NEAR EAST UNIVERSITY
GRADUATE SCHOOL OF SOCIAL SCIENCES
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MASTER'S PROGRAMME

MASTER'S THESIS

THE IMPACT OF GLOBALIZATION AND INTERNATIONAL TRADE ON THE GROWTH OF THE NIGERIAN ECONOMY

BADRU AKINJIDE FATAI

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Prepared by Badru Akinjide Fatai

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ABSTRACT

In today's world, exchange cannot be done without some form of value which usually involves money, ideas, products, and technology. The resultant effect has either been negative or positive on the economy (directly or indirectly). Trade goes way back during the barter system; it became popular in Nigeria during the colonial rule, ever since Nigerians have understood the need to trade both domestically and internationally.

International trade is seen as a vital catalyst for economic development, the performance of a given economy in terms of growth (output and per capita income) is based both on domestic production and consumption and international transaction of goods and services.

This study examines the impact of globalization and international trade on the growth of the Nigerian economy. The study makes use of OLS technique to establish the required result. Empirical investigation reveal that three variables are statistically significant at 5% and those variables are exchange rate, foreign direct investment and net export and they are positively related to GDP, while trade openness exerted a negative influence on the GDP.

The study hereby reveals that increased participation in the global scene would help Nigeria reap both static and dynamic benefits of globalization and international trade despite non- conformity of the coefficient 'trade openness'. We therefore recommend that the government provide adequate support to various sectors of the economy, design appropriate strategy by diversifying the economy, exchange rate stability and liberal trade policies in order to boost productivity and growth of the Nigerian economy.

ÖZ

Günümüz dünyasında, para, fikir, ürün ve teknolojiyi içeren değerler olmadan değişim yapılamaz. Ortaya çıkan etki ekonomide (doğrudan veya dolaylı olarak) olumsuz ya da olumlu olmuştur. Ticaret, takas sistemi sırasında geri döner; Nijeryalılar hem yurtiçi hem de uluslararası ticaret yapma ihtiyacını anladıklarından beri, sömürge yönetimi sırasında Nijerya'da popüler olmuştur.

Uluslararası ticaret, ekonomik kalkınma için hayati bir katalizör olarak görülmektedir; Ekonomide büyüme (çıktı ve kişi başına gelir) açısından performansı hem yerli üretim ve tüketim hem de uluslararası mal ve hizmet ticareti üzerine kuruludur.

Bu çalışma, küreselleşmenin ve uluslararası ticaretin Nijerya ekonomisinin büyümesi üzerindeki etkisini inceliyor. Çalışma OLS tekniğini kullanarak istenen sonuca ulaşmaktadır. Ampirik araştırma, üç değişkenin% 5 istatistiksel olarak anlamlı olduğunu ve bu değişkenlerin döviz kuru, doğrudan yabancı yatırım ve net ihracat olduğunu ve ticaret açıklığının GSYİH üzerinde olumsuz bir etki yarattığı halde GSYİH ile pozitif yönde ilişkili olduğunu ortaya koymaktadır.

Çalışma, burada küresel sahneye artan katılımın, 'ticaretin açık olması' katsayısının uyumsuzluğuna rağmen Nijerya'nın küreselleşmesinin ve uluslararası ticaretin statik ve dinamik faydalarından yararlanmasına yardımcı olacağını ortaya koyuyor. Bu nedenle hükümetin, ekonominin çeşitli sektörlerine yeterli desteği vermesini, ekonomiyi çeşitlendirerek uygun stratejiyi tasarlamasını ve Nijerya ekonomisinin verimliliğini ve büyümesini artırmak için liberal ticaret politikalarını uygulaması önerilmektedir.

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CHAPTER ONE

INTRODUCTION

1.1 Background of Study

On the surface of the earth, no state or nation exists' in isolation. In other words, no nation could perhaps be in a state of freedom. It implies that no nation could have all resources (both natural and human) at its disposal. Smith (1776), in his research, supported for interlinks (.i.e. globalisation or trade progression) of economies. Smith asserted that the main way economic development and progress could without much of a stretch be kept up is for each country to specialise on that product it has a favourable advantage in producing and import that product it cannot produce efficiently.

Globalisation is the working of a business on a global stage. When we view the globe as our potential business hub, we globalise our business. Generally, there are certain limits as to the working of the business on a worldwide stage. Exactly when a representative or country turns away these hindrances, it's globalised its business. Today, the sharing of information i.e. data has accomplished a level we thought it never could. Globalisation and universal business, therefore, implies the sharing of thoughts and perspectives on a global level. Until a few years back, hardly anyone focused on the issues of globalisation in business. Globalisation got with it some enormous advantage, and no one gave off an impression of being disturbed by the negative side of this thought. Regardless, a tiny bit at a time, the upsides and drawbacks were discussed, and this offered rise to some globalisation issues far and wide.

Globalization additionally may mean reduction or disposal of state-implemented confinements on trades, and the inexorably coordinated and complex worldwide arrangement of production, appropriation and trade that has developed accordingly. The world has been fundamentally changing subsequent to the end of the time of cold war. In particular, since 1980s, the world economy is being guided by neoliberal economic policies that endeavoured to advance capitalism at a global scale through trade liberalization, foreign direct investment (FDI) and financial capital flows as well as the relaxing of government regulations especially in financial, goods and labour markets (Ornaran n.d.).

Globalization is the tendency of businesses and investment funds to move beyond national and domestic markets to other markets around the globe, allowing them to become interconnected with different markets. Advocates of globalization say that it helps emerging nations "catch up" to industrialized countries much faster, through increased employment and technological advances, and Asian countries are often highlighted as examples of globalization's success.

Globalization can be seen as the merging of national economies through capital flows, trade and the convergence of economic standards, but most importantly trade. It is the process of international integration arising as a result of interchange of world ideas, products, views and mutual sharing, and other aspects of culture. This implies that globalization operates both at international and local levels and, therefore, impacts on the economy, politics, culture of a country and wellbeing of the citizens.

In today's world, there is practically anything that is impossible without valuable exchange of goods which incorporates legal tender, ideas, and innovation. There is normally an immediate impact on the economy of any country, either negative or positive. Since the times of old, there has dependably been a requirement for trade, which was known as 'TRADE BY BARTER' which was later changed to a monetary system. Trading in Nigeria, nonetheless, gained popularity by the colonial masters that imported their products and made Nigerians their middlemen (Nicks, 2008). Nigerian's have become knowledgeable of the need for trade both domestically and international.

Much attention has been given on the topic of international trade over the past years amongst policy makers and economist. Its criticalness relies on the ability to procure goods that cannot be produced within the country or which must be created at a more noteworthy expense. In like manner, it enables a nation to offer its privately made stock to various parts of the globe. A given economies performance in the area of development rates of outputs and per capita income should be focused on production (domestically) and utilisation activities additionally on foreign trade of goods and services. The economist in both the classical and neo- classical appended that a great amount of significance to international trade as it was regarded as the 'engine of growth' in a country's development.

International trade stands out amongst the most relevant economic activities in the world and a vital element of international relationship between economies. International trade volumes are expanding faster than the gross output in many nations of the world, and the significance of international trade for these nations' economy is getting increasingly significant. With the expanding liberalization of capital and trade markets, governments lessen the protectionist measures, such as, export restrictions, import quotas, prohibitions which are intended to shield their economies from outside rivalry.

According to (Hausters, Gerd, 2000) it stated that, trade liberalization under the Uruguay Round of multilateral trade understanding of 1995 was assessed to have given more than 100billion U.S dollars a year in net advantages gathering mostly to those countries that have removed trade limits. Budgetary coordination as a piece of globalization in this manner visualizes the free stream of loanable assets, openness of capital streams when compared with sound household strategies, permit nations access to be much bigger pool of capital. Expanded capital streams to improved speculation and financial development, especially when the inflows are in foreign direct investments, as against potentially volatile short-term portfolio flows.

A crucial impetus for economic development in any nation is trade. A country like Nigeria which is still in the process of developing, commitments on trade to general economic growth is tremendous due to a great extent to the undeniable reality that a large portion of the fundamental components for development, for example, capital goods, unprocessed material and specialized expertise, are for the most part imported as a result of lacking domestic supply. Be that as it may, it is essential to note that inward trade domestic outward trade subsequent to locally manufactured merchandise are gathered for exportation and products imported are disseminated across the nation, in some cases neighbouring territories. In the same way, it supports in-house specialisation and work division across various firms and geographical areas of the nation. Along these lines, the greater the degree of trade within the higher the degree of specialisation. This pushes the level of productivity and efficiency in various economies (Anyan wuocha, 1993).

It’s a known fact that Nigeria is an import based nation. With the discovery of oil, this has inflicted a resource curse on the economy. Nigeria’s major export is crude oil. Before the exploration of oil, the agricultural sector was the biggest/ largest sector (export) for Nigeria, be that as it may, the oil boom which occurred in the 1970s made the agricultural sector in the business sector whittle away. The interest of the government in the exploration and export of crude oil has led to the in attention of the agricultural sector; hence, lessening the overall efficiency of the economy.

Nigeria’s over reliance of crude oil is unsafe on the grounds that crude oil is a squandering resource with a proven reserve which would in the end get depleted and the vagaries of the oil market have brought about a critical decrease in the profit in light of the exogenously decided cost of crude oil, Abebefe (1995). The Nigerian government is trying its possible best to diversify its export base and ensure that IT serves as the driving force to foster national development, steps taken in this light is the trade and economic reforms put in place by the government to revamp the Nigerian economy.

1.2 Statement of Problem

It is a known fact that Nigeria is an import based nation. With the discovery of oil, this has inflicted a resource curse on the economy. Nigeria’s major export is crude oil. Before the exploration of oil, the agricultural sector was the biggest/ largest sector (export) for Nigeria, be that as it may, the oil boom which occurred in the 1970s made the agricultural sector in the business sector whittle away. The interest of the government in the exploration and export of crude oil has led to the in attention of the agricultural sector; hence, lessening the overall efficiency of the economy.

1.3 Objectives and Aim of the Study

This paper aims at providing empirical proof on the impact of globalisation and international trade on the growth of the Nigerian economy. This paper will concentrate on various related issues as follows:

(a) Does globalization encourage international trade leading to the development of the Nigerian economy? Furthermore,

(b) What are the results of globalization on economic variables in the country such as export, import, trade openness and so on?

(c) Does both globalization and international trade have huge effect on the economy?

1.4 Justification of the Study

Past endeavours made to analyse the economic impact of globalisation and international trade in Nigeria has been restricted to the area of policy implementation on trade, trade openness and liberalization. The importance of this study is tremendous, however the principal goal is on the efforts of what globalization and international trade does in terms of growth in the Nigerian economy. This study attempts to investigate profoundly, how attentions can be moved towards trading of primary commodities in Nigeria particularly due to the over reliance on oil which has blinded the economy from profiting significantly in trade and its unlimited commitment to the development of the economy.

Countless endeavour have been made empirically and theoretically to look at the effects of globalization and trade on economic growth, the government has not been constrained to see that diversification of trade is a noteworthy move for Nigeria to appreciate the different economic advantages appended to trade. This research will give proper insight in this field.

1.5 Scope and Limitation of the Study

The limitation of this research work focuses solely on the Nigerian economy. In this manner, information gathered that were considered are those in relation to the Nigerian economy on the effect of globalization and international trade development. The time line for this study is 21 years (1994- 2015). This study is constrained to international trade and globalization as it influences the development of the Nigerian economy. A major deterrent of this research is time which is needed for the completion of this study and issues of accurate and precise data.

1.6 Hypothesis

The research hypotheses are formulated to acquire necessary information and the underlying assumption of the study. The relevant research hypotheses for this research are specified in alternative forms as follow:

H1- Globalization has a significant impact on the economy.

H2- International trade has a positive impact on the Nigerian economy.

H3- Globalization has a positive impact on international trade.

H4- Trade openness has a significant impact on Gross Domestic Product GDP.

H5- Foreign direct investment FDI has a significant impact on Gross Domestic Product GDP.

H6- Increased net export has a significant impact on Gross Domestic Product GDP.

