

## TRADE PROTECTIONISM, UNEMPLOYMENT AND ECONOMIC GROWTH IN NIGERIA

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**Abstract:** The essence of this paper was to explore how trade protectionism affected unemployment and economic growth of Nigeria from 1990 to 2020. Trade protectionism was measured using the tariff rate for all products while unemployment and economic growth were measured by the unemployment rate and the growth rate of gross domestic product respectively. The study utilized the autoregressive distributed lag approach, the impulse response function, and the dynamic ordinary least squares in the estimation. The key findings from the study are that trade protectionism has a positive and significant short run effect on economic growth but a negative and significant long run effect on growth. Also, trade protectionism has a negative and significant effect on unemployment during the study period. The implication of these findings is that trade protectionism is desirable within the Nigerian economy as it promotes growth and reduces unemployment within the economy. The findings therefore support the infant industry argument for trade protectionism. The paper therefore recommended that the Nigerian economy should be driven with some forms of protectionism doctrine in the short term until the economic structure of the country is strongly developed to compete favourable with developed countries of the world.

**Keywords:** Trade Openness, Trade Protectionism, Unemployment, Economic Growth.

**JEL Classification:** F14, F43, F44, O24, O47.

### 1. INTRODUCTION

The Mercantilist doctrine as was first observed in Europe in the 1500s was marked with policies geared towards curbing excessive importation while

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promoting exportation. This idea led to the introduction of stiff policies to curb imports since they believed that such action could lead to an accumulation of wealth at the expense of other economies. This made England to introduce policies such as the Sugar Act of 1764 which raised duties on foreign refined sugar to give monopoly to British sugar growers which resided in the West Indies on the colonial market. Similar to this was the Navigation Act of 1651 which restricted foreign vessels from trading along the British coast and made it mandatory that colonial exports must initially pass through the British control before being redistributed across Europe. These policies made Europe to grow its domestic economy and built a strong army that had great influence across the globe. This era was therefore characterised by greater trade protection across countries in the globe due to the Mercantilist believe on the static nature of wealth.

Trade protectionism therefore involves the policies of the government to accord protection to the domestic industries from foreign competition (Cherunilam, 2006:229). It consists of managing the international exchanges of goods and services between national and regional economies (Okere & Iheanacho, 2016). Some arguments have been put up to promote protectionists doctrine. Such include the infant industry argument advocated by Alexander Hamilton, Frederick List and others. According to them, a new industry having a potential comparative advantage may not get started in a country unless it is given temporary protection against foreign competitors (Cherunilam, 2006:230). The infant industry argument has been criticised by some economists as they argued that an infant will always be an infant if it is given protection. Thus, the infant industry argument is a case of removing obstacles to the growth of the infants but does not demonstrate that a tariff is the most effective means of achieving the objective (Ellsworth & Leith, 1975:247). Unfortunately, the protected industry lingers to depend on its political power and allies to extend the duration of its “infancy” and counterattack lifting the protections (Coughlin *et al.*, 1988). Such infant industries enjoy the luxury of protection and often grow and begin to oligopolistic tendency with substantial political power to preserve and even raise levels and types of protection (Pincus, 1977). This policy of protection has been expressed in the following ways: “*Nurse* the baby, *Protect* the child and *Free* the adult (Cherunilam, 2006:230). Other arguments in support of the protectionist doctrine include that it aids diversification of industrial structure, improves the terms of trade through the imposition of import duty or quota, improves the balance of payments, anti-dumping, stimulate domestic economy (growth) and expand employment, among others.

However, trade protectionism is not devoid of some side effects. Such include the fact that it is against the interest of consumers as it increases price and reduces variety and choice, it makes producers and consumers less quality conscious, encourages monopolies, discourages innovation, reduces the volume of international trade, and uneconomic utilization of world's resources (Cherunilam, 2006:233). These demerits of protectionism therefore brought about the new dimension of in international trade which is the free trade argument. Free trade involves the trade which is free from all artificial barriers to trade such as tariffs, quantitative restrictions (quotas), exchange controls, among others. The free trade has been so much supported in that it leads to the most economic utilization of the productive resources of the world, it leads to division of labour on international level which stimulates specialization, efficiency, and economy in production, it promotes competition leading to efficiency, breaks domestic monopolies and free consumers from exploitation, among others. In summary, free trade is believed to promote competition and efficient use of resources.

In line with the protectionist standpoint, it can be stated that protection of certain domestic industries is necessary in some situations. Actions to conserve the foreign exchange resource including import restrictions are necessary, particularly in the early stages of development, to protect the interest of the developing country. It is within this perspective that one can stipulate that Nigeria being a developing economy needs some sort of protectionism in order to guard its economy against the whims and caprices of free trade given its prevalent economic condition. Such action will stimulate the domestic economy and expand employment opportunities since restriction of imports will stimulate import competing industries and its spread effects will help the growth of other industries. The resultant effect will be creation of more employment opportunities within the economy. This therefore raise pertinent question: can trade protectionism stimulate growth and employment in Nigeria?

