



External Trade, Financial Development, and Economic Growth in Nigeria

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ABSTRACT

External trade is seen as a helpful tool that stimulates economic growth and development. The attainment of these goals cannot be possible without financial sector development in the area of credit to the private sector. This study examined the effect of external trade and financial sector development on economic growth in Nigeria using time series data spanning from 1980 to 2020. The study is an empirical study with descriptive trends and descriptive statistics. The analytical section of the study made use of Argument Dickey-Fuller (ADP) in testing the stationary status of the series in the model. Due to the nature of the series where there exist series of a different order of integrations, the study employed the Johansen cointegration test before estimating a vector error correction mechanism. The study shows that export trade and imports hurt economic growth in Nigeria, and credit to the private sector promotes economic growth in the long run by 113.7777 units. The study concludes that external trade causes a reduction in economic growth in the long run but promotes economic growth in the business circle. On the other hand, credit to the private sector which is the proxy for finance promotes economic growth in both the long-run and short-run. The study recommends among others that import trade should be more on capital-intensive goods where Nigeria has a disadvantage in either production or expertise while credit to the private sector should be channeled into the production of capital goods and services which will attract more foreign exchange into the country.

Keywords: External trade, Financial development, Economic growth, Nigeria.

1. INTRODUCTION

Recent economic exposition has highlighted the relevance of foreign trade and financial development in the growth and development of a country. Following the study of classical economics in the 18th century, the study of external trade became well-known. Particular focus was drawn to the work of David Ricardo, and Adam Smith emphasized the importance of trade to the economy as a whole. External trade's benefits to a country's economy are not limited to quantitative gains, but also foreign capital flow and supporting structural transformation in the economy. Trade encourages the efficient production of products and services by allocating resources to nations that have a comparative advantage in their production. External trade has been defined as a tool and a catalyst for economic progress (Frankel and Romer, 1999). External trade has a significant influence on economic development, and classical and neoclassical economists have placed a high value on it in the development of a nation that is viewed as a growth engine. Financial development is often measured by financial depth such as the stock of private credit and market capitalization as a share of GDP. Such a measure focuses on the quantity aspect of financial development. In this paper, we propose measures that capture both the quantity and quality aspects of financial market development.

According to Oluwasola and Olumide (2012), the basis for foreign trade is based on the reality that nations throughout the world differ in terms of resource endowment, preferences, technology, size of production, and potential for growth and development. Because of these significant disparities, countries participate in trade with one another, and overseas trade has enabled nations to exchange and consume commodities and services that they do not produce. Traders participate in economic operations to maximize profits generated by differences in the international economic environment of nations (Adedeji, 2006). According to Kehinde et al. (2012), trade may increase development from the supply side, but only if the balance of payment costs decreased the availability of imported inputs that enter the product of exports, pushing exporters to employ pricier imports of double quality. As a result, countries participate in trade to enjoy a diverse range of commodities and services and raise their people's level of life.

External trade is seen as helpful to both growth and development by the neoclassical and classical schools of thinking. According to Apple-yard et al. (2006), there is a widespread misconception that China's economic expansion is assuming a new form to the cost of its numerous trade partners, particularly Nigeria, the African continent's largest trading partner. However, contrary to the aforementioned assertion, a critical analysis of the effect of Chinese investment and trade on Nigeria's duo (growth and development) as elaborated by Nabine (2009) demonstrates that, in the short run, bilateral trade fails to impart positively on Nigeria's economic growth, but the long-term relationship could promote economic growth in Nigeria. However, the performance of foreign trade is predicated on financial development. This means that credit is a significant driver of external commerce and economic growth. Financial development refers to the act of making credit available to investors through deposit money institutions. Stiglitz and Weiss, on the other hand (1983). However, the empirical literature on the link between foreign trade and economic development is extensive. Some of the papers analyzed, on which this research was based, did not take into account the role of credit in the private sector. As a result, using time series data spanning 1980 to 2020, this study analyzed the impact of international trade and credit to the private sector on economic development in Nigeria. Furthermore, the research tracked financial development through loans to private-sector investment, while international commerce will be represented by the import and export components of GDP. The rest of this work is organized as follows; section one is the introduction, and section two is the literature review. Section three is data analysis and sources of data.