1.7 Research Methodology

This research examines the impact of globalization on the growth of international trade in the Nigerian economy using time series data (annual) for 1994- 2015. Secondary data has been employed for the research, the World Bank data base is depended on as the sole data collection source. Ordinary least square method is used for data analysis, the dependent variable in the study is Globalization and international which is measured with Gross Domestic Product (GDP) which the explanatory (independent) variable are net export, Foreign Direct Investment, openness and exchange rate.

1.8 Plan of the Study

This research study is divided in to five chapters.

Chapter one contains the introductory aspects of the study.

Chapter two reviews literature and theoretical frame work of the study.

Chapter three reveals the research methodology.

Chapter four deals with data analysis and interpretation.

Lastly, the study is summed up with the summary, conclusion and recommendation tagged chapter five.

CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Globalization

Globalization implies distinctive things to various individuals. Some say it is the movement of individuals, ideas, thoughts, and products around the globe. Others view it as the dominance of multinational companies and the obliteration of social characters. The importance of the term is itself a point of economic discuss; it might allude to "real" processes, thoughts that legitimize them, or to a state of mind about them.

Acording to Ojo (2003), globalization is a marvel that mirrors the expanding cooperation among individuals and businesses over the globe. These collaborations pervade all features of human attempt. Therefore, globalization is multi phased, spreading over monetary, political, and social exercises. He similarly kept up that, globalization was initially seen through exchange relations among nations and escalated through the part of multinational exchanging associations that worked the globe bringing individuals and foundations nearer. This was trailed by the infusion of capital into foreign economies by the headquarters of the multinationals to develop further trade. Likewise, the early foreign capital accompanied trade. Notwithstanding the range and unpredictability of the procedure, its principle basics are surely understood. Innovative progressions, particularly in the field of information and communication, have had the impact of connecting and bringing the world closer in time and space, making possible better approaches for business and strengthening social communications.

Nissanke and Stein (2003) have likewise contended that money related liberalization permits assets to spill out of low peripheral result of capital-rich nations to high negligible result of capital poor nations as the capital business sector attempts to even out danger modification.

At long last, advocates of globalization claim that nations which are very occupied with globalization procedure are prone to encounter higher monetary development, as well as more prominent luxuriousness, more vote based system, and progressively quiet conditions (Vadlamannati, 2009).

Like Acharya et' al (2009) in an investigation of Indian states found that fund prompts development. The assumption here is that as the proficiency of the worldwide asset builds creating nations develop as champs. Others argue that globalization empowers peace and success and in this manner increment in monetary exercises that strengthen peace in an idealistic cycle (Bhagwati and Srinivasan, 2002).

2.2 International Trade and Economic Growth

According to Li, Chen & San, (2010) - international trade is often regarded as "foreign trade". It involves the outward and inward flow of goods and services in a particular geographical location. Every nation imports/ exports represents a huge chunk of its Gross Domestic Products GDP, thus showing a strong relationship between international trade and economic growth.

Trade permits nearby open door expenses of assets to be reflected all the more precisely and decontrolling loan costs likewise raises rates and in this manner supports funds and the selection of suitable innovation (Mengisteab, 2010). The industrialist monetary hypothesis holds that a totally changed worldwide business sector is the most proficient approach to encourage development on the grounds that every nation has some expertise in what it has a relative point of interest in.

A survey on the performance of trade on the Nigerian economy was carried out within the period of 1970 to 2008. A mix of multivariate and bivariate models was used to assess the connection between the chosen macro-economic variables. It was discovered that Foreign Direct Investment FDI and export inflow had a positive and significant effect on economic growth, (Emeka, Frederick and Peter 2012).

Abayomi and wafure 2011, observed that some factors of economic growth and development were not only centered on trade policies, macroeconomic policies and political such as rule of law, a consensus emerged that the legal political system and bureaucratic corruption played a more vital role on economic growth and the level of development.

The international trade effect on earnings inequality has produced many results. There has been so many argument from various researchers as to if there were significant effects or there wasn’t little or no effect on international trade earnings inequality. It was observed that various studies which looked at specific effects of trade on the relative price of factor prices or manufacturing industries failed to find confirmation of the stopler – samuelson theorem (with exception of sachs and shatz, 1994) within a particular manufacturing sector.

Trade has acted as a vital factor in the growth of various countries at different stages of development, not just contributing to a more efficient allocation of resources within another. It was observed that recent research assumes that regional trade agreement decreases growth and investment, but generalised trade liberalization in the form of unilateral tariff reduction (or non – tariff barrier to trade reduction) improves growth performances. It was further explained that export growth relaxes the balance of payment constraint on demand by providing the foreign exchange to pay for the import content of higher levels of investment, consumption and government expenditure. Developing countries would be constrained in their growth performance by a shortage of foreign exchange and could therefore grow faster with more exports. (Thirlwall, 2000)

It was stressed that if developed countries (economies) of the world would like to see prospects of faster growth for developing countries trade and financial liberalization would have to be facilitated for a change in developing economies. It was further indicated that until the economic structure becomes favourable for growth, trade and financial liberalization can only produce short term reversal in divergence in per capita income and growth rates. (Ashok, 2002)

Todaro 2000, examined the idea of trade looking at developing countries and stated that though it was vastly desirable, it was majorly dependent on certain facts such as countries resource endowments, their social and economic institutions, and capacities for growth and development. The impact of trade liberalization will differ from country to country as per export orientation in sub- Sahara Africa (SSA) and for that matter from firm to firm, depending on investments, infrastructure, economies of scale and so on.

The impact of trade on the average income per population was studied by OECD (2003), it was shown that elasticity of international trade was statistically significant. Another investigation on the impact of international trade on economic growth using a rank correlation analysis among developed countries, the result showed a positive relationship between international trade and economic growth. (Maizel's 1963)

Trade can promote growth from the supply side that is if the balance of payments cost reduces the availability of imported inputs which enter the products of exports, thereby pushing exporters to use expensive import of doubtful quality. (Kahn and Zahler, 1985)

Oviemuno 2007, studied international trade as an engine room of growth in developing countries looking at Nigeria (1960-2003), four important variables were used export/import, inflation and exchange rate, the result showed that exports does not stir the engine of growth in Nigeria.

By promoting export this will lead to a more active participation in the international market leading to competition and trade improvements in terms of productivity. (Wagner, 2007)

Nations which had little or no restrictions on trade could accomplish expeditious development economically than nations with trade policy restriction. Through faster growth poverty will be alleviated, trade liberalization can also be used as a policy tool. Poor countries engage in labour- intensive activities due to abundance of labour force.

2.3 Government

A gathering of individuals, which oversees a group or unit. It sets and directs public policy and activities of the executive, political and sovereign force through traditions, customs, institutions and laws inside a state.

The government's action taking a look at the endogenous development model contends that different exercises of government, for example, the procurement of basic infrastructures (steady power supply, good roads, and so forth.), the assurance of property and tax assessment approaches could influence the level of standard innovation and, thus, affects the long-run per capita development rate. This element supports private speculations, which improves the efficiency of the elements of creation and prompts development and advancement of the economy.

The relevance of the reform on governance and policy framework cannot be overly stressed. For years, policies have played a vital role in the development strategies of many nations. It’s widely accepted, not even least in the agreement established in World Trade Organisation, which is focused on increasing the standard of living all over the world. (i.e import substituting industrialization and export promotion policy, 1950). These policies has helped to protect domestic industry and also encourage such industries from competition (international) by implementing high protectionist trade barriers, this has also moved developing countries to adopt import- substituting industrialization. (Harrigan, 1993)

It was argued that government provide a massive boost financially and otherwise in providing the infrastructure necessary to facilitate and sustain the oil economy in a globalizing world. It was also observed that in an attempt to push up national income and foster more trade, national laws and regulations that protect local businesses, resources and jobs has to be relaxed. (Hassan, Olawoye and Nnadozie 2002).

Despite the numerous considerations regarding the loss of sovereignty, the State remains the key actor across domestic and international borders. The favoured assumption that the emergence of the world’s civil society, and increasing levels of international trade, investment and finance flows turns the nation-State into an anachronism is wrong. Within the international arena, closer cooperation associated among States represent an exercise of State sovereignty. Such cooperative actions doesn't essentially weaken States; rather, it will strengthen them by making an additional stable international setting and by giving them larger scope to expand their exchanges in such fields. Moreover, globalisation without effective and strong multilateralism is guaranteed to cause crisis as a result of markets which are inherently unstable. "Challenges been faced these days are beyond the reach of any State to satisfy on its own. At the national level we tend to govern better, and at the international level we tend to learn how to govern better together. Effective States are essential for each tasks, and their capacity for both desires strengthening" (United Nations, 2000).

The past takes an endeavour at globalization that uncovered that the term won't considerably have an effect on the development of trade in the Nigerian economy, but its elements have each immediate and opposite association with economic development of Nigeria.

2.4 International Trade (Arguments In Support Of And Against)

- **Direct Benefit**

The advantages of global trade (international) have been a significant driver of development towards the end of the twentieth century. Countries with strong international trade have turned out to be prosperous and have the ability to control global economies. The term international trade can distinctly be one of the most significant contributors to the alleviation of poverty.

In a situation when a nation focuses majorly on the specialization of certain goods, through trade (global) and division of labour, it sends out products that cost less to produce at the same time get what other nations can deliver at a lower cost. Specialization when compared to comparative advantage (J.S Mills) increases the real income of a nation and at the same time raises the standard of living. By allowing for a much better or more efficient resource utilization, international trade raises real national income, therefore having a growth promoting effect in the country.

The size of the LDC's market (locally) may impede its ability to consume a substantial volume of its yield. It prompts a minimal impulse for investment. The expertise of the market can likewise be little considering the way that per capita income and that of purchasing power. The market is opened up through international trade and increases the impulse for investment (income) and investment funds through additional allocation of resource efficiently.

In Smith’s theory ’vent for surplus’ he talked about the less developed countries (LDC’s) impact on income through international trade, inclusion of trade paved way for potential surplus. Land and labor were not efficiently utilized within such nation; trade openness (foreign trade) created a form of surplus for essential produce in return for imported finished goods which can’t itself produce. The creation and specialization of at least one or more staple products were done by a large number of developing countries.

Endeavors were set in motion for the exportation of products, as this had the tendency in opening up the market. Productivity increased through the utilization of resource and also allocating such resources efficiently within the given production function. The resultant effects are;

- Reduced unemployment and under employment
- Increased domestic savings and investments
- Global market share (gains)
- Potential sales extension (existing products)
- Expansion of the export sector through large inflow of factor input.
- Upward and downward linkage within the economy with other sectors ('staple theory of economic growth', Watkins 1963)

- **Indirect Benefits**

Mills stated that there were indirect dynamic advantages of great requests from foreign trade.by expanding the market size and scope to specialize, international trade need increased utilization of the machinery, lowered costs which let to economic growth. Additionally, foreign trade familiarizes individuals with new items, entices and spurs individuals in working hard thereby saving and accumulating capital to satisfy their needs. It's likewise prompts foreign capital importation and imbue new thoughts, specialized know-how and so on.

In conclusion, it empowers sound competitiveness and checks monopolistic inefficacies.

2.5 Argument in Support of and Against Globalisation

Globalization is a present day marvel, which can be examined from different perspective. Generally, we may say globalization is the joining of regional economies, societies and cultures and a global extension over a system of trade and communication.

This term in some cases is referred particularly to globalization (economic) once communicated by the UN's ex-secretary Brutos Goli, "there is no one and only globalization, there are numerous globalizations such as biological, socio cultural, political, and technological.

2.5.1 Different Definitions

Various authors, institutions and dictionaries have different perspectives on the definition/ word "globalization". In this way, there isn't only one correct understanding of this term which would be acknowledged by all.

From one perspective, UN has characterized it as an experience, "unavoidable in our history". It makes one world through trading of merchandise, culture, knowledge and information. There is an after effect of the progression in the area of communication, technology, transport and industry.

As said by World Bank (WB), "the definition mostly used for globalization is a global economic operation, which has experienced sharp increment. Foreign direct investment, international trade, commerce and capital flow are also included in this activity".

