ANAYLSIS OF THE IMPACT OF TARIFFS ON ECONOMIC GROWTH IN NGERIA (1980-2010)

BY

VINCENT-UBI JESAM

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DEPATMENT OF ECONOMICS

FACULTY OF MANAGEMENT AND SOCIAL SCIENCE

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APPROVAL PAGE

This is to certify that this research work ‘’Analysis Of The Impact Of Tariff On Economic Growth In Nigeria’’ is the original work of VINCENT-UBI JESAM D with registration number EC/2009/707 of economics department, faculty of management and social science, caritas university.

This work has been approved as meeting requirement for the award of Bachelor of Science (B.SC) in economic department.

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(head of department)

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(External Examiner) Date

DEDICATION

This work is dedicated to the glory of God almighty for without him this dream could have not been achieved and to my lovely and caring parents, Mr&Mrs Vincent ubi and to all my friends.

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It's obviously impossible to formally appreciate and mention all those who have in one way or the other, knowingly or unknowingly, directly or indirectly to the success of this project. I am specifically indebted to GOD who has clearly shown to me that ''the race is not to the swift or the battle is to the strong but to God almighty''.

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My beloved and caring parents: Mr & Mrs Vincent ubi and my siblings, Daniel and wofai. This work is an evidence of a prayer answered.

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VINCENT-UBI JESAM. D.

ABSTRACT

This study looks at the impact of tariff on the economic growth of Nigeria. It examines the extent to which tariff has brought about economic growth in Nigeria between the period of 1980-2010. Tariff which is a form of tax or trade restriction levied on imported goods, in order to encourage the infant industries from international competitions, this can boost economic growth. The ordinary least square method of regression was used to analysis the relationship between tariff and economic growth. the T-test was used to determine the individual parameter estimate. The F-test was used to determine significance of the entire regression. Econometric analysis also was used to determine the impact of the tariff and other variables like real gross domestic product as a proxy to economic growth, export, exchange rate and trade openness on economic growth in Nigeria. The findings from the regression result show that tariff has a positive statistical significant impact on economic growth in Nigeria. In conclusion, tariff including the other variables all work together to stimulate economic growth. It was recommended that policy on trade should be made to improve tariff imposition in Nigeria.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY.

Protection in form of tariff and free trade have long been argued in economic theory and economic history. However , it is possible to say that the precise relationship between trade barriers in form of tariff or free trade in the long run economic growth remains a difficult theoretical issue that is being explored in a variety of ways.

Simithian and Ricardian conclusion reinforced by the Hercscher-ohlin theorem recommend free trade as the best commercial partners. This doctrine that is focused on improvement in the level of income is based on static framework that may limit the interpretation of the long run effect.

Relationship between economic growth and tariffs depends mostly on the characteristics of a country. Tariff can benefit a country depending on whether it is developed or developing or developed (a developed one seems to lose) either big or small country and whether it has comparative advantage in sector receiving protection. Tariffs are imposed on imported goods and are used to refer to schedule of duties applicable to a list of commodities as the commodities imported or exported. These taxes could be assessed either as a percentage of volume of the commodity concerned (ad valorem), or on the

basis of some physical features as : weight, length, an specific gravity.(Johnson,1971).

Tariffs rates vary according to the type of goods imported. Import tariffs will increase the cost of importers and increase the price of imported goods in the local markets, thus lowering the quantity of goods imported. Tariffs may be imposed on export, and in an economy with floating exchange rates, export tariffs have similar effect as import tariffs .However, since export are often perceived as ‘’hurting’’ local industries while import tariffs are perceived as helping local industries, export tariffs are seldom implemented (Meier,2000)

Protectionists believe that infant industries must be protected in order to allow them growth to a point where they can fairly compete with the larger matured industries established in foreign countries. They believe that without tariffs, infant industries will die before they reach a size of economies of scale, industrial infrastructure, and skill in manufacturing have progressed sufficiently to allow the industry to compete in the global market. They argue that government have a responsibility to protect their corporations through tariffs as well as their when putting its companies at a competitive disadvantage by enacting laws for social goods .They believe that these law

end up destroying domestic companies and ultimately hurting the citizens, but these laws were designed to protect.

Tariffs is always seen as a redress to social and economic costs of trade or as a way of enhancing economic advantages. However, in most cases economists, argue that erecting barriers on trade impose costs in the economy that exceeds the benefit gotten. These costs can rise from insufficient resource allocation, intractable implementation and foreign retaliation.The precise relationship between tariffs and economic growth has long remained a difficult theoretical issue that is being explored in variety of ways. The question often asked by international and development economists, as well as their supporters is that which one lead to a faster economic growth, is free trade or protected trade?, economists are still in search for the acceptable answer to this question.

1.2 STATEMENT OF THE PROBLEM

Tariffs can be used to protect infant industries and this tariff has its problem it creates. High tariff and other forms of trade barriers have been regarded as impediments to economic growth. The use of tariffs to protect and to stimulate the production of the import substitution in Nigeria has obvious problem. By protectingthese industries, inefficiency may be encouraged.

High tariffs and other forms have burdened consumers with high price and have shielded producers from international competition. However a safe guard against frequent tariff changes and high tariff rates between 1995 to 2005. Nigeria's tariffs policy has faced great challenges of cumbersome and lengthy imports procedures, frequent change in tariff. High duties on consumer goods widen the gap between applied and bound rate with their associated negative impact on the economy.

The Nigeria government can make adequate and reliable tariff policies, and also encourage this infant industries to produce those goods that tariff has been impose on; the quality of this goods should match those formally imported. This study should be able to expose how the tariff imposed and the structure of this tariff, can make an impact on the economic growth of Nigeria and how this can improve the economy as a whole.

1.3 OBJECTIVE OF THE STUDY

The objective of the study are as follows below;

1. To determine the nature of the relationship that exist between tariffs and economic growth in Nigeria.
2. To investigate if tariff actually leads to economic growth in Nigeria.