2. REVIEW OF RELATED LITERATURE

Conceptual Clarification

External Trade: Trade is a recurring series of exchanges of products via market transactions (Abebefe 1995). If the transaction extends outside the borders of sovereign political power, it is said to be international. External commerce, as described by Samuelson and Nordhaus (2002), is the mechanism through which nations export and import products, services, and capital. They highlight three contrasts between internal and foreign commerce as enlarged commercial options, sovereign states, and exchange rates, all of which have significant practical and economic implications. External trade factors are that trade encourages specialization, and specialization boosts production (Ingram and Dunn 1993, Samuelson and Nordhaus 2002). As a result, the term "external commerce" refers to the exchange of products and services beyond international borders. Governments maintain track of transactions between nations to understand what is going on in the process of external commerce. Such transactions are recorded in the balance of payment accounts.

Benefits of Foreign Trade: External trade provides several economic benefits to the world's home economies. Traditionally, Adam Smith's classical presentation in his comparative cost theory has demonstrated unequivocally that the greatest conceivable benefit from trade for all nations would be attained if each nation devoted itself to what it can produce modestly. This suggests effective resource allocation, provided that each country specializes in manufacturing goods where it has a competitive advantage over others. As a result, governments direct their production elements to places where they can create more. Despite this, the overall global output of commodities appears to be increasing due to

international trade. This rise in global output broadens the range of items offered to customers. And customers have the option of exercising their preferences, which will raise the standard of living index in the long run. External trade also raises the stakes of competitiveness. Without external trade, baby industries are protected from foreign competition, resulting in a monopolistic environment with the potential to raise prices above competitive levels. As a result, opening up trade routes to outside usage will increase competition and give the invisible hand a better chance to perform its magic.

Economic Growth: Feldman et al. (2016) defined economic growth as a rise in aggregate production and economic development, as well as the extension of capacities that contribute to the advancement of society through realizing the potential of individuals, businesses, and communities. Ivic (2015) defined economic growth as a rise in the gross domestic product (GDP) as the major quantitative measure of production for one year, whereas economic development includes both quantitative and qualitative improvements in the country's economic position. Acemoglu and Robinson (2010) defined economic growth as a society's ability to enhance its human capital, physical capital, and technological capital over a certain period. Economic growth is defined in the context of this work as a sustained rise in a country's production over time.

Economic growth, as it is often and interchangeably used for sustainable development, is defined as economic development that feeds the hunger of the present generation without jeopardizing the yearnings of future generations. Ite (2003) and Ikeme (2000) It is a catalytic engine in which the direction of investments, institutional reform, resource exploitation, and technical development orientation is made relevant to future as well as existing demands (Bonn, N.D). It is also an alternate development mechanism for improving human living standards without jeopardizing society's worth. The concept arose as a result of the realization that economic development and the environment are inextricably linked, as Boon (n. d.) stated that by the year 2000 and beyond, although it was popularized by the Brundtland Commission's report, which the United Nations General Assembly was assigned to use as long-term strategically environmental planning for the achievement of sustainable development.

Theoretical Literature

Absolute Advantage Trade Theory: Adam Smith proposed the principle of absolute cost advantage in his renowned book "Wealth of Nations" in 1776. The theory arose as a result of criticism leveled toward mercantilism. He argued that free trade was the greatest policy for the world's nations. Smith believed that via free trade, each nation might specialize in the production of goods that it could manufacture more efficiently than the other nations while importing commodities that it could produce less efficiently. This worldwide specialization of production components would boost global output, which would be shared by trade nations. As a result, a nation does not have to benefit at the expense of other nations; instead, all nations can benefit at the same time. In other words, a country should specialize in the manufacture and export of items in which it has a lower cost or absolute cost advantage over others, according to the thesis. The same country, on the other hand, should import a commodity that has a greater cost or an absolute cost disadvantage.