With regards to the definition of globalization by the World Bank Group and United Nations, the International Monetary Fund (IMF) has been able to juxtapose the UN and WBG definition of globalization which includes Foreign Direct Investment, flow of capital, commerce (international) and communication evolution and technology. Moreover, the International Monetary Fund stipulated that globalization occasionally makes it essential for the movement of trained workers and knowledge to move from one country to another.

Be that as it may, these sort of institutions are by all account not the only ones who need to give their own meaning of globalization. Different authors have given their perspective regarding globalization. For instance, in a meeting discharged in the World Bank (WB) website, David Dollar said that "economic integration occurs when a nation decreases or removes commercial barriers such as custom duty, and accept investment and trade from the rest of the world".

Leslie Sklair opined that, globalization ought to be seen as another phase of capitalism. Anthony Giddens (associate) does not think in an indistinguishable path from him. Globalization is discussed as an adjustment in the global market, the growth in communicating and exchange amongst nation state with real goods, information and money.

2.5.2 Evolution from Two Different Points of View

The word “globalization” was created by Theodore Levitt. He utilized it for the first time as part of his book called “The Globalization of Markets” which illustrates the change of the international economy which had been occurring since 1960.

On the contrary, its evolution is not sufficiently clear. Several individuals say that it began in 1980’s and others are supportive of 1870’s. Be that as it may, “the basis of globalization are three precise ideas”, which are a severe fiscal system, privatization and the relaxation of the restrictions in economies. (Washington Consensus)

The World Bank Group discusses four stages in Globalization evolution which Leandro Sanchez Zepeden in his doctoral thesis, clarifies that there five distinct stages. According to World Bank Group (WBG), these stages are;

- 1870-1914: this period marked a step forward in transport and the removal of commercial barrier. Export augmented almost 8% and 10% of the total populace which moved to another country.
- 1914-1950: Before 1870, this was marked by protectionism.
- 1950-1980: during this period economic integration was between the rich nations. Europe, North America and Japan opened their markets.
- 1980 until 2001: Manufacturing moved up to 80% around the world. Countries such as Brazil, Vietnam and India, bolstered their international commerce and globalization made developing countries progress.
- Then again, Leandro Sanchez Zepeden opined in his doctoral thesis;
- 1870 to 1913: This marked the peak in commerce but to an increase in capital and labour force.
- 1913 to 1950: Because of the great depression, the first and second world war caused international commerce to diminish.
- 1950 to 1973: Global integration was strengthened thanks to Bretton Woods’ system.
- 1973 to 1990: The switch from public companies to private increased during this period, financial system became more open to the world, advancement in communication and transport which became international.

- 1991 till date: Increase in free trade zones, such as ALADI, NAFTA and ASEAN and economic integration became stronger. Compared to other periods, workforce moved less while capital and information was crossing boarders freely.

2.5.3 Globalization

Globalization is a steady and changing phenomenon that challenges the rule of law of a nation on how they keep watch over the exercises of big business and economic behavior of people at the global scene, who provides employment to the unemployed and in addition benefit from the rest of the anomalies and shortcomings in certain economies.

A complex phenomenon, which should no longer amaze us as it arouses mixed responses to various people or groups. Some think of it as a danger to the system "nation state", identity nationally and present-day approach of democracy. It guarantees wealth for a few, for others, it tempts the consumerism that will bankrupt the masses both ethically and financially.

2.5.4 In Favour of Globalization

Why economic globalization? With technological advancement i.e. communication and transportation, it has allowed the free movement of products, services and capital. To accomplish their objective, poor nations are constrained to "incorporate" by privatizing state ventures and lessening environmental and labor standards, reduction of tariffs through the assistance of global financial establishments, such as, the IMF and WB, and regional trade agreement.

The key in the development of the economy in every nation is globalization, as a result of the opening of markets for capital and goods shows an end to regional treaties, trading blocs and countries economic independence but also speeds up solution to economic need that players of the industry have not been able to fulfill. It makes helpful the trade between different nations and decreases the disparity amongst developing and developed nations.

Determinants of globalization are as follows;

- International collaboration/partnership
- Public firms privatization

- International monetary deregulation
- Utilizing economies of scale, it can cut back expenditure
- Develop markets with new opportunities
- Growth and merger amongst companies
- Better capability to maneuver in comparison to fluctuation in national economies.

Economies of developing countries are able to improve the standard of living of its populace and developed economies can enhance their efficiency and productivity through the opportunities of globalization.

2.5.5 Against Globalization

When globalization was described, it tried to decrease its negative effects/ elements and emphasized positive features. Some of the determinants against globalization are;

- Inadequate control over the market and multinational organizations
- Child labor exploitation (increase)
- Biodiversity and cultural heritage threatened
- Environmental damage
- Territorial, economic, social imbalance would increase.
- Minimum labour requisites not fulfilled. Full employment, a precedence until lately, was postponed. due to the supply and demand laws and the production needs, work has to act as a commodity without laws that safeguards smooth minimum rights.

2.5.6 Controversy

Economic growth and welfare has been impacted positively through the liberalization of international trade, for instance, there has been a remarkable effect of globalization on China, through heavy investment in foreign capital. The case is not the same for Africa as people are wallowing in poverty and there has been severe degradation in its political, social and economic activity. Investments are not really felt and Africa is only utilized for arms trade and is usually indebted to developed countries.

In most economies, the middle class no longer exist due to low wages and benefits, workers who are sacked are forced in to the service sector.

2.5.7 The Problem of Globalization

The shortest most feasible way to achieve political, social and intellectual modernity for the developing economy is through globalization. It is said to be the most outstanding and capable means to achieve extensive development for the developing world. For the world to change, it has to go through globalization.

In a case whereby some countries produce goods better than some other countries, citizens of that country may be sacked. If less tax is collected in a particular state, this will push companies to such states in order to make profit. Countries must adapt the globalization process which requires modifications in both national and international economies.

Distribution of Revenue: In many instances, goods are produced in a country; though bringing in such goods can still be allowed if restriction is minimal. Removal of such restriction (import barrier) will bring about substitution of merchandise produced by importers inside the nation. Be that as it may, such removal of imports restrictions makes products cheaper, which is an edge for consumers in view that they will be able to purchase more products with the same funds.

Alternatively, the gathering and development of vast multinational organizations promotes globalization. The likelihood of offering its products globally and decreasing manufacturing cost via exploitation of economies of scale, with the rationale that small corporations earnings potential decreases. This can bring about a decrease in global rivalry and that one or just a few organizations influence the market.

National Law Avoidance: the chances of setting up in any nation urges organizations to search for those nations where manufacturing cost are less expensive. The laws of different nations could push up cost for organizations, hence the search for nations which have minimal legal regulations. Truth be told, they want to settle there, because of the ability to pay increased returns to its shareholders.

2.6 Theoretical Framework

The framework on trade internationally focuses on the comparative cost theory. Formulated by David Ricardo, which was improved much later by J.S.Mills. The best critique is seen in Taussig and Haberler (1988) works.

2.6.1 Comparative Cost Theory

This theory presumes trade between two nations can be profitable if one of the two nations can produce more efficiently. The law indicates that, the country should produce goods based on its level of specialization, i.e. efficient production and leave the production of other commodities to the other country. Any given nation will have the capacity to benefit if resources are moved to the business which allows for absolute or comparative advantage. The surplus is sold to different nations that in their turn send assets to those ventures which their deficiencies are least (Dereck, 1974). The aforementioned theory relies on upon the need of particular conditions of trade globally, and if not met causes intricacies. These conditions are;

- Labor is the only element in the cost of production
- The believe that goods are exchanged against one another according to the elective amount embodied in them
- Mobility of labor within the country but immobile between countries
- International trade is free from all barriers
- No transport cost involved
- Presence of full employment
- Perfect competition exist
- Only two countries and commodities
- Labor is homogeneous

2.6.2 Reciprocal Demand

The theory of comparative advantage which was propounded by Ricardo didn't give a proper insight as to how goods were exchanged. The problem later discussed by J.S Mill (1848) as he broke down his theory "Reciprocal Demand"; this was used to determine terms of trade equilibrium. It is used to demonstrate the interest for one commodity regarding the amounts of different products; nations are prepared to surrender for trade.

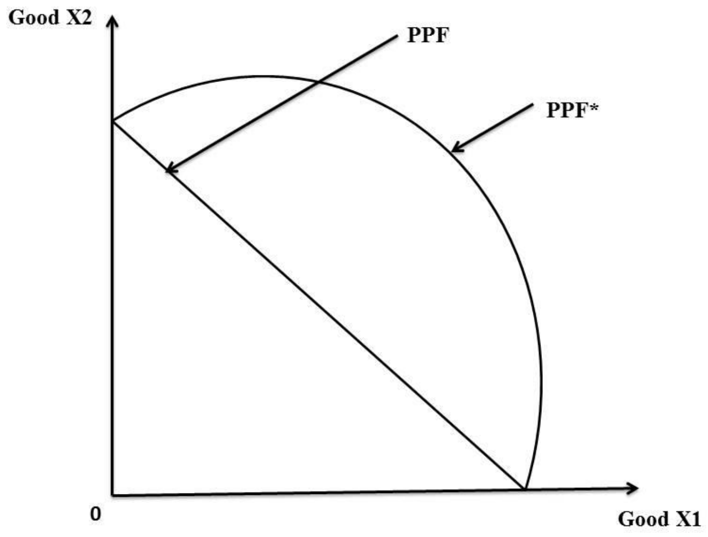
The terms of trade is determined by reciprocal demand which thusly decide the relative share of every nation. The ratio of exchange between both commodities is established through equilibrium at which amounts of goods needed by every nation of the product which it imports from the others ought to be precisely adequate to pay for another.

To provide an explanation for his conception of reciprocal demand, the Ricardian theory of comparative cost was restated by Mill's, as opposed to taking the given yield of every single product in two nations, with labour expenses excluded, Mill's assumed labor was present in every country however differing in output (Mill's 1848). For this reason Mil's formation ran in terms of comparative (effectiveness of labor or advantage), as opposed to the Ricardian comparative cost of labour.

2.6.3 Haberler's Theory Of Opportunity Cost

The theory of opportunity cost was proposed by Professor Gott Fried Haberler (1993). His theory overcame major critique under the theory of comparative cost by Ricardo i.e. labor theory of value. The principles (comparative cost) were explained by Haberler which he called Substitute Curve/Production Possibilities Curve/Transformation Curve/Production indifference Curve/Production Frontier" (Lemer and Samuelson).

Haberler established his thought with the aid of developing an easy diagram that's referred to as Production Possibilities Frontier which reveals the trade- offs that an economy faces between producing any two products. The country can either produce one of the crucial goods or some mix of the two. The curve illustrates the extra amount of one good that may be bought by foregoing a particular quantity of the other.



2.6.3 Diagram

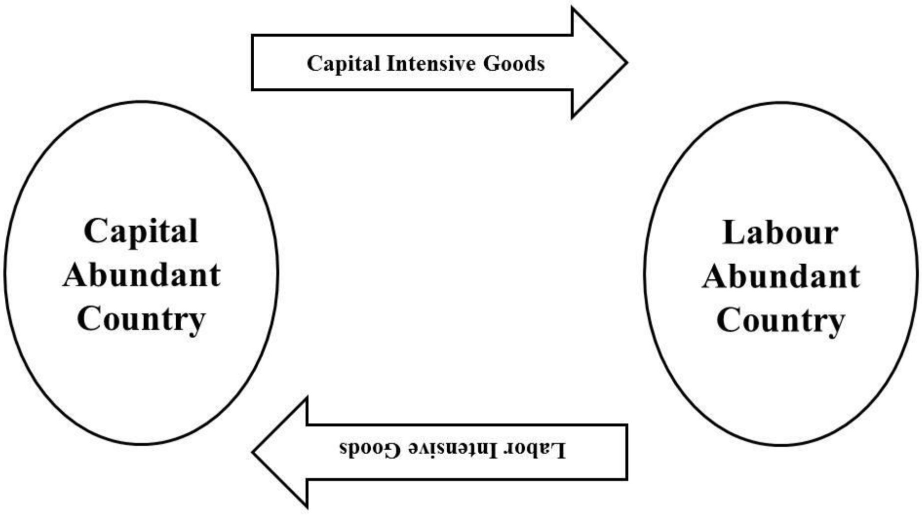
Two production possibility frontiers have been drawn, Linear PPF and nonlinear (concave) PPF*. The slope of PPF is the opportunity cost of X1 in terms of X2, the linear slope is constant. The opportunity cost changes as we change the combinations of X1 and X2 as in the case of concave production possibility frontier.