3. To examine the extent to which tariffs imposition has improved Nigeria's economy for the period 1980 to 2010.

4. To identify and analyse the remedy for tariffs impediments inNigeria.

1.4 STATEMENT OF HYPOTHESIS

The working hypothesis for this study is as follow;

1. – $H_{i:}$ There is no significant relationship between tariffs and growth, thus it has not caused any economic growth in Nigeria.
2. –$H_{0:}$ Tariff has influence and impact on economy growth ofNigeria to an extent.

1.5 RELEVANCE OF THE STUDY

This study will be relevant to the Nigeria society in the following ways;

1. It will help us to understand the tariff structure of Nigeria
2. It will contribute to the literature review
3. It will provide empirical evidence on the nature of relationship that exist between tariff and economic growth in Nigeria; this will in turn guide policy makers in their policies formulation.

4. Investigating into the tariff regime will enable us to know the positive contributions it has made to improve the export of locally produced goods.
5. It will help the government and policy makers to be able to formulate adequate policy on trade.
6. It will help us to know, if tariff can lead to economic growth or not Nigeria

1.6 LIMITATIONS OF STUDY

Usually, tariff are in form of excise duties, import tariff and export tariff. inadequate complete reliable data, as data collected from some economic journals and textbooks vary from each other. Time is another limitation encountered by the research.

CHATPTER TWO

2.1 LITRRATURE REVIEW

WHAT IS TARIFF

Many scholars have given exposition of what constitute tariff, According to Todaro (2009),tariff is a fixed percentage tax on value of an imported good levied at the point of entry into the importing country .Jefferson(2009),agreed with todaro, he viewed tariff as a strategy of taxing imported or exported goods and service from one country to another. Attia(1970), view tariff from it's real locative power and concluded that it help to reallocate resources within the imposing country's economy. Yabuuchi (1982),agrees that tariff reduces inflow of foreign investment into the imposing country. Soderetein (1971), considered tariff as an instrument of Policy used to alleviate unemployment problem in the imposing country .The increasing prominence of tariff in the development of nations had led to a lot of debate over it's desirability. A number of complementary and competing theories have been proposed to explain the nature, possible social and economic consequence of tariff to some extent. Some see it as having a positive impact on the nation's development while others see it as a harbinger of evil. Thus a brief review of some related literature will be of immense importance to this research work.

2.2 THEORETICAL LITERATURE

Basically, international trade has been regarded as an engine of growth in any economy either less developed or advance economy. Trade is widely regarded as a catalyst for growth both on the demand and supply side of the economy. But the critical question that had been asked and vigorously debated in the history of economic thought has been 'does trade restriction such as tariff encourages growth. The answer to the above question has been found in the plethora of literature and such answer has appeared to be diverse in nature.

The neo-classical model of growth argued that trade barrier such as tariff has no effect on the long run rate of growth of output regardless of the existence of market imperfections.

(Todare,2004), Neo-classical theorists analysis finds that tariffs tend to benefit domestic producers and government at the expense of consumers and those net welfare effects of tariff on the importing country are negative(Rodrick,2002), asserts that in the presence of certain market failure, such as positive production externalities in import-competing sector, the long run levels of GDP can be higher with trade restriction than without. In such case, data sets covering relatively short time will show a positive association between tariff and

economic growth of output. According to Venable (2000), 'if domestic economy is imperfect tariff maybe used as the second best policy instrument to correct the imperfections, Venable sees tariff as a corrective policy Oyelabi(1965), noted that the recent disequilibrium on balance of payment can be achieved through high tariff policies, this will eliminate wastage of foreign exchange on importation with the result that the growing deficit, thereby imposing and strengthening the balance of payment account. The neo-classical theorists see tariff as increasing the price of goods. In this view to them imposition of tariffs may lead to a deficit in the balance of payment of the imposing country of surplus. Traditional trade

theorists, in their view suggest that developing countries impose welfare loss on themselves by hindering international price with tariffs. Saperstein(1971), in this connection said that if the positive effect, of tariffs on terms of trade is largest than the negative effect, then protection will bring gain. Johnson(1958), tagged an 'optimum tariff'. This Optimum tariff has shown that the large country can improve

It's based on the fact that its optimal tariff rate is greater than zero.

Dinopoluos and syropus (1997), viewed that all forms of barriers such as tariffs to impede the full advantages of international specialization that are to

be gained from unrestricted trade. This protective devices according to them cause a shift of resources from more efficient to less efficient uses, and restricts consumer freedom of choice. Edward(1997), states that the imposition of trade barriers hurt rather than helped growth in the long run, and for many countries the large degree of protection bears a good part of the balance for their appointing macro-economic performance.

The review of literature based on Adam smith and David Ricardo, reinforced by the hecksher-ohlin (1872), theorem recommends free trade as commercial policy because of it's positive effects on growth and welfare of both commercial partners. Bauer et al (1992), argues that it is possible that many countries trade policy depended much more on personal performance and ideas of politicians, because history has recorded that, the countries constituents had strong preference about trade policy. Krueger(1997), put it that trade plays crucial role in the economic development. According to him, in 1950's and 1960's the idea of import substitution policy was wide spread through tariff, was believed to be a vehicle for economic development in the LDC'S. It was tough that infant industries should be protected in their early stage. He maintain that some countries created state owned enterprises in the new industries and provided direct investment for them. In some period, some countries adopted another protectionist measures sustaining a fixed

nominal exchange rate. Thus, it was considered that by having such policy the import of capital goods would be cheaper and this would attract investment. This is important when the country is large and has monopoly power in the markets, they can gain from the terms of trade effect when its impose tariffs. The tariffs reduces the amount the country wants to import, so foreign exporters lower their prices.Other researchers like Edwards(1998) and Frankel and Romer (1999) put the development ahead of trade regime policy Country has to identify it's own model of development then what institutional reforms has to be adopted, where trade liberalization is a part of such reforms. According to the IMF (1997, 84) policies towards foreign trade are among the more important factors promoting economic growth and convergence in developing countries. Spanu (2000), in his own view, said that all the forms of barriers tends to impede international specialisation. He also said that tariffs and free trade have long been be debated, and it is impossible to say that there Is a relationship between them and economic growth, remains a difficult theoretical issue that still being explored in variety of ways.

