-Saharan Africa are multi country studies. However, recent evidence affirms that the relationship between FDI and growth may be country and period specific. Asiedu (2001) submits that the determinants of FDI in one region may not be the same for other regions. In the same vein, the determinants of FDI in countries within a region may be different from one another, and from one period to another.

2.4.1 Foreign Direct Invesment (Fdi) And Economic Growth

A lot of research interest has been shown on the relationship between FDI and economic growth, although most of such work is not situated in Africa. The focus of the research work on FDI and economic growth can be broadly classified into two. First, FDI is considered to have direct impact on trade through which the growth process is assured (Markussen and Vernables, 1998). Second, FDI is assumed to augment domestic capital thereby stimulating the productivity of domestic investments (Borensztein et al., 1998; Driffield, 2001). These two arguments are in conformity with endogenous growth theories (Romer, 1990) and cross country models on industrialization (Chenery et al., 1986) in which both the quantity and quality of factors of production as well as the transformation of the production processes are ingredients in developing a competitive advantage. FDI has empirically been found to stimulate economic growth by a number of researchers (Borensztein et al., 1998; Glass and Saggi, 1999). Dees (1998) submits that FDI has been important in explaining China's economic growth, while De Mello (1997) presents a positive correlation for selected Latin American countries. Inflows of foreign capital are assumed to boost investment levels.

The consensus in the literature seems to be that FDI increases growth through productivity and efficiency gains by local firms. The empirical evidence is not unanimous, however. Available evidence for developed countries seems to support the idea that the productivity of domestic firms is positively related to the presence of foreign firms (Globeram, Reganeti, 1997). The results for developing countries are not so clear, with some finding positive spillovers (Blomstrom, 1999) and others such as Aitken, (1997) reporting limited evidence. Still others find no evidence of positive short-run spillover from foreign firms. Some of the reasons adduced for these mixed results are that the envisaged forward and backward linkages may not necessarily be there (Aitken, 1997) and that arguments of TNCs encouraging increased productivity due to competition may not be true in practice Aitken et al. (1999). Other reasons include the fact that TNCs tend to locate in high productivity industries and, therefore, could force less productive firms to exit (Smarzynska, 2002). Cobham (2001) also postulates the crowding out of domestic firms and possible contraction in total industry size and/or employment.

However, crowding out is a more rare event and the benefit of FDI tends to be prevalent (Cotton and Ramachandran, 2001). Further, the role of FDI in export promotion remains controversial and depends crucially on the motive for such investment (World Bank, 1998). The consensus in the literature appears to be that FDI spillovers depend on the host country's capacity to absorb the foreign technology and the type of investment climate (Obwona, 2004). The review shows that the debate on the impact of FDI on economic growth is far from being conclusive. The role of FDI seems to be country specific, and can be positive, negative or insignificant, depending on the economic, institutional and technological conditions in the recipient countries.

Most studies on FDI and growth are cross-country evidences, while the role of FDI in economic growth can be country specific. Further, only a few of the country specific studies actually took conscious note of the endogenous nature of the relationship between FDI and growth in their analyses, thereby raising some questions on the robustness of findings. Finally, the relationship between FDI and growth is conditional on the macroeconomic dispensation the country in question is pass through. In fact, Zhang (2001) asserts that "the extent to which FDI contributes to growth depends on the economic and social condition or short, the quality of the environment of the recipient country". In essence, the impact FDI has on the growth of any economy may be country and period specific, and as such there is the need for country specific studies. Empirical studies that attempt to estimate the importance of the different determinants of FDI concentrate more on attraction factors, i.e., location factors, since available data make it difficult. The main variables normally used are the size of the market, the rate of GNP growth, economic stability, the degree of openness of the economy, as well as several other institutional variables, as shall be seen.