Despite the fact that protections lower imports and keep some workers in the export industry, they also lower employment in export industries because, as Luttrell (1978) showed, the employment benefits from lower imports and the employment losses from lower exports cancel each other out, with a net employment effect that is almost zero! (Abboushi, 2010). There is evidence in the literature that free trade and unemployment are directly related. Still unclear in the research community, nonetheless, are the impacts of free trade level on equilibrium unemployment rate (Bassanini & Duval, 2009; Felbermayr, Prat, and Schmerer 2011). Indeed, a wide range of theoretical frameworks support

the possibility that trade openness and unemployment are related. They resemble international trade product differentiation models and comparative advantage frameworks. Davis (1998), Egger & Kreickemeier (2009), Helpman & Itskhoki (2010), for example, all make the case that free trade can lead to the loss of jobs. Conversely, other studies have argued that free trade lowers the unemployment rate; Matusz (1996) and Revenga (1997) are two instances of this school of thought in the literature. While Sener (2001) concluded that free trade has no effect on unemployment, the work of Moore & Ranjan (2005) concluded that free trade has uncertain effect on unemployment.

The possible positive externalities from exposure to foreign markets have been identified as the link between trade protectionism and economic growth. More precisely, there are three approaches to consider protectionism in relation to export promotion strategies as an engine of economic growth (Awokuse, 2008) – (i), as a part of total production, export growth can directly be a key driver of economic growth. Through higher employment and income in the exportable sector, a rise in foreign demand for domestic exportable items can lead to an overall increase in production; (ii), through a variety of indirect channels, including effective resource allocation, increased capacity utilization, the use of economies of scale, and the encouragement of technical advancement as a result of competition from outside markets, export strategy may also have an impact on growth (Helpman & Krugman, 1985). Growth in exports enables businesses to benefit from economies of scale that are internal to the economy as a whole but external to businesses in the non-export sector; and (iii), increased exports have the potential to generate foreign exchange that permits higher levels of intermediate goods imports, which in turn boosts capital formation and propels output growth (Balassa, 1978; Esfahani, 1991).

Expanded import strategies have the potential to be complementary to the argument for export promotion strategies in terms of promoting overall economic growth. It is reasonable to believe that protectionism's impact on economic growth may differ from export strategy when compared to import promotion plan. For example, imports supply vital manufacturing components used in the export industry in many emerging nations. Furthermore, imports from industrialized to emerging nations may be a significant source of knowledge transfer and economic growth. For the reason that imports provide domestic enterprises access to foreign technology and expertise, they can be a pathway for long-term economic growth in the spirit of endogenous growth models (Grossman & Helpman, 1991; Coe & Helpman, 1995).

With the tariff rate decreasing from 25.32% in 1991 to 24.82% in 1992, the volume of imports increased from US\$6.27 billion to US\$6.81 billion while exports increased from US\$ 11.91 billion to US\$11.46 billion within the same period. But as the tariff increased to 91.27% in 1994, imports declined sharply to US\$3.22 billion, and exports declined to US\$ 4.58 billion in the same period. While the tariff averaged 28.28% in the 1990s, the volume of exports and imports averaged US\$7.28 billion and US\$10.54 billion respectively. As the tariff declined to an average of 14.46% between 2000 and 2009, it was observed that imports and exports averaged US\$28.51 billion and US\$43.12 billion respectively which denotes a significant increase in the volume of trade in the country compared to the 1990s. As the tariff declined again to an average of 10.08% between 2010 and 2020, imports averaged US\$65.71 billion while exports averaged US\$78.11 billion within the same period. This portrays that trade protectionism (high tariffs) could harm both exports and imports, while lower tariffs stimulate the volume of trade within an economy. With the average tariff of 28.28% in the 1990s, the rate of GDP growth and unemployment averaged 1.26% and 4.05% while when it average tariff rate declined to 14.46% between 2000 and 2009, the GDP growth rate increased to an averaged of 7.68% and unemployment declined to 3.87%. With the average tariff of 10.08% between 2010 and 2020, the average GDP growth rate declined to 3.15% while unemployment increased to an average of 6.0%. Could these variations in the volume of trade arising from trade protectionism affects growth and employment in the country?