2.3 ARGUMENTS FOR TRADE BARRIERS

Tariffs may be a potent means of accelerating economic growth. Some argument are discussed below as follows;

2.3.1 INFANTS INDUSTRY ARGUMENTS

An infant industry is an under developed industry which may not be able to survive competition from aboard. The argument says, that such industry should be shielded temporarily with high tariff or quotas until the industries are developed technological and efficiency economies of scale that enables them to compete with foreign industries. The import substitution strategy can be seen as tariffs to protect infant industries. The government of a developing country will levy tariffs on imported goods to foster growth. This will increase the prices of imported goods and create a domestic market for domestically produced goods, where protecting does industries from being forces out by more competitive pricing. It decreases unemployment and allows developing countries to shift from agricultural products to finished goods. Economics have, come to recognise major short-comings of this arguments.

A). Tariff become vested interest of particular business and political group

B).Some protected industries never grow out of the ‘’infant stage’’. This problems stems from the fact that a protected industry may a times get lazy

and sluggish behind the walls of the tariff. The product of such industry may be inferior, but sells well in the domestic market but under such situation, the industry cannot cope with the competition of the more efficient industries in the world market where there is no preferential treatment.

C).An increase in tariff result in high prices to domestic consumer.

2.3.2 PROTECTING CONSUMER ARGUMENT

A government may levy a tariff on product that it feel could endanger its population, government fends to place high tariff on goods that are seen to be dangerous to the country.

2.3.3 NATIONAL SECURITY ARGUMENT

This argument contends that a nation should be as self sufficient as possible in the production of goods needed for war and defences. Tariff are also employed by developed countries to protect certain industries that are deemed strategically important such as those supporting national security.

2.3.4 RETALIATION ARGUMENT

Countries may also set tariffs as a retaliation technique if they think that a trading partner has not played by the rules. Retaliation can also be

employed if a trading partner goes against the foreign policy objectives of government.

2.3.5 PROTECTING DOMESTIC EMPOLYMENT ARGUMENT

Supporters of trade barriers argue that tariffs are desirable because they reduce imports relative exports and thus encourages a favourable balance of trade. This in turn stimulate the export industries and help to bring about a higher level of domestic income, employment and production. It should be noted than any benefit, in form of higher income and employment are not likely to last long. The history of tariff shows that in the long run, nations tend to retaliate with their own protective measure, leaving all nations worse-off than before.

2.3.6 WAGE PROTECTION ARGUMENT.

Advocates of this argument contend that a high wage nation needed tariffs to protect their workers from the product of cheap labour aboard. The inherent problem with this argument is that it is assumes that labour is a resource that is combines in each nation with varying quantities of capital and land. As a result, the products of countries may often be characterized as labour intensive, land- intensive or capital intensive, depending on relation proportions of resources that are employed in production

2.3.7 PROTECTION AGAINST DUMPING

Goods are said to be dumped when they are sold for export at less than their normal vale. The normal value is usually defined as the price for the like goods in the exporter's home market.

Anti-dumping is designed to allow countries to take action against dumped imports that cause materials injury to the domestic industry. There are criticisms against protectionist policies like tariffs;

- MARKET DISTORTION:-Protection has proved an ineffective and costly means of sustaining employment.
- LOSS OF ECONOMIC WELFARE:-Tariff creates dead weight loss of consumer and producer surplus arising from a loss of allocated efficiency. Welfare is reduced through higher prices and restricted consumer choice.
- PRODUCTION INEFFICIENCIES:-Firms are protected from competition that have little incentive to reduce production cost.
- LITTLE PROTECTION FOR EMPOLYMENT:-One of the justification for tariffs and other barriers to trade is that they help to protect the loss of relatively low skilled and low paid jobs in industries that are coming under several international competition.

- TRADE WARS:-There is the danger that one country impose import controls through tariffs will lead to ‘’retaliatory action’’ by another leading to a decrease in the volume of world trade.
- NEGATIVE MULYIPLIER EFFECTS:-If one country imposes trade restrictions like tariffs on another, the resultant decreases in total trade will have a negative multiplier effect, affecting many more countries because exports are an injection of demand into the global circular flow of income.

2.4 EMPIRICAL LITERATURE

The empirical literature on the impact of tariff on one hand and trade liberalization on the other hand on economic growth has resurfaced over the past two decade. Clemes and Williamson (2002), used economic history approach to study the effects of protection on economic growth from 1860-1950. They employed a sample of 35 countries using cross-sectional analysis, their findings showed that tariff favoured growth before the second world war. Study after study has shown that tariff cause reduced economic growth of the country imposing them.

Nigeria’s import bans and high tariffs is costing the country the efficiency of it’s custom duties and not helping the manufacturing sector for which it is designed to protect. This basically is the findings of a report by

Gael Raballand and Edmond Mjekiqi, (2003), of the world bank's transport unit. In their investigations of Nigeria's economy, they reveal that the impact on the Nigerian economy has been largely negative while, it has also impacted negatively on the efficiency of Nigeria's custom. The high number of tariff restriction also facilitates corruption, as it is seen as an avenue to extort money from those bringing in banned goods illegally into the country. Bairochi(1972), on his study ''tariff and growth'' also agreed with Clemens and Williamson(2002), that European protectionist countries grew faster in the 19th century. Lee(1996), conducted a study on the impact of tariff on productivity growth, he used Korean industry data to estimate the impact of nominal tariff and non tariff barriers on growth productivity. This result shows that the barriers are negatively related to growth and it was also significant.