2.6.4 Heckscher – Olin Theory

The theory was first propounded in 1919 by Eli Heckscher, who was then Ohlin's teacher, he stated that factor endowment differences in various nations were as a result of trade; he then went further to formulate modern international trade theory. This theorey was critized by Ohlin in his famous book "Interregional and International trade" (1993), he formulated the general equilibrium or factor proportion theory of international trade, also known as the Modern Theory of International Trade/the Heckscher – Olin theory.

The relative availability of factor endowment and factor prices was mainly determined by the production pattern, specialization and regional trade as regards to Heckscher–Ohlin theory. Different countries/regions had different factor endowments and factor prices. Some countries had a lot of capital whereas others had a lot of labor. The theory asserts that nations which are affluent in capital will send out goods that are endowed with capital while nations endowed with labour will trade labour inclined services.(Ohlin, 1933)

He stated that some goods can be produced more cheaply from other regions thus the immediate reason for international trade. Even as within the same area their production is just not feasible as a result of high cost. In other words, based on relative factor endowment and factor prices the main motive for trade between nations is the variation in price of goods.



PATTERN OF TRADE UNDER HECKSCHER-OHLIN MODEL

2.6.5 Theory of International Trade (Classical Theory)

From the sixteenth century up until the end of the 18th century, Mercantilism ideation and perception took over trade in Europe. Adam smith's trade theory in the era of the 19th century then started gaining popularity and acceptance. The Mercantilist believed that success was shown or based on the amount of gold and silver possessed, trade was viewed as something useful for the nation. The weakness about the mercantilist thought was that individuals believed that having large amount of exports over import implied a superior welfare for its nation, as settlement was made in gold and silver. The more gold and silver received meant it had surplus in terms of export. As indicated by mercantilism, it said that one nations misfortune would prompt better rewards for another nation, which implied that financial policies was used to promote export and place confinement on imports.

As stated previously, Adam Smith trade theory was acknowledged towards the start of the 19th century. It can be said that both Adam smith and David Ricardo established the framework for the theory behind international trade. The concept of "Invisible hands" was introduced by Adam Smith, he was not in support of the mercantile ideology's' and created theories on how specialization increased efficiency. Adam smith stated that they could increase both real income (goods and services that is available is viewed as real income) depending on the producers exceptional strength and weakness.

He makes comparison of a country's situation when a family makes a decision to either produce or buy the product themselves in his book "The Wealth of Nation" (1776). The following assumptions were made to gain better understanding of Adam smith's theory;

- Assume country A and B produce wheat and flour respectively
- Country A produces good wheat than country B and vice versa
- The two countries can trade
- Both countries A and B have absolute advantage when producing wheat and flour, so should focus on producing and exporting respectively. While importing what they do not have absolute advantage over.
- Both countries will increase in wealth

His theory brought up many questions, for example, what happens to a country that doesn't have absolute advantage for any product, should this country forfeit trade?

David Ricardo had responses to these questions, with his Opportunity Cost Theory that runs as an inseparable unit of the theory of Comparative Advantage. Comparative advantage implies that a nation ought to export goods that they have least alternative cost for and import goods which they had high alternative cost.

In a nutshell, trade occurs between countries that have international differences, production know-how, and productivity. If collected real income or consumption possibilities is more than self-maintenance, which then shows that a country benefits from production specialization.

2.6.6 Theory of International Trade (Neo –Classical)

With the emergence of the Neo classical theory of trade, it has sought for ways to revamp certain inacceptable conditions of the classical theory. The modern theory (neo-classical theory), provides a very acceptable clarification for the presence of comparative cost differences amongst nations; it presented another factor of production i.e. capital; and variation in the pattern of demand internationally.

The Neo- classical theory assumes the presence of 2 nations, goods and factors of production i.e. 2 x 2 x 2 models. The introduction of the second factor of production has made the approach to neo-classical theory is different fundamentally with respect to classical theory, particularly, the interconnectedness of income distribution, international trade and factor allocation.

2.6.7 Theory of Modern Trade (1970's)

This started in the 1970's, it was said that on account of economies of scale, trade can increase the variety of products accessible to buyers and reduce the normal cost of that merchandise.

In enterprises, the yield to accomplish economies of scale represents to a noteworthy extent the aggregate global demand. The world market may just have the capacity to bolster few firms. Some pros and cons which the new trade theory presented are as follows;

PROS

- Increased productivity
- Reduction of cost
- Increased variety of goods
- Mechanism for the explanation of governments

CONS

- First mover advantage creates barrier to entry
- Smaller countries' economies are not strong or innovative
- Before the works of Krugman, David R. and Heckscher- Ohlin made emphasis on trade focused on comparative advantage of nations with various attributes, for instance exportation of agricultural produce from poor nations to rich nations in exchange for industrial products. On the other hand, in the

twentieth century, trade increased between nations with similar characteristics, which could not be explained by comparative advantage.

- Krugman (1979) in a paper in the Journal of International Economics, he gave an in-depth explanation of trade between similar countries, which includes two key assumptions;
- That buyer inclines towards a different selection of brands.
- That production benefits economies of scale.

The buyer's inclination for commodities threatens the survival of say automobile producers, Volvo and BMW. Due to economies of scale, production cannot be present across the globe; it is sited in a few countries (or maybe one). This rationale clarifies how many countries may spend significant time in delivering a couple of brands of any given kind of goods/ products, rather than having some expertise in various products / goods. The introduction of transportation cost in Krugman's model was a key element in delivering the "home market impact". The "home market effect" expresses, "All things being equal (ceteris paribus), the net exporter of goods tended towards the large nations with increased transport cost and stable economies of scale. Krugman questioned the result, because it was unexpected, but eventually realized the mathematics to the model was correct.

2.7 Economic Growth and Free Trade

Free trade is all about removing barriers to trade. Barriers to trade exist because groups and countries decide to put up to protect their own economy. Free trade implies a lot more trade across boundaries and it may be threatening because some individuals feel they may not benefit from it or may lose their incomes or their jobs while others view it differently. The whole idea of free trade is built on the principle that if more people are freely available to engage in mutually beneficial exchange, this will mean that the worlds resources will be utilized efficiently, more individuals will be wealthy, and countries can specialize in what they do best and what they produce most efficiently and trade for what they don't produce efficiently (comparative advantage).

It was contended that the pertinence of free trade is restricted on account of developing economies, where tremendous portion of resources which was beneficial were unexploited, and the intense issue of unemployment. A period of free trade will intensify the issue by undermining the local industries, particularly those that need adequate opposing power. Singh (1985)

Adam smith argued that, international trade will stimulate economic growth of a nation, by increasing specialization and division of labor. Trade openness impact on economic growth has been extensively and thoroughly analyzed. Numerous empirical studies explore the relationship between growth and trade, however the outcome are inconclusive.

Important issues were analyzed as to how trade openness affect economic growth. Nonetheless, it has been argued that after trade openness occurs the supply of human capital can boost economic growth under the growth theory. Be that as it may, papers investigating the relationship between the differences of human capital and growth after trade are rather few. Grossman and Helpman (1991) and Chang et al (2009).

There has been this belief that through trade interaction, developing countries would be provided with an opportunity to fully boost its economies and also derive the benefit of international trade, which rectified the defects of free trade. . This argument was backed by earlier opponents of free trade i.e. Harry G. Johnson (1965) and Ellsworth (1969) who favored trade intervention. The argument earlier discussed does not in any way antagonize the pivotal role of international trade in any nations quest for economic growth. Perhaps, it could be drawn from both schools of thought that trade intervention policy is preferred for a developing economy. The ideation of trade option could be considered and adopted on attainment of full capacity in any economy.

In the ever changing world, it is important to state that free trade concept is utopian, although trade intervention is still a practice commonly used globally; the extent of interference differs between nations.

In achieving planned objectives in the economy, it's important that resources are distributed effectively to various sectors, trade policies are used as instruments in achieving the set objectives. This is the prerequisite for developing countries adopting National Development Plan as their development strategy. Singh (1985), indicated "that income elasticity of demand for import in this group of countries is high", it is important to note that trade policies are vital in providing optimal allocation of scarce resources.

Peter J. Lloyd (1968) indicated "that the result in national income shows the extent to which a nation performs economically, which is a reflection of the prevailing pattern of production and international trade".

The ratio of export + import of goods and services to domestic products give an insight to the extent in which a country involves in international trade. The entire economies productivity is the index of total economic output to the value of total input. Alabi (1987) "Agricultural productivity definition" There can be an increase in productivity in two ways; if there is increased output per unit of resources, secondly producing same level of output but reducing input amount.

2.8 International Trade and Growth

The world has changed drastically over the past couple of centuries due to the prowess of international trade. From a historical point of view, there has been unprecedented growth on international trade in many nations. At a time when international trade was low, the 19^{th} century brought about changes i.e. technological advances which prompted a period of growth in global trade (first wave of globalization). Before the second world war, growth process had stopped which was reversed to interwar period, but after the II world war international trade began to pick momentum and has been much faster in the last decade i.e. trade expansion.

Transportation and communication cost has diminished around the world in the last couple of decades, and special trade agreement have become increasingly regular, especially amongst developing nations. Truth be told, trade has tripled between (1980 – 2011) amongst developing nations often referred to as south- south trade.

Free international trade is commonly seen as alluring given that it makes it possible for nations to specialize, with the intention to produce goods that are generally efficient in producing, while importing different items. Trade permits nations to "do what they excel at, and import the rest" which backs the argument in support of comparative advantage on trade.

2.8.1 Classical Period

Because the classical period didn't differentiate the Economic Growth (EG) and International Trade (IT) questions, a review in to this issue will point us to the classical (main) models of International Trade. Notwithstanding, given the purpose of this work, we endeavor to progress on those models which fundamentally talk about the 'static benefits of international trade'.

Smith (1776) pointed out two main ideas which concerned the interplay between economic growth and international trade. From one view point, international trade makes it feasible in overcoming different dimensions of the market (internal) and, alternatively, increase market extension, enhance labor division and improved output (productivity). He further said that international trade would subsequently create a dynamic force fit for building up potentials and competencies of staffs encourage technical innovation and capital accumulation, possibility of overcoming technical indivisibilities and most importantly, opportunity for participating nations to experience economic growth.

In the same light, Ricardo (1817) came up with three forces and two restrictions in his 'dynamic model of economic growth', he described the dynamic state as having increased savings, productivity, accumulated capital, production, benefit and demand for labor compelling the increment of wages and demographic growth. Be that as it may, land is limited, in both quality and quantity, conditions for decreasing returns were obtained based on extra alimentary resources, in which wages absorbs production in an increasing proportion, decreasing the incitement of new investment and eventually, attaining the 'stationary state'. The fall in the rate of profit could be deferred due to international trade (IT). Aside the contributions of international trade, undermining the relevance of technology, he undermined the irrefutable effect of international trade on technology.

Alas, Mill (1848) clearly stated the classic view point in line with which production resulted from factors of production (land, labor, capital) and their productivities. Ricardo recognized that the 'progressive state' was concealed since there was 'static state', and the drive capable of ultimately deferring this state was technical progress. Accordingly, smith placed importance on market extension which was decreasing, although smith backed free trade amongst nations. We can say such circumstance was consequent on the prediction made by the industrial revolution (IR) with respect to technical progress.

2.8.2 Post Classical Period

From the 1870's onward, classical thought on international trade (IT) and Growth paved the way for 'Marginalization', this evidence gave rise to 'new theory' (neo classical) which for a while kept the fundamental lines of economic development on the long run far from studies. The disconnection which happened amongst international trade (IT) and economic growth (EG) theories takes in to consideration the structure of this section, and also took in to account few responses to the classical and neo- classical theories.