Studies which have established a positive link between trade protectionism and growth include the works of Harrison & Hanson (1999), Rodrik (1999), Rodriguez & Rodrik (2000), Irwin (2002), Yanikkaya (2003), and Vamvakidis (2002); while studies with negative link amid trade protectionism and growth are Dollar (1992), Sachs & Warner (1995), Edwards (1998), Vamvakidis (1998), Frankel & Romer (1999), Effiong & Okon (2020), and Fajgelbaum *et al.* (2019). It is noted that there has been paucity of empirical studies in recent times on the link between trade protectionism, unemployment and economic growth in Nigeria. This is because many researchers have diverted their attention to studying how free trade affects economic growth. The attention of this paper therefore drifts away from the free trade arguments given the prevailing exchange rate crisis facing the country as a result of higher demand for foreign exchange for import relative to the supply. This study therefore aims at examining the effect of trade protectionism on unemployment and economic growth of the

Nigerian economy from 1991 to 2020. This period is selected based on data availability on critical variables in the model.

## 2. SOME STYLIZED FACTS

By advocating for free trade, it is important to compare Nigeria with other strong economies of the world to see how the country can sufficiently trade without being at the deficit. With respect to her manufacturing capacity, Nigeria manufacturing value added (% of GDP) was 17.78% in 1990 which declined to 6.55% in 2010 before a recovery to 12.67% in 2020 (see Table 1).

**Table 1: Manufacturing, Value Added (% of GDP)**

| <i>Countries/Year</i> | <i>1990</i> | <i>1995</i> | <i>2000</i> | <i>2005</i> | <i>2010</i> | <i>2015</i> | <i>2020</i> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Nigeria               | 17.78       | 19.99       | 13.93       | 10.06       | 6.55        | 9.43        | 12.67       |
| China                 | -           | -           | -           | 32.09       | 31.61       | 28.95       | 26.18       |
| USA                   | -           | -           | 15.12       | 12.99       | 11.93       | 11.63       | -           |
| Russian Federation    | -           | -           | -           | 15.68       | 12.82       | 12.38       | 13.26       |
| Korea, Republic       | 25.02       | 25.80       | 26.45       | 25.74       | 27.44       | 26.61       | 24.81       |
| Italy                 | 20.02       | 19.00       | 17.57       | 15.55       | 14.23       | 14.40       | 14.85       |
| United Kingdom        | 16.67       | 15.48       | 13.34       | 10.52       | 9.50        | 9.21        | 8.65        |
| Germany               | -           | 20.54       | 20.55       | 20.07       | 19.70       | 20.35       | 18.17       |

*Source:* World Bank (2021)

While the manufacturing value added (% of GDP) for Korea Republic stood at 24.81% in 2020, China and Germany recorded 26.18% and 18.17% respectively. This 2020 statistic when compared to the country's trading partner like China, Korea Republic, Italy, Germany reveals that Nigeria can only export raw materials while importing heavy manufactures. The resultant effect could be the suppression of the domestic manufacturing firms with more import dependency being the order of the day.

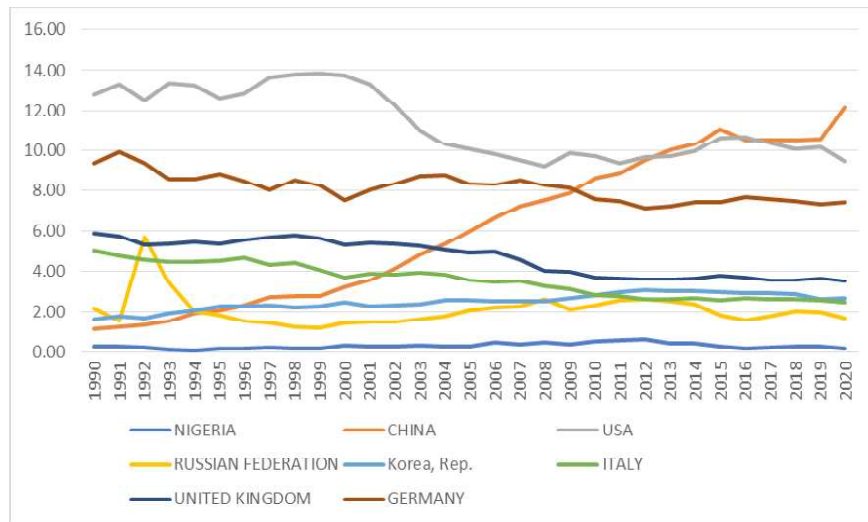
The Nigerian export volume is another point to consider in the free trade argument. The export volume in Nigeria compared to the rest of the world is quite smaller as it was valued US\$38.17 billion in 2020 compared to countries like China with US\$2,723.25 billion, USA with US\$2,123.41 billion, and Germany with US\$1,669.99 billion (see Table 2).