However, the relation between FDI and economic growth deserves special attention. If, on one hand, economic growth is a powerful stimulant to the inflow of FDI, on the other, an increase in foreign investment - since this would mean an increase in the existing capital stock - would also be one of the factors responsible for economic growth, meaning the existence of an endogenous problem. There are, also, other studies that deal with proving the relation between FDI and the level of economic activity. Regarding the determinants of FDIs, it must be stated that there are substantial differences between the flows that only involve developing countries, whether between home and host countries, and those in which the host countries are developing countries. According to Dunning (2002), in the former case strategic asset-seeking investments take place, in which FDI is used in mergers and acquisitions, seeking horizontal efficiency. In the second case, investments are

characterized by the search for markets, and resources, thus being of vertical efficiency. The next set of studies examined deals with FDI in developing countries. Nunnenkamp and Spatz (2002), studying a sample of 28 developing countries during the 1987-2000 period, find significant Spearman correlations between FDI flows and per capita GNP, risk factors, years of schooling, foreign trade restrictions, complementary production factors, administrative bottlenecks2 and cost factors3. Population, GNP growth, firm entry restrictions, post-entry restrictions, and technology regulation all proved to be no significant.

However, when regressions were performed separately for the non-traditional factors, in which traditional factors were controls (population and per capita GNP), only factor costs produced significant results and, even so, only for the 1997-2000 period. Holland and others (2000) reviewed several studies for Eastern and Central Europe, producing evidence of the importance of market size and growth potential as determinants of FDI. Tsai (1994) analyzed the decades of 1970 and 1980 and addressed the endogeneity problem between FDI and growth by developing a system of simultaneous equations. Also, FDI was alternately measured as a flow, and as a stock. Market size turned out to be more important for FDI flows than growth. The trade surplus presents a negative sign and is significant for FDI, while the flow of FDI decreases as the nominal wage decreases. On the other hand, the impact of FDI on economic growth is quite limited. Garibaldi and others (2001), based on a dynamic panel of 26 transition economies between 1990 and 1999, analyzed a large set of variables that were divided into macroeconomic factors, structural reforms, institutional and legal frameworks, initial conditions, and risk analyses. The results indicated that macroeconomic variables, such as market size, fiscal deficit, inflation and exchange regime, risk analysis, economic reforms, trade openness, availability of natural resources, barriers to investment and bureaucracy all had the expected signs and were significant.

Loree and Guisinger (1995) studying the determinants of foreign direct investment by the United States in 1977 and 1982 (both towards developed countries as well as toward developing countries), concluded that variables related to host country policy were significant in developed countries only when infrastructure was an important determinant in all regions.

The following studies sought either to determine the influence of FDI on GDP growth or to analyze the reverse causality between these two variables. Borensztein and others (1995) used data for the 1970 - 1989 period involving flows from developed countries to developing ones. The main conclusions were, in the first place, that FDI had a positive effect on economic growth, depending on the human capital stock available in the host economy. However, when the level of human capital was low, the effect was negative.

Secondly, FDI had an indirect effect on growth by attracting supplementary activities. Mello (1999) considered that FDI affects growth through the accumulation of capital as well as by the transfer of knowledge. These hypotheses were tested with time series and panel data. The time series results were not conclusive. The panel data showed that FDI has a positive effect upon growth as a result of the transfer of knowledge in OECD countries, but not in the rest. The effect upon the accumulation of capital was only manifested in the non-OECD countries. This indicates that the end result depends on the complementarily or substitution of foreign and domestic investment.

The several results obtained by Lipsey (2000) allows us to infer that the effect of FDI on growth is positive, but reduced, and depends strongly on the interaction with the level of schooling in the host country. Soto (2000), working with panel data for developing countries for the 1986-97 period, concluded that FDI contributes positively to growth through the accumulation of capital and the transfer of technology.

A causality test between FDI and product growth was proposed by Nair-Reichert and Weinhold (2001), based on panel data for 24 developing countries between the years of 1971 and 1985. The main conclusion here was that the relation between investments, whether foreign or domestic, and product growth was strongly heterogeneous, and that FDI efficiency was positively influenced by a country's degree of trade openness.