2.8.3 Neo- Classical Period

The supporters of Ricardo overlooked the inquisition in to the justification of comparative advantages and didn't pinpoint the factors, emerging from international trade, raising a last form on economic growth rate and its propensity in the long term. Generally, the alteration offered in the Ricardian theory showed the growth in welfare brought about by international trade (IT), however neglecting resulting gains in the rate of economic growth (EG). It was with regards to neo classical general equilibrium that the Heckscher (1919) and Ohlin (1933) model appeared, whose contributions was accomplished in the late 40's by Samuelson (1948 and 1949). In an inflexible evaluation of the model, it was observed that it supported the opening of the nations to international trade (IT) demonstrating it efficiency, to the whole world it was mutually positive and beneficial. It however restricted the evaluation to the static gains of welfare.

2.8.4 Post Classical Growth

The race between the increment of the population and economic growth was a notion given by the classical economist, with an indeterminate victor. This variant slowly disappeared and the emergence of post classical economic thoughts. Economic growth (EG) was no longer observed as an issue, which was the motive behind why it was not properly tackled within reviews and write-up's of the economist as follows;

‘The causes which decide the advancement of nations economically belongs to the analysis of IT’, this was insinuated by Marshall (1890, P.225). The market expansion effect which it represented resulted in the increment of production globally and the increase of commerce of both internal and external economies, which brought about increment on economic income. He understood the value of these externalities and the difficulties of his analytic treatment were also recognized. Young (1928) was amongst his successor who was worried about Economic Growth (EG) when he considered, like smith, that labor division was limited by the dimension of the market. He additionally analyzed the connection between businesses in the process of economic growth, the establishment of specialized industries (new) as a result of market extension, the significance of specialization and standardization and the impact of this market on technological progress.

(Schumpeter 1912, 1942 and 1954) was another astounding desire amid this period's; he reiterated old points of view with respect to the inclination of the revenue to its lowest margin and the dependence of economic development rate on capital accumulation. However, he took a step further in differentiating ‘innovation’ i.e. (knowledge explored through economic activity) and ‘invention’ i.e. (advancement of useful knowledge to production). On the account that the latter as the principle element of economic growth (EG), for innovation to be effective, he described the exigencies which incorporated the need for markets opened to the exterior.

In concluding, it will be important to mention some authors who have provided more studies on this dynamic themes- and , therefore the economic growth theory, thus, providing the framework for future studies. They are as follows;

- Ramsey (1928): Optimum Economic Growth (description and principles of research)
- Cobb and Douglas (1928): production function which became known as Cobb-Douglas production functions and which constituted a fundamental component of various models of Economic Growth.
- Harod (1938 & 1948) and Domar (1937 & 1946): created a model independently, which was prompted by Keynes, which gave the study of Economic Growth (EG) the most important momentum and a precise direction?

2.8.5 Reactions to Classical and Neo- Classical Theories

Soon after the Second World War (WWII) ended, the domineering position of the Less Developed Countries (LDC's) was questioned. The classical and neo- classical orientation experienced various reactions in which consideration of certain hypothesis that were seen to be strange were abandoned. At this time, what also stood out was the Latin American introverted and protectionist economic growth experiments (industrialization for import substitution), owing to rationalization and justification, as a matter of first importance, to some structural economist; Prebisch (1949): Exec. Sec. United Nations and Singer (1950) and the United Nations Economic commission for Latin America (ECLA). Basically, it was acknowledged that international trade (IT) carried a negative long term outcome for the Less Developed Countries (LCD's) since specialization was focused on products with low demand income elasticity and, thus, with a feeble view point of exports growth, and noticed an inclination for the steady deterioration of trade terms. Moreover, this specialization involved huge social and economic costs of adjustment to the development of the chain of international trade.

Myrdal (1956 and 1957) maintained that international trade didn't equate the reward of factors (in disagreement with the proposition of the neo classical model) and that, contrary to the Developing countries' industries, the Less Developed Countries (LCD's) industries remained frail. In the short term Less Developed Countries (LCD's) experienced a positive effect through international trade (IT), however the unwanted effect remained in the long term period given that it influenced production of primary goods (mining enclaves and plantations) dependent on sporadic prices and demand. Nurkse (1959) also scrutinized the importance of trade done commercially between the developing and less developing countries (DC's and LDC's). Perroux (1978) regarded the less developing countries (LDC's) has been controlled. The dilapidation of the trade terms and presence of unequal trade bias towards the countries that were less developed was determined respectively by Lewis (1954 and 1969) and the Marxist author Emmanuel (1969). Developing countries (DC's) consequently caused economic growth (EG) and structural transformation, which on the long run caused the loss of potential positive effect on the external world.

A few elite authors found the economic relations as all inclusive i.e. chain of capital, goods and services. We have the;

- Radical Marxist vision: Destanne de Bernis (1977) and Andreff (1981) and
- Dependency theory: Santos (1970), Frank (1970) and Amin (1970 and 1973)
- The changes and deformation in the social and economic structures were supported by the elite authors which were consequences of underdevelopment induced by the developing countries (DC's) economic and social relation.

2.8.6 Modern Neo- Classical Theory of Growth

With the revival of the classical approach, the interest for Economic Growth (EG) reawakened in the late fifties and early sixties, according to which production was a function of the factors of production (land, labor, capital) and its productivities.

We can also say that 1956 was the year for modern neo classical theory of economic growth with Solow and Swan (1956). The model proposed depicts the connection between capital accumulation, savings and economic growth (EG) based on aggregate production function, and a point of sustainable equilibrium, which might be reached despite initial stipulations. Through means of increased factor production, technical growth (exogenous) made beneficial outcomes on the accumulation process and made a compatible model with a balanced growth path. It took in to consideration the convergence between economies i.e. in economic terms. Additionally, with the technical development diffusion there would be merging of the rate of economic growth per capita for a regular steady- state. Subsequently, one might say that, by encouraging the diffusion of technical development, international trade (IT) would be essential for less developed countries (LDC's).

Solow (1957) as a commencing factor utilized the function of aggregate production to evaluate the source of economic growth in the United States which is concerned with the 'Accountability of Economic Growth'. Labor and capital growth rate is what makes up the rate of economic growth (EG) i.e. traditional sources, measured by various support in production and technical development or Total Productivity of Factor (TPF). The changes between the determined rate of economic growth and the part of economic growth explained by traditional sources, hence, the designation 'residual of Solow' was a result of Total Productivity Factor (TPF). Certainly Solow noted the 'Economic Growth Effects' (three sources mentioned previously) from 'level effects'. Thus, international trades (IT) will on the long run, be a 'level effect' making a positive impact in a momentary period of time.

There have been various attempts from economist after Solow to improve the knowledge which was considered to be a source of the ‘residual’. Nonetheless, the ‘accountants of economic growth’ (post Solow) seen as contributors to such elements as accumulation of human capital, economies of scale, improved allocation of resources and new generation of productive machine; amongst others Denison (1962, 1974 and 1985), Kendrick (1961) and Griliches and Jorgenson (1967). In any case, they couldn’t understand the progression in knowledge, leaving an unexplained residual factor. Moreover, international trade wasn’t included as a source of economic growth (EG) at the least none explicitly. We presume this circumstance is because of two components as of now stated;

- Separations occurring between international trade and economic growth (IT & EG) theories.
- The impact of international trade on the level and not on the long run of economic growth rate.

2.9 Review of Nigeria’s Trade Policies

There are two broad regimes that discuss Nigeria’s trade policy which includes the era before Structural Adjustment Programme (SAP) was introduced and after its appropriation. All through these administrations, policies on trade displayed indistinguishable attributes of been short term (operational and reviewed within each fiscal year), and positioned at setting viability, and export promotion. They were additionally intended to complement other policy initiatives, for example, job creation, industrialization policy and policies for self-sufficiency, and so on. The policies are as follows;

2.10 Pre- Sap Trade Policies

In 1960 (Nigeria’s Independence), the Nigerian economy in many respect was seen as rurally and relatively backward, it was mainly focused on agriculture with little concentration on the industrial sector. In a bid for economic improvement, the pioneering leaders embraced the strategies for development planning as an instrument for guaranteeing stable and speedy development in the nation. Through the improvement of the country’s industrial base, attention was placed on the quickened progress in the nation. Therefore, trade policies had to be prohibitive with a specific end goal to direct the demand pressure. In order to regulate the foreign exchange demand as against the available supply, measures for exchange control was introduced as a way to maximize reserves usage by guaranteeing important exports is granted precedence over different imports in the usage of resources of foreign exchange. Additionally, focusing on the end goal in offering impact on the policy (import substitution industrialization policy), barriers on trade i.e. import licensing was set up to control import while complementing import tariff, at the same time ensure the protection of local industries put in place for the production of import substitutes, The structure of custom tariff was purposely prejudicial, partial in support of raw materials and capital goods.

Items seen as luxurious goods had either been included on the restriction list or excise duties (high) imposed on them. The nation's import and exports were focused in the western world looking at the directional flow of trade, though the policy wasn't intended, but as a result of historical inheritance.

From 1970-74 the 2nd National Development Plan commenced after the termination of the civil war in Nigeria. The restoration of destroyed asset and revival of the productive capacity of the country was a major strategic plan in securing economic growth, likewise ensuring the fruit of development is distributed equitably. It was predicted that at the end of the planned period, goods and services would be produced in Nigeria, depend on its labor, finance its development, as well as aim for the best terms for its export.

The aim of the design was to fuse and enhance the important areas of the 1962 to 1968 plan i.e. improve agrarian and industrial production, at the same time improve manpower (high and intermediate level). More informative sources were subsequently required the enactment of plans which ultimately stimulated import demand. A stiff exchange control measure was introduced for the budgeting of foreign exchange (1971/1972) to relate aggregate expenditure for foreign exchange, by level and income. Import licensing was strengthened and the ban placed on increased amount of non-essential item, even as some finished consumer goods which were under particular license (viewed as not too essential) kept their importation within specified quotas. Increment in crude oil price in 1973 combining low absorptive capacity in the nation, and the presence of various obstacles on production in the economy had by 1974 prompted a stand point in which Nigeria encountered surplus funds for which it had no immediate internal investment outlet, in this situation, further liberalization was presumed necessary for exchange control regulations. Therefore, in the confinements on import payments was expelled as the development from the raw petroleum trade moved into the 3rd National Development Plan (1975-1980).

The 3rd National Development Plan design was exceptionally driven, in view of enhanced profit of the economy from the oil sector. Policies on trade were also liberal. With the commencement of the 4th National Development Plan (1981- 1985), Nigeria was already going through major down turn in its earnings which was heightened by the oil shock in the mid 1980's. There was a sudden decline in oil prices, but there was upward movement for the demand for imports. The external reserves level in 1974 which was able to finance twenty-four months of imports, could just bolster 1.8 months before the end of 1978, and no more than one month in the mid-1980.

The fact that demands for import was price inelastic; the effect resulted in a balance of payment deficit. Combined attempts were then made to enforce stringent trade restrictions control looking at the trends of import.

2.11 Trade Policies during Sap

The extent of distortion in the Nigerian economy brought in by the manner of control made it obligatory for the governing body to take pressing and radical steps in mitigating the situation. Hence, on July 1986, to accomplish the objectives of the SAP a few policies were laid down. Apart from international trade, the main focal point was trade liberalization and its system of pricing. With attention placed on the use of "proper distribution of foreign exchange through price mechanism". The new dispensation brought about the abolishment of import and export licensing as its application was seen as irrelevant during this period. To empower exporters and improve export activities, the system of the exporters surrendering export proceeds to the CBN was cancelled. Therefore, exporters were permitted to handle their earnings from export in their various accounts (domiciliary) where foreign exchange transactions were done without hitches.

Under the revised drawback/suspension scheme, import duties and other indirect taxes and charges were removed for producers/ exporters so as to bring in raw materials and other intermediate products. In order to boost exports, the Export Incentive and Miscellaneous Provision Decree of 1986 were made public. By way of it, the Central Bank of Nigeria provided certain facilities (refinancing and rediscounting) to banks in order to provide export financing to their clients. Additionally, the **Nigerian Export Credit Guarantee and Insurance Corporation** (1988) came on board, and was later renamed **Nigerian Export- Import Bank (NEXIM)**, to give/ grant credit and risk bearing facilities to banks, in order to urge them to bolster exports.