**Table 2: Exports of Goods and Services (Current US\$ billions)**

|                    | 1990     | 1995     | 2000     | 2005      | 2010      | 2015      | 2020      |
|--------------------|----------|----------|----------|-----------|-----------|-----------|-----------|
| Nigeria            | 11.33    | 10.64    | 25.02    | 37.05     | 92.75     | 51.92     | 38.17     |
| China              | 49.13    | 131.86   | 253.09   | 773.34    | 1,654.82  | 2,362.09  | 2,723.25  |
| USA                | 551.87   | 812.81   | 1,096.11 | 1,301.58  | 1,857.25  | 2,268.65  | 2,123.41  |
| Russian Federation | 93.86    | 115.85   | 114.43   | 268.96    | 445.51    | 391.37    | 378.64    |
| Korea, Republic    | 70.83    | 145.75   | 195.55   | 329.86    | 538.9     | 630.13    | 596.95    |
| Italy              | 215.68   | 289.82   | 293.87   | 457.14    | 535.61    | 545.77    | 555.04    |
| United Kingdom     | 252.31   | 342.98   | 419.7    | 637.67    | 702.24    | 803.74    | 776.08    |
| Germany            | 404.58   | 568.73   | 600.91   | 1,083.50  | 1,447.08  | 1,575.40  | 1,669.99  |
| World              | 4,307.75 | 6,433.47 | 7,971.19 | 12,975.08 | 19,138.23 | 21,279.27 | 22,429.97 |

Source: World Bank (2021)

By presenting the export value in comparison with the world total export, Figure 1 presents the trends in the selected countries over the years.

**Figure 1: Exports of Goods and Services, % of World Export**

It can be observed that China continued to have an increased share of her exports to the world exports as it increased from 1.14% in 1990 to 8.65% in 2010 and then to 12.14% in 2020. For the United States of America, there have been a declining trend from 12.81% in 1990 to 9.23% in 2008 before reaching 7.45% in 2020. Nigeria is observed to have a comparatively lower share to the World export as its export accounts for only 0.26% of World exports in 1990

which has declined to 0.17%. This therefore raise concerns as to the ability of the country to sufficiently compete in the event of free trade. It is evident from Figure 1 that the leading exporters in recent times are China, USA, and Germany.

The country's import value also keeps on increasing which could put a pressure on the current account balance leading to macroeconomic instability within the country. The import value increased from US\$5.38 billion in 1990 to US\$63.83 billion in 2010 and then to US\$71.63 billion in 2020 as shown in Table 3.

**Table 3: Imports of Goods and Services (Current US\$ billions)**

|                    | 1990     | 1995     | 2000     | 2005      | 2010      | 2015      | 2020      |
|--------------------|----------|----------|----------|-----------|-----------|-----------|-----------|
| Nigeria            | 5.38     | 6.77     | 9.01     | 21.18     | 63.83     | 51.92     | 71.63     |
| China              | 38.46    | 119.90   | 224.31   | 648.71    | 1,432.42  | 2,003.26  | 2,357.11  |
| USA                | 629.73   | 902.57   | 1,477.18 | 2,041.48  | 2,389.56  | 2,794.85  | 2,774.60  |
| Russian Federation | 92.74    | 102.42   | 62.42    | 164.34    | 322.37    | 281.64    | 305.01    |
| Korea, Republic    | 72.98    | 151.50   | 185.28   | 308.91    | 506.77    | 529.77    | 536.73    |
| Italy              | 213.36   | 246.82   | 284.12   | 458.98    | 575.30    | 490.42    | 485.36    |
| United Kingdom     | 272.15   | 338.74   | 447.14   | 697.42    | 748.93    | 849.47    | 772.41    |
| Germany            | 407.98   | 558.21   | 597.61   | 935.46    | 1,268.18  | 1,320.39  | 1,449.78  |
| World              | 4,375.16 | 6,306.05 | 7,944.47 | 12,803.41 | 18,588.84 | 20,721.33 | 21,745.50 |

*Source:* World Bank (2021)

Countries like China USA and Germany have recorded significant increase in their imports volume in recent times. While China imports was valued at US\$648.71 billion in 2005 against US\$2,357.11 billion in 2020; imports in the USA have increased from US\$2,041.48 billion in 2005 to US\$2,774.60 billion in 2020; and Germany's import have increased from US\$935.46 billion in 2005 to US\$1,449.78 billion in 2020.

The share of these countries' imports to World imports is presented in Figure 2.

The trend in Figure 2 therefore points to the fact that USA, China, and Germany represent the leading importers in recent times. The USA alone accounted for 18.59% of World imports in 2000 though this have reduced significantly to 12.76% in 2020. However, China's share to World imports have increased substantially from 5.07% in 2005 to 10.84% in 2020. Nigeria's imports only accounts for 0.79% of World imports in 2000 which has declined to 0.33% in 2020 and this is far below other countries captured.