Lastly, Buckley and others (2002) used panel data for several regions in China for the 1989-98 period. In the first place, the author points out that if the rate of growth of FDI has positive effect upon GDP4 growth, the reverse does not hold true. Secondly, no evidence was found to support the hypothesis according to which the efficiency of FDI depends on a minimum level of human capital. Contrastingly, human capital is more significant in less developed provinces, while FDI stimulates growth notably in the more developed provinces.

The results of studies carried out on the linkage between FDI and economic growth in Nigeria are not unanimous in their submissions. A closer examination of these previous studies reveals that conscious effort was not made to take care of the fact that more than 60% of the FDI inflows into Nigeria is made into the extractive (oil) industry. Hence, these studies actually modeled the influence of natural resources on Nigeria's economic growth.

In addition, the impact of FDI on economic growth is more contentious in empirical than theoretical studies, hence the need to examine the relationship between FDI and growth in different economic dispensations. There is the further problem of endogeneity, which has not been consciously tackled in previous studies in Nigeria. FDI may have a positive impact on economic growth leading to an enlarged mark

2.5 Trade and Economic Growth

Historically, there seems to be a consensus among economic historians that in the nineteenth century trade acted as an engine of growth. Trade contributed to the optimal allocation of resources within countries and the transmission of growth from one part of the world to another.

The gains were those gains that resulted from international specialization in line with the philosophy of comparative advantage. On the other hard, dynamic gains were those that accrued from the impact of trade on production possibilities at large. Examples of dynamic gains are international investment, transmission of technical knowledge and economies of scale. In fact, trade may provide a vent for surplus commodities resulting in employment of otherwise, unemployed resources. Models of the export led growth abound in development literature. Chenery and Stout (1966) remarked that there is almost no example of a country which has sustained a growth rate substantially higher than its growth of exports for long period. The Pearson Commission (1969) claimed that the growth rates of individual developing countries in 1950 correlated better with their export performance than with any other single economic indicator. In modern times countries such as Japan Hong Kong, Korea and Taiwan have achieved remarkable growth by the export of manufactures. The statistical evidence from present day developing countries has in general supported the hypothesis that the growth of exports plays a major part in the country's growth processes through the stimulation of demand; the encouragement of savings and capital goods.

A study by Fosu (1990) of sub-saharan Africa shows that economic growth is stimulated by exports. At the core of the Structural Adjustment programme being implemented by many African countries is the belief that exports enhance economic growth, Fajana (1979) used the two gap model to show that Nigeria's economic growth is positively responsive to exports. According to Ekpo and Egwaikhide (1994) using co-integration and error correction techniques showed a long-term relationship between exports and economic growth in Nigeria.

On the strategy for export development, Robinson (1967) argues that firms and countries should concentrate their export drive on a few markets where maximum energy could be devoted. Balassa (1970), proposed that apart from exposing domestic products to world competition and the test of the world market, export oriented strategy also provides incentives for industry specialization and encourages specialization according to comparative advantage, with exports a country can be involved in the international division of labour and then provide needed goods and services from abroad at considerable savings in terms of inputs of productive resources, thereby helping into those sectors in which the country has comparative advantage. According to Cukor (1971), unless some extremely rapid structural changes, take place, the industrial exports developing countries will be determined by the imports of advanced capitalist countries. He saw the pattern of industrial exports from developing countries as distinct from that of the developed countries, especially in the degree of processing. These structural differences depended to a large extent on the technical level of industry. Cukor (1971) then proposed the development of special industries on a high technical level and an increase marketing of exports among developing countries within the framework of regional cooperation.