Theory of Comparative Advantage: Absolute advantage fails to consider whether, if a country has a comparative advantage in the production of two items, trade is still required or advantageous to that country. David Ricardo addressed this issue. Ricardo was the first to establish that external commerce results from a difference in comparative advantage rather than a difference in absolute benefit. "Greater advantage" refers to "comparative advantage." Thus, in the scenario of two nations and two commodities, commerce would still occur even if one country was more efficient in the production of both goods, provided the degree of superiority of one country over the other was not similar for both commodities. Ricardo assumed two nations, two commodities, and a single factor of production, labour. He believed that labour was fully employed and immobile on a global scale and that the product and price factors were competitive. There are no transportation expenses or other trade barriers. Ricardo discovered that a country will tend to export the commodity in which it has a comparative disadvantage in the framework

of a model with two countries, two commodities, and one factor of production. Because comparable costs are the inverse of comparative advantage, the idea might be stated in terms of comparative costs. Specifically, the theory currently implies that a country will tend to export the commodity with the lower comparative cost in production and the higher comparative cost in pre-trade isolation. The idea also believed that both nations' technological levels were constant. Different countries may employ different technologies, yet all enterprises inside one country use the same manufacturing process for each item. It is also believed that commerce is balanced and that money flows freely between states. Trade has little effect on the distribution of income inside a country.

Empirical Review

Ogbokor (2001) evaluated the macroeconomic impact of Nigerian oil exports on the Nigerian economy. He discovered that economic development reacted a used in the study using the popular OLS approach. He also discovered that a 10% increase in oil exports would result in a 5.2 percent improvement in GDP growth. He concluded that greater practical assistance should be provided to export-oriented plans.

Dollar and Kraay (2002) conducted research that supported the concept that external trade has a beneficial influence on economic growth and development by claiming that overseas trade raises domestic revenue in participating countries. This is because opening the economy to international trade allows domestic entrepreneurs to learn new methods of using or producing quality inputs more quickly and at a lower cost, thereby increasing total factor productivity, human capital accumulation, and harnessing overall national technological capacity.

Yanikkaya (2003) used panel data from 1970 to 1997 to examine the link between trade openness and economic development in over 100 industrialized and developing nations. The findings show that openness to external trade does not have a clearly defined relationship with economic growth and that trade barriers were positively significant in association with economic growth, particularly for developing countries, and that theoretical economic growth findings were inconsistent.

Baldwin (2003) convincingly shows that nations with fewer trade barriers produce faster economic development than those with more restrictive policies. Because quicker growth will eliminate poverty more quickly, impoverished countries may be able to employ external trade as a policy instrument. External trade minimizes relative price distributions, allowing activities with a comparative advantage to develop and, as a result, promote economic growth. Due to an excess of labour supply, poor nations prefer to participate in labor-intensive enterprises. Trade restrictions or barriers are connected with poorer growth rates and social welfare, and nations with greater levels of protectionism expand at a far slower rate than those with fewer trade restrictions. Tariffs represent the increased direct cost that manufacturers must endure, which may impede output and growth.

Shuichiro (2005) use the Heckscher-Ohlin-Vanek (HOV) model to analyze developed-country international commerce. He believes that, while traditional components are vital inputs in the production function, past R&D activities are critical in determining comparative advantage. As a result, the direction of trade between industrialised nations is determined by knowledge capital.

According to Oviemuno (2007), international commerce serves as a development engine in emerging nations. Using Nigeria (1960-2003) as a case study, he examines four key variables: export, import, inflation, and currency rate. The data reveals that Nigeria's export values, as well as import and inflation values, do not operate as engines of growth in Nigeria.