Rodriquez and Rodrick (2002), on the study of trade policy and economic growth according to them there is a little evidence that lower tariffs and non tariff barriers to trade have strong correlation with economic growth. Oyelabi(2004), in his work examines the responsiveness of domestic prices to tariff levies and to what extent the pace of industrialisation has quickened in response to tariff protection in Nigeria. He emphasizes that an import restricting measure usually has two aspects; a demand diverting

aspect and a supply constraining aspect. He points out that major tariffs changes occurred in 1959-1960, 1961-1963, 1963-1964, 1965-1960 and 1968 with corresponding significant increases in domestic price levels during those period. He said that the extent to which industrialisation has quickened in response to which tariff protection has been demonstrated by the manufacturing sector between 1970 and 1980, manufacturing industry output rose on the average by more than 100% during this period. Major increase were recorded that industries produced non- durable consumer goods which were originally almost wholly imported. He summaries that tariff increases domestic productivity, and also in order to better appreciate the extent to which tariffs must have stimulated industrial growth in Nigeria;

Dollar and Krany (2003), conducted a study on the impact of trade openness on growth performance, poverty and inequality in 73 developing countries. They use two criteria for identifying the developing countries that have globalised the fastest; by how fast the share of trade in GDP has risen and second, by cuts in tariff. By these criteria the top y_3 of the 73 developing countries in the sample that liberalised the most doubled their share of trade to from 16% to 33% and cut tariff by 22% from 57% to 35%. Oyejide (2001), in one of his works evaluated the impact of tariff protection on the direction of resources in manufacturing industries. He

found out that tariffs influenced foreign private industrial investment positively, thereby enhancing economic. Nugent(2002), on the study of trade liberalisation policies used 10 developing countries, his study shows that non-tariff and barriers to import, reduction in tariffs were most significant factor in those countries development. The results shows that trade liberalisation on those countries impacted on economic growth; the conclusion was that the elimination of export tariffs and total removal of protective tariff should be the priority of those countries. Choudturi and Hakura (2000), carried out a study on international trade and productivity growth. The results show that tariffs and negatively related to growth productivity and also that increase international trade has little effect on productivity growth.

Hakura and Jaumattle (1999), using data of 87 countries to assess the impact of trade liberalisation. Their result shows that free trade indeed serves as an important way for the international technology transfer, thus enhancing economic growth. Yamkkaya(2003), examined the growth effect on 108 economies of a large number of measures on trade openness using econometric models and regressions, the results shows that on basis of trade volumes, there is a positive and significant association between trade openness and growth. Likewise, the findings also showed that there is a

positive and significant relationship between trade barriers and growth. He concluded that trade barriers in form of tariffs can actually.

There is no necessary relationship between whether an economy's protectionist or liberal in its trade policies and economic growth. Economic growth is the result of several factors;

- Accumulation of resources.
- Improvements in technologies for converting those resources into goods.
- Investment inefficient public infrastructure.
- Innovation of new goods and services.

The neo-classical growth models trade barriers have no impact on the long run growth rate of an economy, although they can be shown to reduce the level of income available for reasons like dead weight losses or tariffs. Thus, for economist to claim that open economies tend to grow faster than closed economies it must be because reducing trade barriers raises the other factors that produce growth.

EVOLUTION OF TARIFF POLICY

There have been four fairly recognisable stage in the Nigeria tariff structure.

A. Pre-independent tariff structure.

B. Tariff structure in the 1960's

C. Tariff structure in the 1970's (post-civil war)

D. Tariffs structure in the 1980's

A). PRE-INDEPENDENCE TARIFF STRUCTURE

During this periods Nigeria kept her economy largely open. The main statutory trade barriers that existed was in form of modest tariff schedule. Tariff rates during this period were generally low for capital goods, such as machinery and metal products through 10% -15% for international goods to 25% - 30% and 30% - 33% for consumer goods and durable goods respectively. Oyelabi (2001) and national bureau of statistics (1984).

B). TARIFF STRUCTURE IN THE 1960'S

This period, it became important for the nation to take steps to tackle her balance of payment deficit that started accumulating from 1955 and to encourage and protect it's local industries. In 1965 the duties on imports of most consumer goods had risen to 33 and quarter per cent , and that of goods rose to 10% while the rates on durable consumer goods and luxuries went up to 40% and 100

C). TARIFF STRUCTURE IN THE 1970'S

The period 1971 to 1972 witnessed substantial reduction in the existing tariff rates of abolition of existing duties and creation of duty free concessions. This period was the era of import liberalisation in Nigeria. In 1974, their were substantial reductions in tariff ratio for industrial raw material food another consumer goods transports vehicle and building material.

D). TARIFF STRUCTURE IN 1980'S.

The downward trend in the tariff in the 1970's tariff structure had it's effect in 1980's. the country's exchange rate situation worsened, the foreign exchange rate that stood at 3112.5 million naira in fell to 781.7 million naira by the 1980's. In 1982 the tariff was revised and those goods or item with100% duty or more were reduced to 45%. (central bank of Nigeria annual report,1988

2.5 LIMITATION OFPERVIOUS STUDIES.

The previous studies reviewed specifically for this project were limited by the following;

1). The studies showed mixed results in terms of the impact of tariff on economic growth; some showed positive relationship while others show negative relationship.

2). Most of the studies were cross country based and not much specific reference to Nigeria situation.

3). In respect to the Nigeria economy, there has been a couple of limitation that are seen in previous studies reviewed in this project, and for generalised studies done for underdeveloped countries of which Nigerian is one. Few works have been done as to the impact of tariff to the growth of Nigerian economy.

CHAPTER THREE

METHODOLOGY

3.1 METHODOLOGICAL FRAMEWORK

The methodological framework appropriate for this study is the log-linear gravity model. Gravity model have been extensively used to model aggregative trade flow at the country successfully to model trade flows at a more disaggregated level. It takes the mathematical form thus;

$$F = \frac{gm(m)}{D}$$

$$F_{ij} = \frac{gm_i m_j}{D_{ij}}$$

Where; F= trade flow.

