

Trade Policy Incentives and Economic Growth in Nigeria

Authors : Emmanuel Dele Balogun

Abstract : This paper analyzes, using descriptive statistics and econometrics data which span the period 1981 to 2014 to gauge the effects of trade policy incentives on economic growth in Nigeria. It argues that the provided incentives penalize economic growth during pre-trade liberalization eras, but stimulated a rapid increase in total factor productivity during the post-liberalization period of 2000 to 2014. The trend analysis shows that Nigeria maintained high tariff walls in economic regulation eras which became low in post liberalization era. The protections were in favor of infant industries, which were mainly appendages of multinationals but against imports of competing food and finished consumer products. The trade openness index confirms the undue exposure of Nigeria's economy to the vagaries of international market shocks; while banking sector recapitalization and new listing of telecommunications companies deepened the financial markets in post-liberalization era. The structure of economic incentives was biased in favor of construction, trade and services, but against the real sector despite protectionist policies. Total Factor Productivity (TFP) estimates show that the Nigerian economy suffered stagnation in pre-liberalization eras, but experienced rapid growth rates in post-liberalization eras. The regression results relating trade policy incentives to TFP growth rate yielded a significant but negative intercept suggesting that a non-interventionist policy could be detrimental to economic progress, while protective tariff which limits imports of competing products could spur productivity gains in domestic import substitutes beyond factor growth with market liberalization. The main constraint to the effectiveness of trade policy incentives is the failure of benefiting industries to leverage on the domestic factor endowments of the nation. This paper concludes that there is the need to review the current economic transformation strategies urgently with a view to provide policymakers with a better understanding of the most viable options that could make for rapid success.

Keywords : economic growth, macroeconomic incentives, total factor productivity, trade policies

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