On the export performance of developing countries (Thirlwaal) 1978) argues that especially in manufactures, exports have continued to lag behind that of developed industrialized countries. Developing countries share of world trade manufactures is relatively small. Exports of primary products and petroleum account for a large proportion of the export earning in some of these Countries. These ranges of traded manufacturing goods are not only narrow but also consist of goods, which are highly competitive in the world market unlike the nineteenth century. Most of the world's trade now takes place in industrial goods which developing countries are yet to produce in abundance. The demand for developing countries traditional exports is inelastic relative to the demand for industrial goods

2.6 Openness and Economic Growth

Whilst access to specific markets - judged by their size and growth – is important, domestic market factors are predictably much less relevant in export-oriented foreign firms. A range of surveys suggests a widespread perception that 'open' economies encourage more foreign investment. One indicator of openness is the relative size of the export sector. Singh and Jun's 1995 study indicates that exports, particularly manufacturing exports, are a significant determinant of FDI flows and that tests show that there is strong evidence that exports precede FDI flows. China, in particular, has attracted much foreign investment into the export sector (Bhattacharya,. Montiel, and Sharma: 1996). In Bangladesh, on the other hand, foreign investors have been attracted to the manufacturing sector by its lack of quota for textiles and clothing exports to the European Union and US markets. Garment exports, for example, rose from virtually nil in the 1970s to over one-half of its export earnings by the early 1990s. In contrast, most low-income SSA economies have remained more inward oriented.

2.7 Trend of Foreign Direct Investment In Nigeria

The direction and pattern of the flow of Foreign Direct Investment to Nigeria since its origin has revealed a fluctuating pattern. A cross examination shows that except in 1989 and 1990, capital inflows had always exceeded outflows but in those two years we had a negative net flow of direct investment.

On the part of the outflow, the records show that the outflow has always been on the increase, and this increase is matched by fluctuations experienced especially in 1988, 1991, 1992, 1994, 1996 and 1999.

Positive developments have occurred in Nigeria since May 29, 1999 when democracy replaced the spate of military governments. This has resulted in a number of spirited moves to attract investors - local and foreign – into the country. The former President, Olusegun Obasanjo in a bid to achieve embarked on a globe trotting mission that saw him interacting with other fellow Presidents and the business community of different countries. With a more relaxed taxing system, incentives and the creation of Nigerian Investment Promotion Commission (NIPC), the country was set to lure private sector finance. As a first step the Government took a bold move to privatize all the ailing public enterprises, Degree No. 25 of July 1996 backs this scheme. The Government set up the Bureau of Public Enterprise (BPE) to oversee this crucial venture and National Council on Privatization (NCP) headed by then Vice-President to formulate pragmatic policies in this area.

The privatization drive led to the recent 51 per cent botched share of Nigerian Telecommunication Limited (NITEL) to Investors International Limited (IIL) for the sum of USD $1.317 billion. However, IIL was only able to come up with 10 per cent of this payment and as penalty for default lost this initial payment. A number of other enterprises have been embarked for the same process in a bid for government to divest its investment in public service sector. Perhaps the most successful of the Governments bid to attract FOREIGN DIRECT INVESTMENT finance is the license granted for Global System for Mobile Communication (GSM) to three GSM Service Providers - ECONET WIRELESS (Now Airtel), MTN and NITEL - at a handsome sum of USD $285 million each. This has really boosted the tele-density of the country and their effects are felt in the employment market, in terms of massive job creation. There have been countless FOREIGN DIRECT INVESTMENT in-roads into the country, which cut across all sectors - oil and gas industry, capital market, agriculture, solid minerals, and information and communication technology - of the economy.

2.8 Non-Oil Export and Nigeria's Economy

The significance of non-oil export to Nigerian economy can firstly be appreciated from the perspective of export and economic development, as discussed above. Export has also been described as the bedrock of any economic development which is meaningfully centered on non-oil export in most countries of the world. Therefore the current deliberate efforts to enhance Nigeria's non-oil export is derived from the failure of oil export (oil boom), which has not been meaningfully managed to positively reflect on the socio-economic well being of the people.

Historically, Nigeria's export involvement before the discovery of crude petroleum (oil) in the early 1950s was centered on the country's traditional agriculture, mining and other related products. The products constituted Nigerian main export products then, and provided about 85% of total export earnings and accounted for not less than 63 percent of the country's Gross Domestic Products as at 1960. From the Nigeria economic perspective, promoting non-oil export products will bring about reduction on the nation's level of dependence on the dominance of crude oil or what can be describe as, "mono-cultural foreign trade product" that averagely racked in over 80% foreign earnings. This can be a thing of the past if the export economic potentials of Nigeria are sincerely and usefully harnessed.