Akanni (2007) used the vector autoregressive (VAR) model to investigate the link between exports and economic development in Indonesia. The estimations demonstrate the importance of both exports and economic growth to the Indonesian economy. As a result, it was determined that exports and economic growth have a two-way causal structure, with exports leading to growth in the long run and growth leading to exports in the short run.

Sarkar (2007) examines the link between trade openness and economic development. The cross-country panel data research used a sample of 51 South American nations from 1981 to 2002, and it was discovered that for eleven affluent and trade-dependent countries, an increase in real growth is associated

with an increase in trade share. A time-series analysis of individual nation experiences reveals that, between 1961 and 2002, the majority of the countries represented in the sample, including East Asian countries, experienced no favourable long-term association between trade openness and economic development. He discovers that, based on the experiences of numerous locations and groups, only the middle-income group has a positive long-term connection.

Sun and Heshmati (2010) investigated the impact of foreign trade on China's economic growth. Using econometric and non-parametric approaches on data from 31 Chinese provinces from 2002 to 2007, they estimated that higher engagement in foreign trade helps fuel rapid economic growth in China. As a result, China's external trade volume and trade structure on technical exports has a favourable impact on China's regional outputs.

Li et al. (2010) investigated the link between East China's GDP growth and international trade from 1981 to 2008. They discovered that foreign trade is the long-term and short-term cause of GDP growth using the unit root test, co-integration analysis, and error correction model, but no evidence established that there is long-term stationary causation between import trade and GDP.

Sun and Heshmati (2010) examined productivity improvement to assess the effects of international trade on China's economic growth. Based on a 6-year balanced panel data set of 31 Chinese provinces from 2002 to 2007, both econometric and non-parametric techniques were used. The study found that growing China's engagement in global commerce helped it gain both static and dynamic benefits, resulting in rapid national economic growth. It also indicated that both international trade volume and trade structure in favour of high-tech exports had a beneficial impact on China's regional productivity.

Demetriades and Rousseau (2016) concluded that financial depth is no longer a key factor of long-run growth in their study of the non-monotonic link between financial development and economic growth. They also claimed that bank regulation and supervision had an impact on the finance-growth nexus. For that reason, it is vital to recognize that increased financial sector expansion may not necessarily be favourable to economic growth. One difficulty that these works on the non-monotonic link between financial development and economic growth all have in common is that they are done on very diverse panels (including higher, lower, middle, or low-income countries). Similarly, the current analysis reveals that the development of the financial sector in selected low-income nations is quite bad (i.e. average flow of credit to the private sector is only about 13.524 percent of the GDP).

Pradhan et al. (2017) examined the finance-growth correlations in the ASEAN area from 1991 to 2011 using four distinct proxies of financial development (banking sector development, bond market development, stock market development, and insurance sector development). Their findings reveal that in the long run, banking sector development, stock market development, bond market development, insurance market development, and per capita economic growth all cointegrated.

Estrada et al. (2018) investigated the association between financial and economic development. The study panel data was collected from 1982 to 2016 and descriptive analysis was used. According to the statistics, the region's financial systems have become deeper and more diverse since the early 1990s. A more formal econometric examination of 125 nations' panel data reveals that financial development has a large beneficial impact on growth, particularly in emerging countries. The findings also show that the influence of financial development on regional growth is not significantly different from that of other regions and that the impact has reduced since the Asian financial crisis.

METHODOLOGY

Data Analysis and Sources of Data:

This used secondary data (time series) from various sources which include; the Central Bank of Nigeria (CBN) Statistical Bulletin and Annual report (various issues), and world development indicators (WDI). This study adopted a quasi-experimental research design since it appeared to be the most suitable research design for social sciences performed outside the laboratory without control observation spanning the period of 1980 to 2020. The specified model is estimated with vector error correction model (VECM) and Granger causality test.