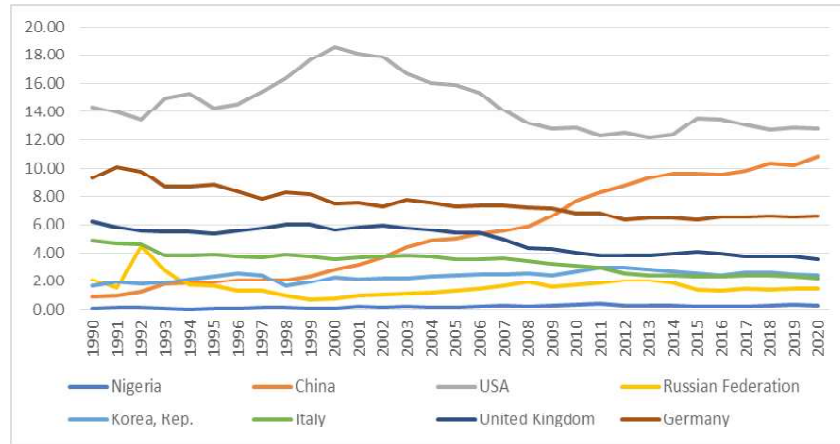


Figure 2: Imports of Goods and Services, % of World Imports

Given the imports and exports, we can then establish the level of the external reserves of these economies. This is presented in Table 4 where it is presented as a ratio of GDP.

Table 4: External Balance on Goods and Services (% of GDP)

|                    | 1990   | 1995   | 2000   | 2005   | 2010   | 2015   | 2020   |
|--------------------|--------|--------|--------|--------|--------|--------|--------|
| Nigeria            | 11.025 | 8.783  | 23.051 | 9.008  | 8.000  | 0.000  | -7.741 |
| China              | 2.956  | 1.628  | 2.376  | 5.452  | 3.654  | 3.244  | 2.487  |
| USA                | -1.306 | -1.175 | -3.717 | -5.676 | -3.551 | -2.885 | -3.108 |
| Russian Federation | 0.286  | 4.223  | 12.676 | 12.728 | 8.075  | 5.191  | NA     |
| Korea, Republic    | -0.762 | -1.016 | 1.783  | 2.241  | 2.808  | 6.847  | 3.676  |
| Italy              | 0.197  | 3.660  | 0.850  | -0.099 | -1.858 | 3.014  | 3.690  |
| United Kingdom     | -1.815 | 0.315  | -1.651 | -2.348 | -1.874 | -1.547 | 0.133  |
| Germany            | -0.192 | 0.407  | 0.169  | 5.200  | 5.262  | 7.595  | 5.725  |

Source: World Bank (2021)

It can be observed that Nigeria experienced higher and positive external balance in the 1990s to the tune of 11.025% in 1990 which rose to 23.051% in 2000. Further, it maintained a declining trend to 8% in 2010 with a negative balance of -7.741% in 2020. It is worth noting that China with higher manufacturing value added (% of GDP) experienced positive external balance throughout the selected period. Apart from 1990, Germany maintained positive external balance over the remaining selected years, while Korea

Republic enjoyed positive external balance from 2000 for the selected years. The Russian Federation is also noted to consistently enjoy positive external balance over the selected period. Out of the countries under review, it is observed that Germany had the highest external balance amounting to 5.73% of GDP in 2020.

It is also pertinent to note that the strength of a country in international trade transaction could affect its growth rate whether positively or negatively. On the positive side, a favourable external balance could add to the income determination model as a positive net export, while an unfavourable external balance could cause a reduction in the income determination model through negative net exports. Table 5 presents the performance of the economies in terms of their GDP growth.

**Table 5: The GDP growth (annual %)**

|                    | 1990   | 1995   | 2000   | 2005   | 2010   | 2015   | 2020    |
|--------------------|--------|--------|--------|--------|--------|--------|---------|
| Nigeria            | 11.777 | -0.073 | 5.016  | 6.439  | 8.006  | 2.653  | -1.794  |
| China              | 3.920  | 10.954 | 8.490  | 11.395 | 10.636 | 7.041  | 2.348   |
| USA                | 1.886  | 2.684  | 4.127  | 3.513  | 2.564  | 3.076  | -3.405  |
| Russian Federation | -3.000 | -4.144 | 10.000 | 6.400  | 4.500  | -1.973 | -2.951  |
| Korea, Republic    | 8.800  | 8.517  | 8.153  | 4.088  | 6.274  | 2.268  | -0.989  |
| Italy              | 1.986  | 2.887  | 3.787  | 0.818  | 1.713  | 0.778  | -8.939  |
| United Kingdom     | 0.543  | 2.307  | 4.375  | 2.886  | 2.960  | 2.281  | -10.227 |
| Germany            | 5.255  | 1.544  | 2.913  | 0.732  | 4.180  | 1.492  | -4.570  |

*Source:* World Bank (2021)

Reference could be drawn from 2020 which many countries of the World recorded negative growth rates because of the Covid-19 pandemic. Out of the eight (8) economies, only China recorded a positive GDP growth rate of 2.35% and this could be attributed to its favourable positions in its external balance. However, even countries like Korea Republic, Italy, United Kingdom, and Germany who recorded positive external balance in 2020 still recorded negative GDP growth in the same period due to the dampening effect of the Covid-19 pandemic on the global economy.