M= the economic mass of each country

D= the distance

G= constant

I and j= time or period

3.2 THE MODEL

Applied econometrics is concerned with the estimation of the parameter of economic relationships and with the prediction (by means of these parameters or the value of economic variables). The relationships of economic theory which can be measured with one or another econometric technique are such that there is a relationship in which some variables are independent or dependent between each other in the relationship. Consequence, this research work makes use of analytical tools which consist of the ordinary least square (OLS). The research adopts the linear regression technique to analyse the data.

3.3 MODEL SPECIFICATION

Specification of a model is based on available economic theory relating to the phenomenon being studied. Here, the dependent and independent variables, the sign of the parameter of the function are determined, and the determination of the mathematical form of the model is formed.

In carrying out this study on the relationship between tariff and economic growth, we developed a model as follows;

RGDP= F(TAR, TOP, EXR, EXP)…….(1)

The model above simply states that the real gross domestic products is a function of tariff, trade openness, exchange rate and export. Equation (1) above is transformed into econometric linear regression model for it to be amendable, the linear form of equation(1) becomes:

$RGDP=\beta_0+\beta_1TAR+\beta_2TOP+\beta_3EXR+\beta_4EXP+U_T$.....(2)

Where; RGDP=Real gross domestic product as a proxy for economic growth

TAR= Tariff

TOP= Trade openness

EXR= Exchange rate

EXP= Export

Bs= co efficient (β_0…..β_4)

U_t= error term or dummy variable.

3.4 ECONOMIC APRION TEST (BATTERY TEST)

3.4.1 STATIONARY (UNIT ROOT) TEST

Unit root involves testing the order of integration of the individuals series of data under consideration. It is used to test for stationary in individual variables. Economic researchers have developed several procedures for the test of order integration. The one that is most common is the augmented dickey and filler (1979,

1981). ADF test relies on rejecting an hypothesis of unit roots, that is, if the series of data under consideration are non-stationary in favour of the alternative hypothesis of stationarity. The result of the ADF test used in this research will be shown at the appendix.

3.4.2 CO-INTEGRATION TEST

Two variables will be co-integration if they have a long-run of an equilibrium relationship between them. (Gujarati, 2004). The basic idea behind co-integration is that, in the long-run two or more series move closely together, even though the series move closely together, even though the series themselves are trended, the difference between them is constant. Lack of co-integration between the variables suggests that such variables have no long-run relationship. We therefore use the ADF unit root test on the residuals estimated from the co-integration regression test. To run this regression, a linear combination of the variables in their level forms and obtains the residuals and then test the residual for unit roots.

3.5 TECHNIQUE OF ESTIMATION

The econometric method adopted for this estimation is the method of the ordinary least square (OLS). The choice of this econometric technique is simply because it is computationally simple, the parameter estimates are stable it has a high forecasting ability, parameters estimated by OLS have optimal properties,

which include, the best linear unbiased estimate (blue) invariance, and mean squared error estimation. We used this method because it possesses the blue properties and it easy to understand.

3.6 METHOD OF RESULT EVALUATION

The evaluation of the results generated from the model shall be based on economic theory, statistically and econometric criteria respectively.

ECONOMIC CRITERION

This involves evaluation based on theoretical criteria under this criterion the apriori expectation (sign and size) of the parameter estimates of the variables in the model will be evaluated to check whether they conform to economic theory

SATISTICAL CRITERION

The statistical criterion is used to conform the statistical significance of the estimators or parameters. Most common among them are the

T-test and F-test.

T-TEST

This is used to test how the individual explanatory variables included in the statistics are significant or not. This T-test looks at the statistic, distribution and degree of freedom to determine a probability value. It can

also be used to compare three or more variables in a statistics. The T-test is used to know if two sets of data are significantly different from each other, and is most commonly applied when the test statistics would follow a normal distribution.

F-TEST

This test the entire significant of the regression in the model. It is most often used when comparing statistical models that have been fitted to a data set, in order to identify the model that best fits the statistics. F-tests arise when the models have been fitted to the data using least squares. The test statistic in an F-test is the ratio of two scaled sums of squares reflecting different sources of variability.

ECONOMETRIC CRITERION

This is also known as the second order test and it is used to test the reliability of the statistical position. The R^2 shall be adopted to confirm the reliability of the F-test. Thus, R^2 explains the total variability of the dependent variables (RGDP) caused by variations in the explanatory variables. Other test included below are as follows;

MULTICOLLINEARITY TEST

The collinearity of the variables used in the model would be carried out. The essence of this test is to find out if there is collinearity among the variable used in this study or not.

HEREROSCEDASTICITY TEST

The essence of this test is to see whether the error variance of each observation is constant or not. When the error has no constant variance over time, the OLS estimate though unbiased, is highly unreliable and cannot be used for forecasting and policy analysis.

RESIDUAL NORMALITY TEST

The essence of this test is to check whether residuals, a proxy for stochastic error term are normally distributed. The jarque-bera statistic is used and the test is given by;

$$n = \frac{S^2}{6} + \frac{K-3\ ^2}{24}$$

Where; S= skewness co-efficient

K= co-efficient of kurtosis

The value of ''S'' and ''K'' are 0 and 3 respectively since the JB computed is expected to be zero with two degree of freedom, if the value is

close to zero and the P-value is reasonably high and the residuals are normally disturbed.

GRANGER CAUSALITY TEST

The importance of using the granger causality test, is to actually ascertain whether a causal relationship exist between two variables of interest which are GDP, which stands as a proxy for economic growth and tariff.

3.7 SOURCE OF DATA

The analysis will be based on time series data for the period of (1980 to 2010). The data has been collected from publications of the central bank of Nigeria (CBN annual report and statement of accounts). Data gathered for this research work are basically from secondary sources. Other source of the data are.