3 Model Specification.

To examine the relationship between external trade, bank credit and economic growth in Nigeria, the study will adopt the modified version of Yartey (2008). The long run relationship is tested using Error Correction model. The general econometric model used in the study is as follows:

$$Y = f(Y_{t-1}, M, T)$$

Whereas the functional and econometric representation of our model will be estimated as thus:

$$PCI_t = f(EXP_t, IMP_t, CPS_t)$$

$$PCI_t = \alpha_0 + \beta_1 EXP_t + \beta_2 IMP_t + \beta_3 CPS_t + \mu_t$$

Where:

PCI= Per capital Income

EXP= Export Output

IMP= Import Output

CPS= Credit to Private Sectors

μ_t =Error term

$\beta_1 - \beta_3 > 0$.

Stationarity Test.

Unit Root Result (ADF)

Variables	Level		First Difference		Order
	T-Stat.	Critical Value	T.Stat.	Critical Value	
EXP	-2.067300	-2.91145	-5.790388	-2.941145	1(1)
IMP	-2.451033	-2.938987	-5.471718	-2.945842	1(1)
CPS	-1.142159	-2.945842	-5.827536	-2.945842	1(1)
LNPCI	-0.883790	-2.943427	-4.074433	-2.941145	1(1)

Sourced: Compilation from EViews 10.05

A close look at the output shows that all the series became stationary after first differencing. This means that they were not reverting to their mean values. Hence, the series in the model were all integrated at order one 1(1). Given the above, we now proceed to estimate the Johansen cointegration test. The outcome of the Johansen test will enable us to ascertain the presence or otherwise of a long-run cointegrating relationship among the series in the model.

Johansen Cointegration Result

Hypothesis (No. of)	Trace Stat.	Critical value	Max. Eigen	Critical Value
None	107.2588	95.75366	42.87586	40.07757
At most 1	64.38295	69.81889	26.22564	33.87687
At most 2	38.15731	47.85613	19.75898	27.58434
At most 3	18.39833	29.79707	11.56845	21.13162

Sourced: Compilation from EViews 10.05

The presence of one cointegrating equation among the series in the model is demonstrated by the Johansen cointegration output. The fact that the trace statistic and the max-Eigen value are bigger than their critical values supports this claim. 107.2588 and 42.87586, in particular, are higher than 95.75366 and 40.07757. As a result, the presence of one cointegrating equation is justified. This suggests that in the long run, there will be convergence. Hence, the null hypothesis of no long-run cointegration connection is rejected, whilst the alternative hypothesis is accepted.

Vector Error Correction Mechanism

Variables	Coefficient	St. Error	t-statistics
C	40.56086	16.3103	2.48682
D(LNPCI(-1))	-0.126526	0.22125	-0.57186
D(LNPCI(-2))	0.412260	0.19671	2.09577
D(LNEXP(-1))	40.10436	(12.0796)	[3.32001]
D(LNEXP(-2))	14.46492	11.9454	1.21092
D(LNIMP(-1))	0.483126	0.21682	2.22825
D(LNIMP(-2))	4.431046	3.72766	1.18869
D(LNCPS(-1))	0.483126	0.21682	2.22825
D(LNCPS(-2))	7.118404	7.71661	0.92248
Ecm(-1)	-0.138259	0.38880	-2.81213
R-squared	0.788853		
Adj. R-squared	0.599943		
Sum sq. resids	96762.76		
S.E. equation	64.86198		
F-statistic	1.692061		
Log likelihood	-198.0791		
Akaike AIC	11.46373		
Schwarz SC	12.07327		
Mean dependent	27.02703		
S.D. dependent	72.51532		