It is in the recognition of the significance of non-oil export to a nation that Nigeria government made exporting of the country's non-oil products, a major key element of its structural adjustment program (SAP) in 1986.

The Nigeria export promotion council (NEPC), surveys on the various export potentials, and the foreign market opportunities of the country for industrial goods, according to Ogunnusi (1986), revealed products such as Aluminium, household utensils, paper products, biscuits, confectionery carpets, wire-nails, nuts and bolts, mango-juice, coca-based beverage, instant yam-flour, beer, African phonographic records, wood products, African prints and handicrafts.

III. STYLIZED FACTS ABOUT NIGERIA'S TRADE

The role of export trade in economic growth of nations has been widely acknowledged from the periods of mercantilism to the contemporary economic thought. Nigeria has always been into trade considering its colonial antecedents. Before the discovery of Petroleum Oil in commercial quantity, the non-oil sector produce was the major export commodities in Nigeria: Agriculture provided the largest export communities. However, with the discovery of petroleum oil moved away attention from Agriculture to Oil product especially

in the 1970s during the periods of the oil boom in Nigeria. The share of agriculture in total exports declined from 84% in 1960 to 1.80% in 1995 (CBN, 2000, Ogunkola and Oyejide 2001). So, contrary to the expectation of increase in non-oil exports there was an overall decline in non-oil merchandise exports. Manufactures decreased from 13.10 % in 1960 (CBN, 2000) to 0.66% in 1995 and remained the same in 2002 (WTO. 2003b).

Structure of Nigeria's External Trade

	Export (₦M)		Import (₦M)	
Year	**Oil**	**Non-Oil**	**Oil**	**Non-Oil**
1970	510.0	375.4	52.2	704.4
1973	4563.1	362.4	118.0	3603.5
1980	13632.2	554.4	227.4	8868.2
1985	11223.7	497.1	51.8	7010.8
1990	106626.5	3259.6	6073.1	39644.8
1995	927565.3	23096.1	155825.9	599301.8
2000	1920900.4	24822.9	220817.7	764204.7
2005	6266096.6	105955.8	805352.5	2987468.7
2006	5619152.9	133594.9	941916.3	3354800.1
2007	7956290.0	169709.7	1007533.07	4282291.3
2008	9913651.1	247839.0	1386729.93	3803072.7
2009	8067233.0	289152.6	1063544.2	4038990.2 -1

Source: CBN Statistical Bulletin, 2010.

For period 1970 Oil Export stood N510.0 Million while non-Oil was N375.4 million. In the same period Oil Import stood at N 52.2 million and non-oil import at N704.4 million. By year 2000, Oil Export was record at N1920900.4 and non-oil Export at==N24822.9. for the same year, Oil Import stood at x#220817.7 and non-Oil import at x#764204.7. However, by 2007, Oil Export stood at N7956290.0 and non-Oil Export at N169709.7. On the other hand, Oil Import stood at x#1007533.07 and non-Import at x#4282291.3 for the same period.

Growth of Nigeria's Trade Variables

	Export (%)		Import (%)	
Year	**Oil**	**Non-Oil**	**Oil**	**Non-Oil**
2004	-	-	152.2	-
2005	39.6	-6.5	17.0	79.0
2006	-10.3	26.1	7.0	12.0
2007	41.6	27.0	37.64	60.4
2008	24.60	46.04	6.20	-11.19
2009	-18.62	16.67	-23.31	6.20

Source: CBN Statistical Bulletin, 2010.

Over the years the Non-Oil Export has continued to grow insignificantly when compares to the non-Oil import. It recorded at negative growth rate in 2005 (-6.5%) and in the year Non-Oil Import grew by 79.0%. By 2007, the growth rate of Non-Oil Export stood at 27%, while that of Non-Oil Import recorded a significant 60.4%.