Within the field of exportation, the exchange rate of Naira which was devalued at various levels of the Foreign Exchange Market was intended to make import dearer and therefore deter exorbitant importation and thereby reducing balance of payment pressure. Import licensing was cancelled and dependence placed on the employment of custom duties to control imports. The import prohibition list was also greatly reduced.

2.12 Trade Policies in Recent Years

The recently reviewed Common External Tariff [CET] which governs the Nigerian tariff policy under the administration of Economic Community of West African States (ECOWAS) , in 2005 selected 4 levels of CET at a 20 percent maximum rate, later reviewed in June 2009 and added a 5th level of 35%, fundamentally at the request of Nigeria. The 35% rate to 167 (of 5,671) tariff line items is practices in Nigeria and the new CET covers around 80 percent of the nation's tariff lines which in 2008 had non- zero import value, apart from tariff enclosures, Nigeria had a protracted record of restricted imports (and a short reward of restricted export) as a result making smuggling rampant in the country. Imports smuggled made its way in to Nigeria through neighboring countries (Benin, Cameroun, Chad, and Niger).

In 2008 (September, there were amendment initiated during the trade regime to lessen tariffs for a broad range of goods and replace a number of import ban through tariffs. In light of the nation's most recent (2006) MFN Tariff Trade Restrictive Index (TTRI) which was 11.4 percent (98th), where first is least restrictive of 125 nations. In view of these index, trade openness in Nigeria was the same as the average sub- Saharan African (SSA) nation however more prohibitive than the average middle income nation (TTRI at 8.6 percent). Government aims at improving food security, the agrarian sector is spared tariff protection at a high level (TTRI at 28 percent) in comparison to non- agrarian sector (TTRI at 8.5 percent)

There has been drastical decrease from late 1990's and mid 2000's of the nation's average MFN applied tariff (which includes ad valorem equivalents on specific duties), once over 20 percent and now remains at 12 percent. There has also been decrease in the last decade in the maximum applied MFN tariff (aside from alcohol and tobacco) and used to be 50 percent as of 2008. The wedge separating bound and applied tariffs (over hang) measured the nation's trade policy space, which was overly large at 106.4 percent, in comparison with 48.1 percent on average by its regional neighbors and for the lower-middle-income nations 29.5 percent. On the GATS commitments index the nation seats 91st out of 148, reflecting abundant space for devoting further multilateral liberalization in service trade. In 2008 the government faced a huge increase in food prices which pushed government to greatly reduce import tax on rice from 100 to 2.7 % and designated exclusive funds for the importation of rice to curtail food shortage.

2.13 National Trade Policy: Ten Years Review

The first trade policy in Nigeria was produced in 1991 and was modified in 2002 so as to show Nigeria's commitment under the WTO trading framework, and in addition the findings of the WTO 1998 Trade Policy Review (TPR). The policy profited from all the contribution of the state government and in addition organized private sector, under the management of the then Federal Ministry of Commerce. The policy recognized 18 preferential areas of export promotion, a range of export incentives, defined objectives for notable sectors (agriculture), and set out an institutional structure for implementation.

The Federal Ministry of Industry on August 2011, trade and investment request that a review be done on the trade policy in over 10 years, keeping in mind the end goal to further the objectives of NV20:2020- (which aimed to push up the foreign exchange gains of agro-industrial exports to derive 50% earnings for Nigeria in 2020). The recent trade policy draft tried to provide a more coordinated way to deal with trade, investment and industrial development. In this view it'll have a firm link with the forthcoming National Revolution Transformation Plan (NIRP), additionally being elaborated via the same ministry over 2013. For example, the NTP's import draft coverage recommends that most desirable tariffs be calculated and set in consonance with the NIRP and with Nigeria's Backward Integration Programme.

The National Trade Policy draft (as it remained in August 2013, and which has experienced further emphasis through the span of 2014) focuses on expanding the national product base, remarkably by means of empowering non- oil exports. The draft had set a target to promote increased "local patronage" of product made in Nigeria; and more efficiently utilizing trade defense mechanism and measure of international trade governance where suitable (for example, custom tariff and dumped and subsidized imports counteractive measures). On the view that the NTP draft strikingly proposes to set up a Board of Trade Defense Mechanisms, which would conjure every fundamental provision of WTO agreements on anti-dumping and countervailing measures, and in addition safe guards and subsidies.

NTP's export policy highlights that, building up a liberal import regime will best be pursued to the extent that it boosts international competitiveness of local industries and the industrial realization and development under the NIRP. The reduction of NTB's and tariffs primarily with respect to the necessities of the import dependent industrial sector, which depends on imported capital merchandize and raw materials. In parallel and other financial sectors, domestic laws will be reinforced "with a specific end goal to moderate negative results which may float from uncontrolled imports". NTP draft (chapter 4) focuses on important tariff liberalization within the ECOWAS ETLS structure, however it takes in to cognizance that liberalization will be sequenced and won't cover "consumer related goods to: education, health and allocation of poverty; supporting infrastructural development; and various industrial development strategies intended to relieve constraint on supply capacity". This interpretation leaves the sector subject to liberalization widely open to interpretation-which risks dissuading potential investors or traders in those sectors.

Questions arise as regards the fiscal implications of Nigeria's stated dedication to trade liberalization. Customs is surely a fundamental revenue earner in Nigeria, as in many developing nations: customs revenue improved greatly (20%, reaching USD 21.25billion) mid-way in to the year (2011) also the first half of 2012, resulting from multiple fees and levies imposed on import and export (OBG, 2012). This lessens policy incentives to get rid of such charges and to be sure, the NTP's draft provision with respect to custom duties could be made clearer. NTP's draft (chapter 4) indicated that custom duty excluded will be geared particularly in view of "securing carefully targeted categories of product domestically" (FMITI, 2013). Despite the fact that the document clarifies the presentation of new duties, taxes and NTB's will stay in strict compliance with global trade obligations; the strategy is rather much inward- looking. This may be unfortunate, at a time when Nigeria is eventually relishing the benefit of its past structural adjustment and liberalization efforts changing the nation's stance now may impede the ground gained so far and would demoralize foreign investors.

2.14 Problems and Challenges of Expanding Trade in Nigeria

2.14.1 Agriculture Vs Oil

With the exploration of crude oil, agriculture was neglected subsequently since the 1970's has made a haven for corruption and mismanagement in Nigeria. The unfortunate unfolding of this events, and the corruption in high places has made a select few outrageously rich while the masses leave in abject / extreme poverty. This has resulted in a wide gap between both classes (rich and poor) in the state of the country. In order to be amongst wealthy individuals, Nigerians have given up agriculture, and overnight have turned themselves in to oil exporters and merchants. With this disturbing situation, Nigerians that were once ebullient, now turned lazy, steadily looking for an economical and fast technique of 'making it' even as voracity, corruption and need for instant fulfillment developed and has taken center stage, agricultural need has crashed to the most lowest degradation/ deterioration.

Due to the increased income which the oil and gas sub sector of the extractive industry offers, there has been total focus on this sector forgetting the mainstream economy. The false paradigm model additionally plays out in the economy, while a few very rich individuals clamoring for relevance within the context of 'export advise', while the impoverished suffer from ignorance, disease and malnutrition.

The value of agriculture cannot be commonly over emphasized in Africa or especially in Nigeria. Taken the resident permit taken by poverty in Niger, despite the fact that we were cautioned against it by Professor Pat Utomi (2003), we can't get out of it today simply by depending on oil and gas. We can't put on a show to disregard the value of agriculture in the economic drive of our country. World Bank (2003) data revealed that more than 70 percent of Nigerians live beneath poverty level (less than a dollar everyday), suggesting that there has been a cosmic development in the levels of poverty in Nigeria from independence till date. This is an embarrassment to the nation, yet it is a problem that can be redressed.

2.14.2 Poorly Designed Liberal Trade Policies

Most often than not, the process of trade liberalization includes a decrease in tariffs or barriers to trade. In relation to this, trade liberalization has emerged as a normal policy regulation for increment in the flow of trade. In any case, this has not generally worked out and empirical evidence has revealed that trade liberalization cannot be related on to balance import and export of an economy, Thinking mechanically in relation to liberalization programming model taught in universities and seminars, a model in which trade policies variables are moved to balance import and export is a disaster waiting to happen. Factors which derive imports differ from those of exports. In such manner, in spite of the fact that a developing nation might have the capacity to control how quick it liberalises imports, it is then again considerably less not been able to impact the short run development rate on export. The indifferent standard of policy implementation by different government and executive capacity not been present at the national level were factor responsible in the aspect of negative growth in terms of agricultural and industrial output. All these developed into cultural requisition, the society of Nigeria is the ethical fibre to handle the growth of a self-sustaining economy.

Furthermore, hesitance from Nigeria in committing investments within the export sector has shown the failure of the export sector to develop expeditiously. The shortcoming of this sector at the grass root is a reproach in the failure of policies laid out by the Federal Government. Thus the extension of the agrarian and industrial sector for exportation in Nigeria is held all-around debilitated by low compelling interest for locally made items, occasioned by the steady inflow of less expensive and better quality imported items, absence of institutional structure to develop and promote such sectors and the negative infrastructural condition (for instance power and water supply).

2.14.3 Corruption

In spite of the fact that corruption is a general phenomenon, Nigeria seems to experience the ill effect of it. Everybody seems to conclude that the country has a ‘culture of corruption’. Throughout the years, Nigeria has amassed a lot of wealth (cash) from unrefined oil, which seems to have a great extent of wealth gone down the drain though the evil called Corruption. In an article, “oil giants that runs on grease of politics”, Nigeria was portrayed as a rich country flowing on oil riches “however 2100 none got to its general populace” (San Francisco Chronicle, march 11, 2007). Corruption has prevented Nigerians the value of the petro-dollar that has accumulated to the nation throughout the years. The disappointment of poor infrastructure, political and ethical standards as well as educational requisites can quite simply be traced to corruption.

2.14.4 Dutch Disease

The oil boom of mid 1970’s, led to the nation relinquishing the agricultural and industrial sector of the economy to the old and feeble. The private and public sectors of the economy focused their effort around the oil & gas sector to the degree that the mainstream economy is denied funding, essential investment, and even managerial competence. In this manner, the mainstream economy had gotten to be uncompetitive internationally while the nation has transformed in to a trading outpost for international companies. This has impeded the much needed transformation of the economy in the last 4 decades.

2.14.5 Poor Investment Climate

The outcome of all which have been stated is the bad investment climate in the economic system that has rendered the economy uncompetitive without sufficient infrastructure (power, roads, water) the expense of doing business in the nation stays high, in this manner hampering trade growth.

2.14.6 Unfavourable International Trade Policies & Asymmetric Information

Under the guidelines of World Trade Organization (WTO), developing countries may face national implications as regards its sustainability growth agenda. The present worldview in the governance of investment (agreement on international investment entered in to with such nations) does not grasp the standards of growth sustainability. Such agreement does not consider the economic weakness of these nations. Various researchers and strategies experts have created literature that provides vital decisions about the new implications and roles and the connection between threats, powers and motive behind such investment (international). Such rewards bring up issues about the ethical and professional responsibility of economist in the frontline of these discussions. As the expression suggests, it is a condition where by experts (economic) obtain more data than others and this influences the result of bargain between them. Amongst this theories are some that yield imperative understanding in to the operations of the financial market and trade internationally. Cooper (1984) discovered that “the structure of countries was far from meeting the requirements of perfect competition. Only 160 member nations were in the committee, a considerate amount of them had an effect in some markets where in they operate, just a few of which had a huge influence on all the market where they operate. To put it plainly, the committee of countries exits by and large due to monopolistic power. Any effort made in using such constrained monopolistic power in the quest for national goals infringes the terms of competition and raises the likelihood of pushing economic policies in the direction of global sub- optimality. On the flip side, it raises the possibility of profit as said in view of economic policies ‘coordination and cooperation’ so as to improve the accomplishment of national economic objectives. (Cooper 1984, pg. 1221)

In the event that cooper’s perception is right, then the current interdependence of global economics is asymmetrical, biased in support of the western world. Therefore, for countries to gain from this economic order, they need to go back to the drawing board and restrategize. (Thliza, 2007)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter evidently deals with the methodology used over the span of this research. In chapter two there was an argument in support of and against globalization and international trade respectively, however depending on this conception won't provide an optimal result as there is a requirement for reaching the desired result through econometric methods, having in mind the supporting criterion.