The level of unemployment in these economies are also worth examining as Table 6 presents the statistics.

**Table 6: Unemployment, Total (% of Total Labour Force)  
(Modelled ILO Estimate)**

|                    | 1991 | 1995 | 2000  | 2005  | 2010 | 2015  | 2020 |
|--------------------|------|------|-------|-------|------|-------|------|
| Nigeria            | 4.12 | 4.06 | 3.95  | 3.87  | 3.78 | 4.31  | 9.71 |
| China              | 2.37 | 3.00 | 3.26  | 4.52  | 4.53 | 4.63  | 5.00 |
| USA                | 7.50 | 5.45 | 4.73  | 4.62  | 8.95 | 4.87  | NA   |
| Russian Federation | 5.41 | 9.45 | 10.58 | 7.12  | 7.37 | 5.57  | 5.59 |
| Korea, Republic    | 2.41 | 2.06 | 4.06  | 3.48  | 3.32 | 3.55  | 3.93 |
| Italy              | 6.80 | 9.07 | 8.31  | 6.17  | 7.49 | 11.32 | 8.40 |
| United Kingdom     | 8.55 | 8.69 | 5.56  | 4.75  | 7.79 | 5.30  | 4.47 |
| Germany            | 5.32 | 8.16 | 7.92  | 11.17 | 6.97 | 4.62  | 3.81 |

*Source:* World Bank (2021)

Recent statistics showcases that out of the eight (8) countries, Germany recorded the lowest level of unemployment in 2020 at 3.81% which was followed by Korea Republic with 3.93%. Nigeria recorded an unemployment rate of 9.71% in 2020 which was an increase from 8.53% in 2019. Given the unemployment situation in the country, the employment in the industrial sector have declined in recent times when compared to the 1990s. This is reflected in Table 7.

**Table 7: Employment in Industry (% of Total Employment)  
(Modelled ILO Estimate)**

|                    | 1991  | 1995  | 2000  | 2005  | 2010  | 2015  | 2019  |
|--------------------|-------|-------|-------|-------|-------|-------|-------|
| Nigeria            | 13.42 | 13.12 | 12.36 | 11.44 | 10.25 | 11.94 | 12.00 |
| China              | 21.40 | 23.00 | 22.50 | 23.80 | 28.70 | 29.18 | 27.42 |
| USA                | 25.96 | 25.49 | 24.44 | 22.26 | 19.64 | 19.86 | 19.91 |
| Russian Federation | 39.96 | 34.08 | 29.24 | 29.26 | 27.76 | 27.28 | 26.79 |
| Korea, Republic    | 36.82 | 33.44 | 28.15 | 26.66 | 25.02 | 25.39 | 24.58 |
| Italy              | 34.96 | 33.66 | 31.79 | 30.68 | 28.61 | 26.60 | 25.87 |
| United Kingdom     | 30.42 | 27.42 | 25.17 | 22.22 | 19.21 | 18.66 | 18.12 |
| Germany            | 37.72 | 36.00 | 33.53 | 29.84 | 28.31 | 27.69 | 27.18 |

*Source:* World Bank (2021)

The labour employment in industry for Nigeria was 13.42% in 1991 but declined to 10.25% in 2010 before recording an increase to 12% in 2019. Given

this level of industrial employment, it can be stated that this represents the least when compared to other countries selected. For instance, China industry employment stood at 27.42% in 2019 against 28.32% in 2018 followed by Germany with 27.18% in 2019 against 27.34% in 2018. The Russian Federation recorded an industry employment of 26.79% in 2019 against 26.81% in 2018 while Italy recorded 25.87% in 2019 against 26.10% in 2018. These declines are linked to the Covid-19 pandemic which prompted the introduction of restrictions on economic activities. The only country that continued to exhibit increasing industrial production was USA from 19.86% in 2018 to 19.91% in 2020.

### 3. METHODOLOGY

#### 3.1. The Model

The model for this study is derived from the expectation that trade protectionism will have a positive effect on economic growth but a negative effect on unemployment. Thus, the growth model and the unemployment model are presented in Equation (1) and (2) respectively.

$$\begin{aligned} GDPG_t &= f(GFCF_t, TARG_t, REXR_t, BMS_t, GEXP_t, UNMR_t) & (1) \\ UNMR_t &= f(TARG_t, BMS_t, GDPG_t, GEXP_t, REXR_t) \end{aligned}$$

Where GDPG is the growth rate of gross domestic product (representing economic growth), GFCF is gross fixed capital formation (% of GDP), TARG is tariff rate (applied, weighted mean, all products), REXR is the real effective exchange rate index (2010 = 100), BMS is growth rate of broad money supply, GEXP is government expenditure (% of GDP), and UNMR is the unemployment rate (modelled ILO estimate).