Again, the Oil Import has continued to also grow at significant stride. Its growth rate stood at 152.2% in 2005, while that of Oil Export was recorded as 39.6%. By 2007, the growth rate of Oil Import fell to 7%, while that Oil Export grew to 41.6%.

A significant fact here is that the Non-Oil export sector has performed woefully over the years, which led to increase import of non-Oil commodities in Nigeria.

IV. SOURCES OF DATA

The data used for this research work are the time series (secondary) data of Gross Domestic Product factor costs, BOP, Trade, Non-Oil Export Trade, Foreign Direct Investment (FDI), Naira-Dollar Exchange Rate and Proxy for Nigerian Openness to Trade. These data and other relevant information used in this study were sourced from the CBN Statistical Bulletin (various issues), CBN Annual Reports and Statement of Account (various publications), National Bureau of Statistics Annual Accounts (various publications), Journals, Seminar Papers, textbooks, the Internet for the periods 1980 to 2009.

4.1 Model Specification

Theoretical Framework Economic Growth is defined as positive changes in the key qualitative macroeconomic variables in economy overtime. Incidentally, Gross Domestic Product is used to summarize the level of economic activities within a fiscal year in an economy. It is defined as the total monetary value of goods and services produced in a country for a fiscal period, say one year. Therefore Gross Domestic Product is

adjudged the major indicator of economic growth as such will therefore stand-in for economic growth in the relevant model.

It has been variously identified that capital formation is a strong determinant of economic growth. However, because of the low income in Nigeria resulting to low Savings, Capital Formation has been insignificant. On account of this therefore, over the years most foreign policies of the Nigeria (LDCs) is premised on opening the economy; bringing foreign investments and expanding trade relations It holds that increase in foreign capital in a domestic economy such as Nigerian economy has the propensity to engender growth in such economy. Increased investment in the local economy and expansion in trade, will lead to greater foreign exchange earning, which crucial for the maintenance of BOP equilibrium.

Based on the above arguments therefore, the following relationships are assumed out of which the model of the study is specified.

- That an increasing functional relationship exists between Gross Domestic Product (GDP) and, Foreign Direct Investment, Openness, Trade and BOP.

- That a relationship exists between GDP and Exchange Rate.

The Model

$\Delta GDP_t = g(\Delta FDI_t, \Delta TRD_t, \Delta NOLEXP_t, \Delta EXCH_t + \Delta OP_t, + \Delta BOP_t\ Ut$ 1

$\Delta GDP_t = \beta_0 + \beta_1 \Delta 0FDI_t + \beta_2 ATRD_t + \beta_3 \Delta NOLEXP + \beta_4 \Delta EXCHt + \beta_5 \Delta AOP + \beta_6 \Delta BOP_t + U_t$..... 2

$\beta o > 0$; $\beta_1 > 0$; $\beta_2 > 0$; $\beta_3 > 0$; $\beta_4 <> o$; $\beta_5 > 0$; $\beta_6 > 0$:

$AGDP_t$ = Change in Current Gross Domestic Product (GDP)

$AFDI_t$ = Change in Current Foreign Direct Investment (FDI)

$OTRD_t$ = Change in Current Trade

$ANOLEXP_t$ = Change in Current Non-Oil Export

$AEXCH_t$ = Change in Current Naira-Dollar Exchange Rate

AOP_t = Change in Current Openness to Trade (Trade/GDP)

$OBOP_t$ = Change in Current Balance of Payment

U_t =Current Error Term.

4.2 Analysis And Interpretation Of Result

This segment broadly examines the data analysis aspect of the study and the relevant interpretations. In specific term, it considers data presentation, model presentation, result presentation and the interpretation of results of analysis.