The purpose of econometrics is to check economic theory or statements on how well the explanatory power of the model estimates perform with respect to the macroeconomic unit (Koutsoyiannis, 1973). This legitimized the purpose for adopting econometric tools for this study.

3.1.1 Model Specification

There have been various models when looking at international trade, Atoyebi Kehinde on "Foreign trade and Economic Growth in Nigeria" used GDP as a function of export, Foreign Direct Investment, Exchange rate, import, inflation rate and openness, Adeleye J.O. on "Impact of International Trade on Economic Growth in Nigeria" used GDP as a function of Balance of trade, export, import and balance of payment, Ayinde Adelewo on "External Trade and Internal Development" used GDP as a function of net export, degree of openness and terms of trade, Bela Balasa on "Export and Economic Growth" used GDP as a function of net export, degree of openness and exchange, the above mentioned studies is economic growth measured by GDP as the dependent variable while the other independent variable follows.

This research examines the impact of globalization and international trade on the growth of the Nigerian economy. The variables needed for this study like previous studies are both dependent and independent variables.

The OLS technique has been adopted for the specification of the model in this form;

$Y= b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + \varepsilon$

Where;

Y= dependent variable

b_0= intercept or the equation constant

b_1- b_4= the coefficient of the independent variable

ε= the error term

Specifically the following functional relationship is stated for this study

RGDP= f (NEX, EXCH, FDI, OPEN)

Where,

RGDP= Real Gross Domestic Product

NEX= Net Export

EXCH= Exchange Rate

FDI= Foreign Direct Investment

OPEN= Trade Openness

Similarly,

$(\log)RGDP= (\log)\ b_0 + b_1 (\log)\ nex + b_2 (\log)\ tgexp + b_3 (\log)\ exch + b_4 (\log)\ inflr + b_5 (\log)\ fdi + b_6 (\log)\ open + (\log)\ \varepsilon$

Was developed to see the overall impact of globalization and international trade on the growth of the Nigerian economy.

Unit of measure:

Values of GDP is in billion/naira

Values of Net Export is in billion/naira

Values of Exchange Rate is in naira per one dollar

Values of Foreign Direct Investment is in billion/naira

Values of Trade Openness is gotten as the ratio of GDP to total trade

3.1.2 A Priori Expectation

Considering the various instrument of globalization and international trade in Nigeria, it would be normal to say that a positive relationship will exist between globalization, international trade and economic growth in Nigerian economy.

That is;

$\frac{\partial(GDP)}{\partial(nex)} > 0$; $b_1 > 0$

$\frac{\partial(GDP)}{\partial(exch)} > 0$; $b_2 > 0$

$\frac{\partial(GDP)}{\partial(fdi)} > 0$; $b_3 > 0$

$\frac{\partial(GDP)}{\partial(open)} > 0$; $b_4 > 0$

3.1.3 Test of Significance criteria

The next step once you have established the economic criteria of any model is to develop statistical and econometric criteria for the evaluation of the estimated parameter. These models adopted include;

3.1.4 The square of the correlation coefficient (R2)

The square of the correlation coefficient (R2) is said to be the ratio of explained variation to the total variation, which is often called the coefficient of determination. It is used to indicate the percentage of total variation, that is (dependent variable which are explained by the independent variable) which lies between ratio 0 and 1 and the closer to 1, the greater the explanatory power of estimator.

The test allow for better decision as to whether the estimates are significantly different or not. If the standard error is smaller than half of the numerical value of the parameter estimates, then we conclude that estimates are statistically significant.

For the determination of goodness of fit of the regression line and result reliability, we shall be using tools such as adjusted coefficient of determination (R2), t-statistics, f- statistics, the Durbin - Watson statistic and Schwarz criterion for quantitative analysis.

3.1.5 Adjusted Coefficient of Determination (R2)

Adjusted R2 would be employed to measure the goodness of fit in the model, since R2 does not take in to account the loss of degree of freedom.

3.1.6 Durbin Watson Statistics (d)

It is a test statistic used to observe the presence of auto correlation (a relationship between values separated from each and every other by means of a given time lag) within the residuals from a regression analysis. Named after James Durbin and Geoffrey Watson Gujarati (2003). The ‘d’ value is between 0 and 4. If the DWs is < 2, this shows evidence of positive correlation. Using the rule of thumb, if DW is < 1.0, there could be cause for alarm. If ‘d’ is greater than 2 (successive error terms) are on average, differ in value from one another that is negatively correlated. This could imply underestimation of the level of significance statistically in regression.

3.1.7 T – Statistics

This measures the statistical significance of an independent variable ‘b’ in explaining the dependent variable ‘y’. It also measures how many standard errors the coefficient is away from zero. Any t- value > +2 or < -2 is acceptable. The higher the t-value, the better the confidence within the coefficient as a predictor. Low t-value is indications of low reliability of the predictive strength of the coefficient.

3.1.8 Schwarz Criterion or Bayesian Information Criterion (BIC)

Developed by Gideon E. Schwarz, who gave a Bayesian argument for its adoption. A criterion for model determination among a class of parametric models with special numbers of parameters. It is closely cornered with the Akaike information Criterion (AIC). The penalty for additional parameter in BIC is better than that of AIC Schwarz (1978).

3.1.9 F – Statistics

A statistical test in which under the null hypothesis has an F- distribution to test statistics. It is regularly utilized when comparing statistical models that have been fit to a data set, so as to distinguish the model that best fits the populace from which the data were sampled. A correct F- test regularly comes up when the units had been matched to the information utilizing least squares**.**

3.1.10 Justification for the Estimation Technique

This research is centered on the (OLS) equation, designed to foresee the explained and explanatory variables relationship. The model is essentially in multiple regression form.

Through the fact that there is no concession to which of the available economic model is the most appropriate for empirical stations but the parameter estimate acquired by ordinary least square (OLS) has some optimal properties. Furthermore the calculation of OLS is relatively simple as compared to other econometric technique and no excessive data is required.

Lastly, the (OLS) technique has been in a vast variety of economic relationship with rather sufficient influence and regardless of the development of computational and of statistical knowledge which facilitate the use of other intricate econometric systems. Additionally OLS is a basic part of most other econometric techniques.

3.2 Definition of Terms

Globalization- Globalization implies distinctive things to various individuals. Some say it is the movement of individuals, ideas, thoughts, and products around the globe. Others view it as the dominance of multinational companies and the obliteration of social characters. The importance of the term in itself is a point of economic discuss; it might allude to "real" processes, thoughts that legitimize them, or to a state of mind about them.

International Trade- According to Li, Chen & San, (2010) - international trade is often regarded as “foreign trade”. It involves the outward and inward flow of goods and services in a particular geographical location. Every nation imports/ exports represents a huge chunk of its Gross Domestic Products GDP, thus showing a strong relationship between international trade and economic growth.

Government- A gathering of individuals that oversees a group or unit. It sets and directs public policy and activities of the executive, political and sovereign force through traditions, customs, institutions and laws inside a state.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

In this chapter data accumulated will be talked about in details through presentation, analysis and interpretation. Given its been broadly recognized that research is an investigation occurring in order to reveal new certainties, checking existing learning's and also getting extra data about certain perspectives of tackling its intrinsic issues or enhancing its valuable characteristics, this work looks to assess the impact of globalization and international trade on the growth of the Nigerian Economy. In regards to this, result of empirical examination will be discussed in this chapter. The outcome uncovers a considerable measure of fascinating issues with respect to the relationship between globalization and international trade with respect to economic growth (Gross Domestic Product used to measure) and other variables which include net export, exchange rate, Foreign Direct Investment and trade openness as explanatory variables indicated in the model. Time series information utilized traverses 21 years (1994 – 2015).

4.2 Analysis of Data

4.2.1 Descriptive Statistics of Data

Different descriptive statistics were used over the span of completing this study, data gotten were examined and the data provides informative insight as regards statistical sample such as mean, median, minimum and so on.

	GDP	EXCH	FDI	NX	OPEN
Mean	3.96E + 13	4.485316	-3.31E + 09	**4.78E + 12**	8.33E + 09
Median	3.85E + 13	4.845933	-1.98E + 09	3.75E +12	7.25E + 09
Maximum	6.98E + 13	5.259787	-1.00E + 09	1.13E +13	2.44E + 10
Minimum	2.02E + 13	3.085775	-8.02E + 09	5.68E + 11	-2.34E + 10
Std.Dev	1.75E + 13	0.792551	2.28E + 09	3.07E + 12	1.16E + 10
Skewness	0.359474	-1.159336	-0.669797	0.885442	-0.593499
Kurtosis	1.652620	2.550848	2.079294	2.692859	3.625680
Jarque- Bera	2.137959	5.113150	2.422029	2.961168	1.650404
Probability	0.343359	0.077570	0.297894	0.227505	0.438146
Sum	8.71E + 14	98.67695	-7.29E + 10	1.05E + 14	1.83E + 11
Sum Sq. Dev.	6.40E + 27	13.19087	1.09E + 20	1.98E + 26	2.82E + 21
Observations	22	22	22	22	22

Table 4.2.1- Descriptive statistics of the data

Table 4.2.1 reveals an increased level of consistency in the series as majority of the mean and median value are within the minimum and maximum value of the series. Furthermore, the low standard deviation of the considerable number of data's reveals that the deviations of the real data from the mean value are small.

The Skewness and Kurtosis statistics gives helpful data about the symmetry of the likelihood of the information and the thickness of the dissemination respectively. Jarque – Bera statistics was utilized to test (normality or asymptotic property of these series) and this can be measured utilizing these two statistics. As shown in 4.1.1, Jarque – Bera reveals a normal distribution of data.

4.3 Data Presentation

4.3.1 Data

YEAR	GDP	EXCH	NX	FDI	OPEN
1994	2.02E+13	21.996	3.55E+12	-2E+09	3.12E+08
1995	2.02E+13	21.89526	3.29E+12	-1.1E+09	-5E+08
1996	2.12E+13	21.88443	2.17E+12	-1.6E+09	5.58E+09
1997	2.18E+13	21.88605	3.46E+12	-1.5E+09	1.78E+09
1998	2.24E+13	21.886	3.75E+12	-1.1E+09	-3.5E+09
1999	2.25E+13	92.3381	3.9E+12	-1E+09	1.79E+09
2000	2.37E+13	101.6973	4.43E+12	-1.1E+09	8.95E+09
2001	2.47E+13	111.2313	1.87E+12	-1.2E+09	3.91E+09
2002	2.56E+13	120.5782	2.23E+12	-1.9E+09	2.34E+09
2003	2.83E+13	129.2224	2.26E+12	-2E+09	5.58E+09
2004	3.79E+13	132.888	3.76E+12	-1.9E+09	1.71E+10
2005	3.92E+13	131.2743	3.55E+12	-5E+09	2.44E+10
2006	4.24E+13	128.6517	7.77E+12	-4.5E+09	2.33E+10
2007	4.53E+13	125.8081	1.59E+12	-5.2E+09	2.08E+10
2008	4.81E+13	118.546	5.51E+12	-7.1E+09	2.38E+10
2009	5.14E+13	148.9017	5.68E+11	-7E+09	8.91E+09
2010	5.55E+13	150.298	4.37E+12	-5.1E+09	1.18E+10
2011	5.82E+13	153.8616	8.74E+12	-8E+09	1.16E+10
2012	6.07E+13	157.4994	1.1E+13	-5.5E+09	1.76E+10
2013	6.39E+13	157.3112	6.61E+12	-4.3E+09	2.28E+10
2014	6.8E+13	158.5526	9.41E+12	-3.1E+09	-1.8E+09
2015	6.98E+13	192.4405	1.13E+13	-1.7E+09	-2.3E+10

Source: Authors computation (World Bank Data Base)

4.4 Regression Analysis

This chapter concentrates on data analysis, elucidation of results and discussion. The outcomes reveal the econometric impact of some explanatory variables which are GDP, exchange rate, net export, FDI, openness on the growth of Nigeria. The regression analysis is explained in this section with a test for ordinary least square (OLS). Various statistical tests such as standard error, T- test, adjusted R- square, Durbin-Watson, and F- statistics were used to validate the result.