Sourced: Compilation from EViews 10.05

The R-Square value of 78 percent indicated that the estimation has a good fit, while the adjusted R-Square value of 0.599943 indicates that approximately 59 percent of the changes in per capita income are caused by the combined efforts of variables in the model, while the remaining 40 percent are externally determined by variables outside the model. The error correction term has a normal sign (-) and is statistically significant since the t-statistic value of -2.81213 is larger than 2. As a result, the historical disequilibrium will be corrected at a rate of 13% every year. This also suggests that if the findings of this study are used in policymaking, it will take $(100/13) = 7.69$ years and about seven years and nearly seven months to restore complete equilibrium. Furthermore, the first year lag value of the dependent variable LND(LNPCI(-1)) reduces per capita income, but this is not statistically significant because the t-statistic value of 0.57186 is less than the threshold 2. As a result, we contend that prior per capita income values in the first year have no influence on per capita income in the short term. In contrast, there is a positive and statistically significant association between the dependent variable's second year past value (PCI(-2)) and its short-run value. As a result, in the business world, a rise in the second year past value of per capita income (PCI) will result in a 0.412260 variance in per capita income, everything else being equal. This means that in the business world, per capita income has an inconsistent impact on itself. Export trade (EXP(-1)) has a positive influence on per capita income (PCI), and this effect is statistically significant since the calculated t-statistic value of 3.32001 is larger than the 2 threshold. As a result, a percentage rise in the one-year lag value of export trade in a business circle will result in a 40.10436 percent change in per capita income in the business circle, everything else being equal. The first-year lag of import trade has a positive effect on per capita income and is statistically significant since the calculated t-statistic value of 2.22825 exceeds the threshold of 2. As a result, an increase in import trade will result in an annual gain in per capita income of 48.3126 percent. This indicates that import trade in Nigeria benefits from the positive causality induced by import trade. This result is consistent with theoretical predictions, yet it goes counter to long-run causality. As a result, we contend that the influence of import trade on per capita income is more pronounced in the short term than in the long run. The second year past value of import

trade, on the other hand, has a positive but insignificant influence on capita income. As a result, we find that the second-year lag in import trade has no effect on per capita income in the business circle.

The coefficient 0.483126 of credit to the private sector (CPS) has a positive influence on per capita income (PCI) in the short run/business cycle, and it is statistically significant since the calculated t-statistic value of 2.22825 is more than the threshold of 2. As a result, an increase in credit availability to the private sector (CPS) in Nigeria will result in a 48 percent rise in per capita income, everything else being equal. This indicates that when credit to the private sector (CPS) improves by 1%, per capita income rises by 48%. The explanation is consistent with the long-run effect and supports theoretical expectation. This suggests that bank credit has a consistent positive influence on Nigeria's per capita income/economic growth. The second year delayed value of credit to the private sector (CPS) has a positive influence on per capita income, but it is not statistically significant since the t-statistic value of 0.92248 is less than the 2 threshold.

Granger Causality Result

Null Hypothesis:	Obs	F-Statistic	Prob.
LNEXP does not Granger Cause LNPCI	38	5.96599	0.0454
LNPCI does not Granger Cause LNEXP		5.00052	0.0435
LNIMP does not Granger Cause LNPCI	38	1.19641	0.3150
LNPCI does not Granger Cause LNIMP		1.13341	0.3341
LNPCPS does not Granger Cause LNPCI	38	1.60882	0.2154
LNPCI does not Granger Cause LNPCPS		5.31155	0.0100
LNIMP does not Granger Cause LNEXP	38	1.50653	0.2365
LNEXP does not Granger Cause LNIMP		4.18615	0.0240
LNPCPS does not Granger Cause LNEXP	38	0.39480	0.6770
LNEXP does not Granger Cause LNPCPS		1.70554	0.1973
LNPCPS does not Granger Cause LNIMP	38	1.13599	0.3333
LNIMP does not Granger Cause LNPCPS		0.60613	0.5514

Sourced: Compilation from EViews 10.05

A granger causality exists between export and per capita income, and between per capita income and export. This means that there is bidirectional causation in the link between exports and per capita income. As a result, an increase in export trade increased per capita income by 5.96599 percent, while an increase in per capita income stimulated export trade by 5.00052 percent. Furthermore, a one-way Granger causation runs by 5.31155 percent annually from per capita income (PCI) to credit to the private sector (CPS). All else being equal, an increase in per capita income increases credit availability to the private sector by 5.31155 percent.