4.3 Model Presentation

$\Delta GDP_t = g(\Delta FDI_t, \Delta TRD_t, \Delta NOLEXP_t, \Delta EXCH_t + \Delta OP_t, + \Delta BOP_t\ U_t$

$\Delta GDP_t = \beta_0 + \beta_1 \Delta FDI_t + \beta_2 \Delta TRD_t + \beta_3 \Delta NOLEXP + \beta_4 \Delta EXCH_{t+} \beta_5 \Delta OP + \beta_6 \Delta B0Pt + U_t$

$\beta_0 > 0$; $\beta_1 > 0$; $\beta_2 > 0$; $\beta_3 > 0$; $\beta_4 <> 0$; $\beta_5 > 0$; $\beta_6 > 0$:

ΔGDP_t = Change in Current Gross Domestic Product (GDP)

ΔFDI_t = Change in Current Foreign Direct Investment (FDI)

ΔTRD_t = Change in Current Trade

$\Delta NOLEXP_t$ = Change in Current Non-Oil Export

$\Delta EXCH_t$= Change in Current Naira-Dollar Exchange Rate

ΔOP_t = Change in Current Openness to Trade (Trade/GDP)

ΔBOP_t = Change in Current Balance of Payment

U_t =Current Error Term.

4.4 PRESENTATION OF RESULT

Dependent Variable: D (GDP, 2)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	1381.587	(3975.220)	0.347550	0.7318
D(FDI)	-0.062883	(0.061644)	-1.020093	0.3199
D(TRD)	-0.005922	(0.002992)	2.846005	0.0617
D(NOILEXP)	0.446528	(0.156896)	-0.013832	0.0100
D(EXCH)	-2.746748	(198.5788)	0.51883	0.9891
D(GDP/TRD), OP	76.24346	(1469.539)	-1.402953	0.1760
D (BOP)	-0.006721	(0.004791)	-1.402953	
R-squared	0.333163			
Adjusted R-squared	0.133112			
F-statistic	1.665388			
Prob(F-statistic)	0.181448			
Durbin-Watson stat	2.422935			
Akaike info criterion	22.25234			
Schwarz criterion	22.58830			

4.5 Interpretation Of Result

The examination of the sign of coefficients estimate in order evaluate their conformity to theoretical expectation shows that the coefficients of Non-Oil Trade (β_4 =0.4465), Exchange Rate (β_5 =-2.7467), Openness, GDP/TRADE (β_6 =76.2434) and BOP (β_6=-0.0067) came up with the expected signs. The positive signs of the coefficients of Non-Oil Export, Trade Openness underscore their increasing relationship with Gross Domestic Product; increase in their values leads to increase in GDP all other things being equal. For a negative signs of Exchange Rate and BOP, they show that a depreciating exchange rate and unfavourable bank payment lead to a decline in Gross Domestic Product.

The t-statistic was employed for the test of individual statistical significance of the parameter estimate. The result of the test indicates that on the coefficient of Non-Oil Export (β_4 =0.4465) is statistically significant [$t(\beta_2)$= =2.846 > $t(^{21})(_{0.025})$ =2.080] at this level of significance; thus suggesting that the estimate is a good one. Ironically, the constant intercept of the function, coefficiens of FDI, Trade, Exchange Rate, Openness and BOP are poor estimate; hence statically insignificant [their t-value are all les than the t-theoretical value of 2.080].

The joint statistical significance of all coefficients estimates was evaluated using the F-test conducted at 5% level of significance. The outcome of the evaluation indicates that coefficients are jointly statistically insignificant [F* = 1.6654 < $F(_{6,21,0.05})$=2.55] at 5% level of significance. This result suggests that the GDP is a poor estimate.

Multiple Coefficient of Determination, R^2=0.3332, shows that about 33% variation in GDP is explained by variations in FDI, Trade, Non-Oil Export, Exchange Rate, Openness and BOP simultaneously; thus a very significant 67% is unexplained by the system. The Adjusted Coefficient of Determination, R^2=0. 1331 confirmed that only 13.31% variation in GDP is simultaneously explained by explanatory variables in real term. The result indicates that the GDP function is poor fit: Changes in FDI, Trade, Non-Oil Export, Exchange Rate, Openness and BOP do not lead to changes in Gross Domestic Product in Nigeria.