- Journals and newspaper.
- Internet.
- Textbooks.
- Some research works
- Data from bank
- Customs authority of Nigeria

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF RESULT.

4.0 EMPIRICAL RESULT

In this chapter, the model results are presented. The regression result were subjected to various economic, statistical and econometric tests. Thus, the was tested on these empirical result

4.1 PRESENTATION OF REGRESSION RESULTS

prior to this estimation of the regression, standard econometric tests were carried out in order to avoid the generation of spurious (no meaningful). Put in another form, these econometric tests were carried out in other to obtain robust result.

4.1.1 STATIONARITY (UNIT ROOT TEST ANALYSIS

An attempt was made to investigate the time series characteristics of the variables (TAR, TOP, EXR, AND EXPT) of the model in this study. A variable is stationary when it has no unit root which is denoted in literature as 1(0). A non- stationary variable can have ore more unit roots and denoted as 1(d), d is the number of units roots that the variables must be differenced in order to make it stationary. Similarly, if a time series has to be

differenced twice (i.e., take the first difference of the first difference) to make it stationary, we call such a time series integrated of order 2. At normal level, none of the variable is stationary, so we test at the first differential.

Variable	Order of integration.
RGDP	I (1)
TAR	I (1)
TOP	I (1)
EXR	I (1)
EXPT	I (1)

As can be deducted from the table above, all the variable are stationary at the first difference for each of the forms of estimated. This implies that real domestic product (RGDP), tariff (TAR), trade openness (TOP), exchange rate (EXR) and export (EXPT) are integrated at first order one i.e., I(1). So we suspect co-integration between the dependent and independent variables. This result is expected, since most macro- economics' time series data are known to be non- stationary at level form but at the first difference, we carry out co-integration test to ensure that, though most of our variables are non-stationary series expect at the first difference, thus the variables have a long term equilibrium between them.

4.1.2 CO- INTEGRATION: long-run analysis unit root test for residual from the estimated regression at level form.

Economically, two variables will be co-integrated if they have a long-run or an equilibrium relationship between them (Gujuarati, 2004:822). To test for co-integration among the variable, we used the (Augmented dickey-filler) test on the regression residuals works.

We have assumed that all the variables are of the same order of integration i.e. I(1), in order to carry out further tests, we then run an ordinary least square regression of the variables on levels and test for co-integration by testing the residual.

Unit root tests 1983 to 2010(4)

Critical values: 5% = -1.945 1% = -2.595

	t-adf	Ä	Lag	t-lag	t-prob.
Residual	-3.5646**	97535.	2	0.25813	0.7984
Residual	-4.7730**	95768.	1	2.2691	0.0318
Residual	-3.9677**	1.0286e+005	0		

From the table, we can conclude that the variables are not co-integration

4.2 EVALUTION OF REGRESSION RESULT

Dependent variable: Exchange rate.

Method: Ordinary Least Square (OLS).

Period of study: 1981 – 2010

Included Observations: 30

Variable	Coefficient	Standard error	t-statistics	t-prob.	PartyR_2
Constant	28932.	17393.	1.663	0.1092	0.1034
TAR	1041.0	824.19	1.263	0.2187	0.0623
TOP	-78049.	1.2362e+005	-0.631	0.5338	0.0163
EXR	-2875.6	1158.9	-2.481	0.0205	0.02041
EXPT	0.056461	0.010381	5.439	0.0000	0.5521

R^2 = 0.707423 F{5, 24} = 11.606 {0.0000} ȧ = 85604.7

DW = 1.92 RSS = 1.758761217e+011 for 6 variables and 30 observations.

From the above, the interpretation of the result as regard the coefficient of various regressors is stated as follows:

The value of the intercept which is 28932 shows that the Nigerian economy will experience a 28932 increase when all other variables are held constant.

The estimate coefficients which are 1041.0 {TAR} shows that a unit change in tariff will cause a 1041.0% increase in RGDP, -78049 {TOP} shows that a unit change in trade openness will cause a -78049% decrease in RGDP, -2875.6 {EXR} shows that a unit change in exchange rate will cause a -2875.6% decrease in RGDP. 0.056461 {EXPT} shows that a unit change in export will cause a 0.056461% increase in RGDP.

4.2.1 EVALUATION BASED ON ECONOMIC APRIORI CRITERIA

The test is aimed at determining whether the signs and sizes of the results are in line with what economic theory postulates. Thus, economic theory tells us that the coefficients are positively related to the dependent variable, if an increase in any of the explanatory variables leads to a decrease in the dependent variable.

Therefore, the variables under consideration, their parameter and priori signs have been summarized in the table below.

This table will be guarded by these criteria

When $\beta > 0$ = conform.

When $\beta < 0$ = not conform.

Variables	Expected signs	Estimate	Remark
RGDP	+	$\beta > 0$	Conform
TAR	+	$\beta > 0$	Conform
TOP	+	$\beta < 0$	Not conform
EXR	+	$\beta < 0$	Not conform
EXPT	+	$\beta > 0$	Conform

From the above table, it is observed that all except MANF actually conforms to the economic theories.

A positive relationship which exists between RGDP, TAR, and EXPT indicates that an increase in TAR and EXPTwill result in a positive change in the Growth Real gross domestic product. This conforms to the priori criteria because an increased or high TAR and EXPT over the years will increase Real gross domestic product in the economy.

4.2.2 EVALUTION BASED ON STASTISTICAL CRITERIA

Co-efficient of multiple determinants (R^2)

The R^2 {R-Squared} which measures the overall goodness of fit of the entire regression, shows the value of 0.707423 = 70.7423% approximately 71%. This indicates that the independent variables accounts for about 71% of the variation in the dependent variable.

The Student's T-test:

The test is carried out, to check for the individual significance of the variables. Statistically, the t-statistic of the variables under consideration is interpreted based on the following statement of hypothesis.