Finally, among the explanatory factors, Granger causality runs by 4.18615 from export trade to import. If all else remains constant, an increase in export commerce will produce an increase in import trade of 4.18615 percent.

Long-Run Result

Normalized cointegrating coefficients (standard error in parentheses)				
LNPCI	LNEXP	LNIMP	LNCP	
1.000000	45.95570	4.704639	-113.7777	
	(17.9073)	(10.5460)	(17.6310)	
	2.56631	0.44610	6.45327	

Sourced: Compilation from EViews 10.05

According to the normalized cointegrating equation, the export coefficient of 45.95570 reduces per capita income (PCI) and is statistically significant since the derived t-statistic value of 2.56631 is more than the threshold of 2. As a result, a rise in exporting will result in a 45 percent gain in per capita income in the long term, all else being equal. This indicates that an increase in the amount of money derived through exports might result in a decrease in overall production in Nigeria. This viewpoint contradicts economic theory. According to economic theory, increased commerce will boost efficiency and proficiency by stimulating competition. In the long run, this will increase output. The reasons for this type of connection may be related to the deficit caused by Nigeria's export trade. Nigeria's export trade appears to be relatively low or confined to the sale of basic raw resources, attracting little foreign cash into the nation. These changes might be attributed to Nigeria's low capital creation, insufficient technological expertise, labor-intensive means of production, and inadequate social infrastructure. As a result, we contend that an increase in exports produces a decrease in per capita income in Nigeria.

In the long term, the import coefficient of 4.704639 has a negative impact on Nigerian per capita income, but it is not statistically significant because the computed t-statistic value of 0.44610 is less than the threshold of 2. This means that importation is not a significant determinant of Nigerian economic growth, or that an increase in the volume of import trade has little impact on Nigerian economic growth. Despite its insignificance, this outcome contradicts theoretical expectations. Increased commerce, according to economic theory, leads to specialization and competitiveness. There is a propensity for enterprises to enhance their production technique in the presence of competitiveness, which will boost productivity in the long run. Because they are missing in Nigeria, it is projected that import trade would have little long-term impact on per capita income. On the other hand, what was imported into the nation may not have added value to production throughout the study period.

In the long term, the -113.7777 coefficient of credit to the private sector as a proxy for financial development has a positive influence on per capita income and is statistically significant since the t-statistical value of 6.45327 is more than the threshold 2 limit. As a result, a change in CPS will, all else being equal, result in a 113 Unit change in per capita income. This presentation is consistent with theoretical expectations. When the savings-investment link becomes obvious, it is predicted that an increase in the loanable fund will boost investment. In the long run, it will lead to an increase in output. As a result, this might be the cause for Nigeria's observed economic development over the research period.

Post Estimation Tests

Normally Test	Skewness	Probability	Kurtosis value	Probability value	Jarque Bera stat.	Probability value
	4.321215	0.6333	7.858477	0.2487	12.17969	0.4314

Sourced: Compilation from EViews 10.05

The post estimation test is important since it validates the "BLUE" feature of the estimate equation. This claim is based on the fact that the serial correlation test probability values are more than 0.05. Finally, the joint VEC-Residual heteroskedasticity test reveals that the probability values of the estimated skewness,

kurtosis, and jarque-bera statistic are 0.6333, 0.2487, and 0.4314, respectively, which are greater than the 0.05 threshold. As a result, we infer that the residual contains homoskedasticity. As a result, we conclude that the calculated equation does not contradict the fundamental principle of classical linear regression. According to the study on the effect of external trade on economic growth, external trade reduces economic growth in the long run but promotes economic growth in the business circle.

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