The serial correlation of error term was evaluated using the Durbin-Watson statistic at 5% level of significance. The outcome of the test indicates an inconclusive result [4-du=2.042 <d* =2.4423< 4-dL=3.049] at this level of significant. The result of the test suggests that autocorrelation may not be threat in the function.

V. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

By virtue of colonialism, the Nigerian economy has always been open to the external world for trade and other relationships. As put by Okpokpo (2005), "Nigeria is basically an open economy, which has never been in autarky". Openness brings about foreign capital inflow into the domestic economy. The argument has been on whether FDI through openness benefits the economies of developing countries or not. While the antagonists of Openness sees it as an avenue of the western world to extend their markets thereby dispossessing the domestic industries, the protagonists see is as means of extending alien capitals to the domestic economy, which is crucial to economic growth and development.

The analysis of the relevant relationships in the study shows that Trade Openness and Foreign Direct Investment and other intervening external sector variables do not determine economic growth in Nigeria [R^2 = 0.3332].

Interestingly, out of all the explanatory variables considered in the analysis, only Non-Oil Export expressed changes in Goss Domestic product as indicated by the significance of its coefficient.

VI. CONCLUSION

Nigerian has not benefited from its engagement in trade through the inflow of foreign capital into the economy as established by the study. The poor performance of the growth of Nigerian economy in relation to openness to trade and FDI can be ascribed to the nature, direction and policy guideline of foreign investment

coming into the country. At the present time, most of the FDI are in the Oil and service sectors, which do not impact directly on productivity in the economy: the non-oil and real sector of the economy have enjoyed very significant foreign capital inflows. The policy guideline direction of incoming FDI in Nigeria is porous especially in the area of profit repatriation, expert rate choice and remuneration and the domestic labour content of the operations. The high and unguided profit and expatriate remuneration exercise of foreign companies in the economy may constitute capital flight as established in this study considering the negative coefficients of FDI and Trade.

Ironically, the sector-selective FDI can be ascribed to a number of domestic factors, which are quite investment-deterring: Lack of sound infrastructural base, lack of security of life and property, lack of quality human capital, political instability, undeveloped financial market among others have been the major drawbacks to receiving meaning and significant non-sector-selective foreign investment into the Nigerian economy.

VII. RECOMMENDATIONS

There is the need for the government to entrench a more stable political atmosphere and encourage security of investments and humans in the economy by strengthening and increasing the various security apparatuses in the economy.

There is also the need for the government to directly invest heavily on infrastructural development in the economy. Again, the government can encourage private sector participation in infrastructural development through and enabling act. Insufficient power supply, insufficient, poor and deplorable road networks are crucial to foreign capital inflow.

Finally, the government should restructure the financial market in terms of physical and human structures in the market. Particularly, the capital market, the continued saga in the market result from various forms misadministration, misappropriation and misapplication of funds and general mismanagement of the market is quite deterring to potential FDI into the economy.

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Appendix

Dependent Variable: D (GDP, 2)
Method: Least Squares
Date: 06/07/12 Time: 04:57
Sample (adjusted): 1983 2009
Included observations: 27 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D (FDI)	-0.062883	0.061644	-1.020093	0.3199
D (TRD)	-0.005922	0.002992	-1.979360	0.0617
D (NOILEXP)	0.446528	0.156896	2.846005	0.0100
D (EXCH)	-2.746748	198.5788	-0.013832	0.9891
D (GDP/TRD)	76.24346	1469.539	0.051883	0.9591
D (BOP)	-0.006721	0.004791	-1.402953	0.1760
C	1381.587	3975.220	0.347550	0.7318

R-squared	0.333163	Mean dependent var	1762.870
Adjusted R-squared	0.133112	S.D. dependent var	15826.58
S.E. of regression1	47:15.63	Akaike info criterion	22.25234
Sum squared resid	4.34E+09	Schwarz criterion	22.58830
Log likelihood	-293.4066	F-statistic	1.665388
Durbin-Watson stat	2.422935	Prob (F-statistic)	0.181448