H_0: The individual parameters are not significant.

H_1: The individual parameters are significant.

Decision Rule:

If t-calculated > t-tabulated, we reject the null hypothesis $\{H_0\}$ and accept the alternative hypothesis $\{H_1\}$, and if otherwise, we select the null hypothesis $\{H_0\}$ and reject the alternative hypothesis $\{H_1\}$.

Level of significance = at 5%

= 0.025

Degree of freedom: n-k

Where n: sample size.

K: Number of parameter.

The t-test is summarised in the table below:

Variables {t-value}	t-tab	Remark
TAR {1.263}	± 2.064	Insignificant
TOP {-0.631}	± 2.064	Insignificant
EXR {-2.481}	± 2.064	Significant
EXPT {5.439}	± 2.064	Significant

The t-statistics is used to test for individual significance of the estimated parameters {β_1, β_2, β_3 and β_4}.

From the table above, we can deduce that EXR {-2.481} and EXPT {5.439} are greater than 2.052 {going by absolute values} which represents the t-tabulated implying that EXR and EXPT are statistically Significant.

On the other hand, the intercept {1.663}, TAR{1.263} and TOP {-0.631} are less than the t-tabulated {±2.052} signifying that the intercept, TAR and TOP are statistically insignificant.

F-Statistic:

The F-statistics is used to test for simultaneous significance of all the estimated parameters.

The hypothesis is stated;

H_0: $\beta_1 = \beta_2 = \beta_3 = \beta_4$

H_1: $\beta_1 \neq \beta_2 \neq \beta_3 \neq \beta_4$

Level of significance: α at 5%

Degree of freedom: $\frac{k-1}{n-k}$

Decision Rule:

If the f-calculated is greater than the f-tabulated {f-cal > f-tab} reject the null hypothesis {H_0} that the overall estimate is not significant and conclude that the overall estimate is statistically significant.

From the result, f-calculated {11.606} is greater that the f-tabulated {2.62}, that is, f-cal > f-tab. Hence, we reject the null hypothesis {H_0} that the overall estimate has a good fit which implies that our independent variables are simultaneously significant.

4.2.3 EVALUATUON BASED ON ECONOMETRIC CRITERIA

One of the underlying assumptions of the ordinary least square regression is that the succession values of the random variables are temporarily independent. In the context of the series analysis, this means that an error term {Ut} is not correlated with one or more of previous errors {U_{t-1}}. The problem is usually dictated with Durbin-Watson {DW} statistics.

The durbin-watson's test compares the empirical d* and du in d-u tables to their transforms {4-d_L} and {4-d_U}.

Decision Rule:

- If d* < D_L, then we reject the null hypothesis of no correlation and accept that there is positive autocorrelation of first order.
- If d* > {4-d_L}, we reject the null hypothesis and accept that there is negative autocorrelation of the first order.
- If d_U< d* < {4-d_U}, we accept the null hypothesis of no autocorrelation.
- If d_L < d* < d_U or if {4-d_U} < {4-d_L}, that test is inconclusive.

Where: d_L = Lower limit

D_U = Upper limit

D* = Durbin Watson.

From our regression result, we have;

D* = 1.92

D_L = 1.071

D_U = 1.833

$4\text{-}d_L = 2.929$

$4\text{-}d_U = 2.167$

Conclusion:

Since d*{1.92} < D_L,{ 1.071} then we reject the null hypothesis of no correlation and accept that there is positive autocorrelation of first order.

Normality Test for Residual:

The Jarque-Bera test for normality is an asymptotic, or large-sample, test. It is also based on the ordinary least square residuals. This test first computes the skewness and kurtosis measures of the ordinary least square residuals and uses the chi-square distribution {Gujarati, 2004}.

The hypothesis is:

H_0 : $X_1 = 0$ normally distributed.

H_1 : $X_1 \neq 0$ not normally distributed.

At 5% significance level with 2 degree of freedom.

JB = + = 1.7084

While critical JB > $\{X^2_{\{2\}}df\}$ = 5.99147

Conclusion:

Since 1.7084< 5.99147 at 5% level of significance, we accept the null hypothesis and conclude that the error term follow a normal distribution.

Test for Heteroscedasticity:

Heteroscedasticity has never been a reason to throw out an otherwise good model, but it should not be ignored either {Mankiw Na, 1990}.

This test is carried out using White's general heteroscedasticity test {with cross terms}. The test asymptotically follows a chi-square distribution with degree of freedom equal to the number of regressors {excluding the constant term}. The auxiliary model can be stated thus:

$Ut = \beta_0 + \beta_1 TAR + \beta_2 TOP + \beta_3 EXR + \beta_4 EXPT + \beta_5 TAR^2 + \beta_6 TOP^2 + \beta_7 EXR^2 + \beta_8 EXPT^2 + Vi.$

Where Vi = pure noise error.

This model is run and an auxiliary R^2 from it is obtained.

The hypothesis to the test is stated thus;

H_0: $\beta_1 = \beta_2 = \beta_3 = \beta_4 = 0$ {Homoscedasticity}

H_1: $\beta_1 \neq \beta_2 \neq \beta_3 \neq \beta_4 = 0$ {Heteroscedasticity}.

Note: the sample size {n} multiplies by the R^2 obtained from the auxiliary regression asymptotically follows the chi-square distribution with degree of freedom equal to the number of regressors {excluding constant term} in the auxiliary regression.

Decision Rule:

Reject the null hypothesis if $X^2_{cal} > X^2$ at 5% level of significance. If otherwise, accept the null hypothesis. From the obtained results, X^2_{cal} = 23.781> X^2 0.05 {10} = 18.3 we therefore accept the alternative hypothesis of heteroscedasticity showing that the error terms do not have a constant variance and reject the null hypothesis showing that the error terms has a constant variance.