The Equations are therefore explicitly stated to incorporate the parameters to be estimated and the error term as follows:

$$GDPG_t = \delta_0 + \delta_1 GFCF_t + \delta_2 TARG_t + \delta_3 REXR_t + \delta_4 BMS_t + \delta_5 GEXP_t + \delta_6 UNMR_t + \mu_{1t} \quad (3)$$

$$UNMR_t = \gamma_0 + \gamma_1 TARG_t + \gamma_2 BMS_t + \gamma_3 GDPG_t + \gamma_4 GEXP_t + \gamma_5 REXR_t + \mu_{2t} \quad (4)$$

In which  $\delta_0$  and  $\gamma_0$  are the constants for the growth model and unemployment model respectively,  $\delta_1 - \delta_6$  are the parameters to be estimated in the growth model,  $\gamma_1 - \gamma_5$  are the parameters to be estimated in the unemployment

model, while  $\mu_{1t}$  and  $\mu_{2t}$  are the error terms in the two models. It is expected that  $\delta_2 > 0$  to portray the fact that trade protectionism will spur economic growth within the domestic economy, and  $\gamma_1 < 0$  to portray the fact that trade protectionism protects domestic jobs by promoting the growth of import substituting industries. 3.2 Nature and Sources of Data

The data utilized for this study are time series in nature and covers the period of 1991 to 2020, making a total of thirty (30) observations. The data on all the variables were obtained from World Bank (2021) which is a reliable source for obtaining data. In some periods, there were missing values for tariff rate in a few periods. This was addressed by using a four-year moving average to establish the tariff rate for those periods.

### 3.3. Technique of Analysis

The analysis of data begins with the stationarity test which is done based on the Augmented Dickey-Fuller (ADF) unit root test with a drift and trend assumption. This is followed by the cointegration test which is conducted using the bounds testing approach. The autoregressive distributed lag (ARDL) approach is also utilized in estimating both the short run and the long run estimates in the growth model. The dynamic ordinary least squares (DOLS) approach is utilized in estimating the ARDL model since the ARDL approach could not yield a valid result. Lastly, the impulse response function was utilized to check how economic growth and unemployment respond to shocks in trade protectionism during the study period.

## 4. EMPIRICAL EVIDENCE

### 4.1. Descriptive Statistics

The descriptive analysis portrays how the variables concentrates or diverges from the mean value, and Table 8 presents the values of these statistics.

The GDP growth rate has a mean value of 4.094% during the study period, but the standard deviation is reported as 3.907. The variable tends to be concentrated on the right-hand side which represents the fact that the variable is positively skewed as contained in the coefficient of skewness being 0.44. The variable is also leptokurtic in nature, and it is normally distributed given that the Jarque-Bera statistics is not significant. The Tariff rate is given by its mean value of 16.998% and a standard deviation of 15.066. The variable is positively skewed, leptokurtic, but not normally distributed since the Jarque-Bera statistic

**Table 8: Descriptive Attributes of the Variables**

|              | <i>GDPG</i> | <i>GFCF</i> | <i>TARF</i> | <i>REXR</i> | <i>BMS</i> | <i>GEXP</i> | <i>UNMR</i> |
|--------------|-------------|-------------|-------------|-------------|------------|-------------|-------------|
| Mean         | 4.094       | 27.295      | 16.998      | 109.318     | 25.530     | 6.286       | 4.708       |
| Median       | 4.431       | 26.115      | 12.285      | 100.260     | 21.181     | 4.953       | 3.995       |
| Maximum      | 15.329      | 48.400      | 91.270      | 273.009     | 87.761     | 24.798      | 9.714       |
| Minimum      | -2.035      | 14.169      | 8.220       | 49.750      | -0.794     | 0.306       | 3.700       |
| Std. Dev.    | 3.907       | 10.739      | 15.066      | 50.544      | 19.299     | 6.002       | 1.737       |
| Skewness     | 0.440       | 0.356       | 4.159       | 1.822       | 1.321      | 1.784       | 1.905       |
| Kurtosis     | 3.544       | 1.843       | 21.109      | 6.085       | 5.004      | 5.758       | 4.947       |
| Jarque-Bera  | 1.337       | 2.311       | 496.409     | 28.494      | 13.746     | 25.411      | 22.890      |
| Probability  | 0.513       | 0.315       | 0.000       | 0.000       | 0.001      | 0.000       | 0.000       |
| Observations | 30          | 30          | 30          | 30          | 30         | 30          | 30          |

*Source:* Researcher Computation

is significant. Unemployment rate averaged 4.708% with a standard deviation of 1.737. It is positively skewed, leptokurtic, and it is not normally distributed.