Dependent Variable: GDP
Method: Least Squares
Date: 02/10/17 Time: 16:11
Sample: 1994 2015
Included observations: 22

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.76E+12	3.60E+12	1.321704	0.2038
EXCH	1.57E+11	3.69E+10	4.247248	0.0005
FDI	-3075.696	980.3740	-3.137267	0.0060
NX	1.973126	0.588915	3.350445	0.0038
OPEN	-244.8028	172.9291	-1.415625	0.1749

R-squared	0.875488	Mean dependent var	3.96E+13
Adjusted R-squared	0.846191	S.D. dependent var	1.75E+13
S.E. of regression	6.85E+12	Akaike info criterion	62.14450
Sum squared resid	7.97E+26	Schwarz criterion	62.39246
Log likelihood	-678.5895	Hannan-Quinn criter.	62.20291
F-statistic	29.88334	Durbin-Watson stat	1.529219
Prob(F-statistic)	0.000000		

Source: Result of Regression Analysis (Table 4.4)

GDP= 4.7600 + 1.5700(EXCH) – 3075.696(FDI) +1.973126(NX) – 244.8028(OPEN)

SE= (3.6000) (3.6900) (980.3740) (0.588915) (172.9291)

T= (1.321704) (4.247248) (-3.137267) (3.350445) (-1.415625)

R^2= 0.875488

Adj. R^2= 0.846191

F- Statistics= 29.88334

Durbin-Watson= 1.529219

4.5 Interpretation of Result

Table 4.3 displays the regression result in the model. The R- squared that is the coefficient of determination, reveals the percentage of variation in the dependent variable that was accounted for by variations in the explanatory variables. A close look at the table indicates that the model has 87.54 percent (explanatory variable) variation in the dependent variable, specifying a high coefficient of determination. The R- square accounts for 87 percent of the total variation of the GDP and 13 percent that wasn't accounted for in the model or by other variables outside the model.

F- Statistics checks the significance of the model; if **f- calculated** is greater than **f-tabulated** we will reject the null hypothesis (H_0) and conclude that the variable is statistically significant in explaining the dependent variables. From the table, it shows that F- Statistics is 29.88334 and Prob (F- statistics) is 0.00000 so we therefore reject the null hypothesis and accept alternative hypothesis, indicating the model is statistically significant at 5% level of significance.

The result of the regression shows that the constant is positively related to GDP, which makes it significant. Exchange rate and net export have positive relationship with GDP. The regression implies that a 1 percent increase in the value of net export will result in a 1.97 percent increase in GDP, while a rise in exchange rate by percent will increase GDP by 1.57 percent. The variables mentioned are significant, which means that net export and exchange rate are important variable that determines the GDP in Nigeria.

FDI and DOP were not only inversely related to GDP but also inversely significant. This result does not support the a' priori expectation as it was expected that FDI and DOP will lead to an increase in GDP, but this wasn't the case in Nigeria from (1994 – 2015), the resultant effect could be linked to the corrupt practices around the Nigerian boarders (illegal smuggling etc.). Nonetheless, this revealed that FDI and DOP cannot be used as variables to determine the GDP in Nigeria.

Durbin-Watson statistics which is 1.529219 and this indicates that the model has a positive serial autocorrelation. With R^2 pegged at 0.8754, it shows a strong positive relationship between GDP and other variables. Consequently, the model can be relied upon for inference and predictive purposes.

CHAPTER FIVE

SUMMARY, RECOMMENDATION AND CONCLUSION

5.1 Summary

This research was initiated to look into the impact of globalisation and international trade as it affects the growth of the Nigerian economy. After our independence (1960), our major export was in the form of agricultural produce, but that was short lived with the advent of the oil boom which considerably pushed our foreign earnings upwards in the mid-1970s. Earnings have increased at an estimated rate of 67.4(annual) between 1970 and 1974.There were suggestions that the nations export trends and pattern was moving from just a single means of foreign earnings (agriculture) to a more enhanced economy. The fantasy in that trust, in any case, soon became clear with the perception that development in export till date was uniquely accounted for by petroleum and hydrocarbon.

Oil reliance, and the appeal it produced of incredible riches through government contracts, brought forth other economic distortions. The nation's high reliance on import implied that approximately 80% of government expenditure is converted into foreign exchange. Cheap consumer products which were imported due to Naira been overvalued, combined with unreasonably high production cost (domestic) partly due to unstable power and fuel supply, has trickled industrial utilisation capacity (less than 30%). Numerous Nigerian factories would have shut down its operation owing to the relatively low labour cost, these manufacturers have lost their capacity to contend in regional markets.

Nigeria has always backed economic openness that globalisation brings forth (pros and cons). Yet, the government of the Nigerian economy in the administration of the economy must be reinforced as a defence against the thought that completely free markets are imperative for improvement to happen. Such an ideological vanity if not addressed could undermine the efforts of globalisation for economic growth in the nations.

Evidently, international trade has strived considerably over the past decade, given its beneficial contribution towards foreign earnings in Nigeria despite the growth in the country's economy, relentless effort, commitment and enthusiasm by the government would subsequently result to a more diversified and viable economy.

The outcome of this study supports the argument earlier stated by Abefe (1995), *"Nigeria's over-reliance on crude oil is unsafe on the grounds that crude oil is a squandering resource with a proven reserve which would, in the end, get depleted and the vagaries of the oil market have brought about a critical decrease in the profit in light of the exogenously decided cost of crude oil",* this demonstrates Nigeria need to broaden into different segments of the economy keeping in mind the end goal to promote the economies financial growth. The Agric sector was at one time the key source of wealth (export) and the biggest sector before the revelation of oil, with the drop of oil costs; this has likewise dropped the fortunes of Africa's largest producer of unrefined petroleum.

5.2 Conclusion

On the surface of the earth, no state or country exists' in confinement. It can be said that all countries of the world are globalised; this implies all nations are interconnected along these lines recommending economic reliance among nations independent of the level of economic growth. The purpose of this research has been to see the impact of globalisation and international trade with special attention on the Nigerian economic growth.

It would be difficult to take advantage of what economic growth and development bring forth, that is if residents of an economy can't afford very few goods and services from other countries and above all, export its own goods and services to generate income to pay for goods imported. The part played by globalisation and trade as a force to propel growth in developing countries has for long been perceived by experts and supporters of economic growth in the theories examined in this study.

It, therefore, has a quickening impact in accomplishing the macroeconomic targets of countries, such as full employment, redistribution of income, price stability, local technology development, a favourable balance of payment, and so on. Therefore, it can be deducted that globalisation and international trade together influences the growth in the economy of Nigeria in relation to the proxies used which include net export, exchange rate, foreign direct investment and trade openness; globalisation and international trade have an extensive effect on the changes in the economy.

As elaborated in the chapter four results gotten revealed that net export, foreign direct investment and exchange rate were in accordance with the A'Priori expectation and had a positive relationship with gross domestic product (GDP). The information gotten from table 4.2.1 makes it clear that from 1994 - 2015 net export was positive inferring that export exceeded import, yet this increase was mainly contributed by a single sector of the Nigerian economy.

Subsequently, Nigeria has not possessed the tenacity to profit completely from trade opportunities because of the adverse impacts of export instability, this instability is as a result of price (primary products) in the international market and fluctuation of export proceeds in the domestic economy. The significance of trade can't be denied since no forward thinking society can live in isolation. Nigeria relies on foreign trade to address a considerable lot of its issues, in spite of the fact that lately, it has accomplished a solid surplus in trade. In 2014 export added up to $99 billion and import $52.3 billion respectively, which resulted in a positive trade balance of $47 billion, but after further investigation as to what type of goods were exported, it was revealed that about 90% of its export were from oil (crude oil- $74 billion, Gas-$13.2 billion and refined petroleum-$4.23 billion). The instability of the oil market globally and changes in import and fiscal policies results in a huge year to year fluctuation in the trade balance.

5.3 Recommendations

In view of our result in chapter four, the following recommendation can be put into consideration to foster better economic growth;

- The government has to double its monetary effort and formulate policies that support the provision and protection of infrastructural facilities (such as: power generation, pipe borne water and accessible road networks) in the economy to encourage the inflow of expatriates to invest in Nigeria. The dangerous security situation of the Niger-delta Avengers, Boko-Haram and others should be tackled, due to the destruction of certain infrastructural facilities.

- The financial and capital markets in Nigeria should be reinforced by the government to its fullest capability for potential investors to have confidence in the source of start-up capital. This results in globalization and/or thereby enhances economic growth.
- Nigeria needs to continuously increase its investments in both the local and foreign markets (i.e. looking at the ever-changing global economic order), this will help maximize our potentials economically and competitiveness on the global scene. Such investment will help with the economic development of both human and material resources, thereby expanding our productivity and trade, increase income (citizens) and none- restriction of access to technology.
- The Central Bank through the directive of the government should put in place effective exchange rate policies, in doing so this leads to the avoidance of Naira been over- valued or excessively depreciated. These policies ensure relative price stability or low inflation and competitiveness of tradable goods.
- Technological dynamism is a major factor for development that emanates from Research and Development (R&D) and from inventive activities. For any economy to grow it has to learn how to manage innovation better than its rivals (other countries) in order to stand out, survive and flourish. The government should encourage public policies i.e managing innovation from known technological possibilities.
- The manufacturing sector should be strengthened through policies such as tax incentives and the development of infrastructural facilities through the assistance of the public sector. Support for domestic manufactures come in the form of non- tariff barriers, this can be tenured and reviewed.
- To create an investment friendly economy, trade policies and how it is enforced should be made liberal, therefore encouraging investment and contributing to reduced cost on government expenditure. The point is to lessen conflicting micro and macroeconomic strategies and to minimize (or eliminate) the prevalence and freedom

of corruption. Thus, responsibility, corporate governance and obligations ought to be developed as core values by each sectors stakeholder.

- For the Nigerian economy to develop and experience increased standard of living for everyday comfort, it must be prepared for stiff competition with the best as afar as its productive capacity is at its optimum, in today's ever- changing world, a nation's output should match up to global competition if we are to survive, For Nigeria presence to be felt in the international market, it must change its raw materials in to finished goods (valued added products) i.e '**Made in Nigeria'** product that can be exported, enhance quality and guarantee consistency in its capacity to produce.
- The non- oil producing sectors such as (agriculture, mining, manufacturing, solid materials, hotels and tourism, and so on) have to be strengthened and policies put in place for continuity. This will widen our export base and tax base for all levels of government and the creation of job opportunities, with endeavors to exploit existing incentive which is inherent in the exportation of goods to other countries (ongoing multilateral agreements).

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APPENDIX

Dependent Variable: GDP
Method: Least Squares
Date: 02/10/17 Time: 16:11
Sample: 1994 2015
Included observations: 22

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.76E+12	3.60E+12	1.321704	0.2038
EXCH	1.57E+11	3.69E+10	4.247248	0.0005
FDI	-3075.696	980.3740	-3.137267	0.0060
NX	1.973126	0.588915	3.350445	0.0038
OPEN	-244.8028	172.9291	-1.415625	0.1749

R-squared	0.875488	Mean dependent var	3.96E+13
Adjusted R-squared	0.846191	S.D. dependent var	1.75E+13
S.E. of regression	6.85E+12	Akaike info criterion	62.14450
Sum squared resid	7.97E+26	Schwarz criterion	62.39246
Log likelihood	-678.5895	Hannan-Quinn criter.	62.20291
F-statistic	29.88334	Durbin-Watson stat	1.529219
Prob(F-statistic)	0.000000		