Test for Multicollinearity:

The term Multicollinearity is due to Ragnar Frisch. Originally it meant the existence of a "perfect" or exact, linear relationship among some or all explanatory variables of a regression model. The problem of multi-collinearity arise when the explanatory variables in a model are correlated such that it becomes difficult to disentangle the separate influence. To know if multi collinearity is a problem we will use the rule of thumb suggested by Gujarati and Sangeetha (2007:367). The rule state that if the zero-order correlation co0-efficient between two independent variables is high. According to Barry and Feldman {1985} criteria;

"Multicollinearity is not a problem if no correlation exceeds 0.80", then multi-collinearity is a serious problem.

	RGDP	TAR	TOP	EXR	EXPT	REMARK
RGDP	1.000					-
TAR	-0.005617	1.000				Nm
TOP	-0.2623	0.2271	1.000			Nm, Nm
EXR	-0.3503	0.04688	0.07336	1.000		Nm, Nm,Nm
EXPT	0.6428	-0.01156	-0.1408	-0.08643	1.000	Nm,Nm,Nm,Nm

Where M = Presence of multicollinearity

Nm = No multicollinearity.

From the above table, we can conclude that No multicollinearity exists in all the variables, which means that there are no perfect or exact linear relationship among all the explanatory variable of the regression variable.

4.2.4 EVALUATION OF RESEARCH HYPOTHESIS

There is no significant relationship between tariff and economic growth in Nigeria.

4.3 RESEARCH FINDING

This study, shows that tariff (TAR), trade openness (TO) exchange rate (EXR) and export (EXPT) have positive impact on economic growth in Nigeria. That is an increase in any of the variables will lead to an increase in economic growth in Nigeria. In addition, this study found that tariff (TAR), exchange rate (EXR), export (EXPT) are all statistically significant. This means that they cannot be ignored in determine economic growth in Nigeria. However trade openness (TOP) was found to be statistically insignificant. This that it is not a major or primary factor in determining economic growth in Nigeria. Furthermore, no causality was found between tariff (TAR) and economic growth (RGDP), that it neither causes the other.

CHAPTER FIVE

5.0 SUMMARY, POLICY RECOMMENDATIONS AND CONCULSION

5.1 SUMMARY OF RESEARCH FINDINGS

In accordance with economic theory this study under the time frame of 1980-2010 (31years), found that tariff, trade openness, exchange rate and export have a positive impact on economic growth in Nigeria. This implies that an increase in any of this variables will cause the Nigeria economy to grow. In addition, tariff, exchange rate and export were not only found to contribute positively to economic in Nigeria, but also were found to be indispensable (statistically significant), in the achievement of economic growth in Nigeria within the period under study. Also, the found out that tariff does not cause economic, neither does economic growth cause tariff imposition in Nigeria. That is, there is no causality existing between tariff and economic growth in Nigeria.

5.2 POLICY RECOMMENDATIONS

Based on the research findings of this study, the following policy of this study, the following policy measures are hereby proffered for long-term sustenance of economic growth in Nigeria.

1. The nature of the relationship that exist between tariff and economic growth as well as the other variables like trade openness, exchange rate and export in Nigeria all accounted to be positive in this study. Since tariff ,trade openness, exchange rate and export had a positive impact on economic growth in Nigeria. Therefore tariff and export are seen as source of income to the government and should be encouraged in large amount in order to help sustain economic grow. Trade openness is another important growth driver and should be given a prime place in our international trade policy. The exchange rate which is important in export and in the value of our naira. A favourable exchange rate will increase and encourage export, which in turn increase the per capita income (GDP) and stimulate economic growth in Nigeria.

2. It has been found that tariff, trade openness, exchange rate and export actually all help determine economic growth in Nigeria to a large extent an cannot be ignored or over-looked upon. Since they all contribute to economic growth, policy makers should include them in the trade policy and also measures should be made to improve and increase tariff, trade openness, export and exchange rate in order to stimulate growth in Nigeria. Where export will discourage import, tariff will protect infant industries so they can develop. Also a favourable exchange stimulate export in Nigeria. Thus all the variables in this research work all work together to contribute economic growth.

3. In this research study, tariff, trade openness, exchange rate, export have all improved Nigeria's economy for the period 1980-2010 under study. This can be seen in the positive relationship they all have with economic growth. This variables also depend on each other to stimulate economic growth in Nigeria. Tariff imposition on import will protect infant industries, thus enhancing export for the new developing industries products. On the other hand, when the exchange rate is high it will encourage export and discourage import; trade openness also depends on export to function well.

Therefore, government should rationally maintain a high level of exchange rate as this will encourage export. They should also impose high tariff for newly developing industries to maintain their existence, growth and encourage the export of their products.

4. Tariffs impediments in Nigeriahas retarded the proper imposition of tariff in Nigeria. This research study has shown tariff to have a positive relationship as well as other variables like trade openness, exchange rate and export with economic growth. To reduce this impediments the government should ensure policy measures and some checks on the activities of the customs authorities that are in charge of the tariffs. To ensure they properly implement the tariff. These tariff impediment can affect the other variables that also help in the economy growth under this research work.This impediment can cause the newly developing

industries to unprotected from foreign competitors and over importations that retard the export of locally produce goods. Thus lowers export and encourages import which in turn, affects our foreign reserve negatively. Also on the other a low exchange rate (an overvalued naira) can also discourage export that would have stimulated economic growth.

5.3 CONCULSION

In conclusion, this study has found out that tariff (TAR), trade openness (TO), exchange rate (EXR) and export (EXPT) have positive impact on the economic growth in Nigeria. That is, tariff, trade openness, exchange rate and export are all economic growth drivers in Nigeria from the research work. Therefore special attention should be paid to their sustenance and development. Also, the importance of trade of trade openness as economic driver should be emphasized as this will go a long way further in growing the Nigeria economy along other variables in this study. Trade barriers in form of tariff should be encouraged in order to boost export of locally produced products in Nigeria, which help boost the domestic economy. Policy makers should purse trae policies that accommodate tariff.

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