## 4.2. Correlation Analysis

To check for how the variables associates with each other, the Pearson correlation analysis is conducted, and Table 9 presents the result.

**Table 9: Correlation Matrix for the Variables**

|             | <i>GDPG</i> | <i>GFCF</i> | <i>TARF</i> | <i>REXR</i> | <i>BMS</i> | <i>GEXP</i> | <i>UNMR</i> |
|-------------|-------------|-------------|-------------|-------------|------------|-------------|-------------|
| <i>GDPG</i> | 1           |             |             |             |            |             |             |
| <i>GFCF</i> | -0.342      | 1           |             |             |            |             |             |
| <i>TARF</i> | 0.308       | 0.552       | 1           |             |            |             |             |
| <i>REXR</i> | -0.163      | 0.087       | -0.077      | 1           |            |             |             |
| <i>BMS</i>  | -0.058      | 0.367       | 0.224       | -0.345      | 1          |             |             |
| <i>GEXP</i> | -0.171      | -0.502      | -0.354      | -0.005      | -0.385     | 1           |             |
| <i>UNMR</i> | -0.465      | -0.224      | -0.168      | 0.041       | -0.329     | 0.833       | 1           |

*Source:* Researcher Computation

The result in Table 9 presents the fact that trade protectionism (tariff) is positively correlated with GDP but negatively correlated with unemployment rate. The explanatory variables do not represents any iota of perfect linear correlation among themselves hence, the possibility of multicollinearity in the model is absent.

### 4.3. Stationarity Test

The stationarity test is conducted based on the Augmented Dickey-Fuller (ADF) unit root test with the drift and trend. Table 10 presents the result of the test where I(0) signifies that the variable is stationary at level while I(1) indicates that the variable is stationary at first difference.

**Table 10: Augmented Dickey-Fuller (ADF) Stationarity Test Result**

| <i>Variables</i> | <i>ADF Statistic</i> |                    |                         |                    | <i>Order of Integration</i> |
|------------------|----------------------|--------------------|-------------------------|--------------------|-----------------------------|
|                  | <i>Level</i>         | <i>Probability</i> | <i>First Difference</i> | <i>Probability</i> |                             |
| GDPG             | -2.3400              | 0.4009             | -5.9840                 | 0.0002**           | I(1)                        |
| GFCF             | 2.4749               | 1.0000             | -4.2452                 | 0.0120*            | I(1)                        |
| TARF             | -5.4933              | 0.0006**           | ————                    | ————               | I(0)                        |
| REXR             | -2.5322              | 0.3115             | -4.9988                 | 0.0021**           | I(1)                        |
| BMS              | -3.4848              | 0.0600             | -5.7524                 | 0.0003**           | I(1)                        |
| GEXP             | -4.6920              | 0.0047*            | ————                    | ————               | I(0)                        |
| UNMR             | 1.4262               | 0.9999             | -5.6866                 | 0.0006**           | I(1)                        |

*Source:* Researcher Computation

The result presented in Table 10 captures the unit root test result where tariff (TARF) and government expenditure (GEXP) are reported to be stationary at levels while other variables are stationary at first difference. This mixed order of integration requires the use of the autoregressive distributed lag (ARDL) approach in the estimation.

### 4.4. Cointegration Test

Given that not all the variables are stationary at levels, there is need to check for the existence of cointegration (long run relationship) in the model. This is done using the bounds test for levels relationship as presented in Table 11.

**Table 11: Bounds Test for Cointegration Result**

| <i>F-Bounds Test</i> | <i>Value</i> | <i>Null Hypothesis: No levels relationship</i> |             |             |
|----------------------|--------------|--|-------------|-------------|
|                      |              | <i>Significance</i>                            | <i>I(0)</i> | <i>I(1)</i> |
| F-statistic          | 4.9621       | 10%  | 1.99        | 2.94        |
| k                    | 6            | 5%   | 2.27        | 3.28        |
|                      |              | 2.5%   | 2.55        | 3.61        |
|                      |              | 1%   | 2.88        | 3.99        |

*Source:* Researcher Computation

The test requires that for cointegration to exist, the F-statistic must lie outside the 5% critical value. Given the result, the F-statistic is 4.9621 while the I(0) and I(1) are respectively 2.27 and 3.28 respectively. Since the F-statistic lies outside these bounds, the null hypothesis of no levels relationship in the model is therefore rejected.

#### 4.5. Empirical Evidence on Trade Protection-Growth Relationship

Since the cointegration analysis have presented evidence of an existence of long run relationship in the model, the error correction model and the long run model is therefore estimated.

##### 4.5.1. Error Correction Model

The error correction model presents how short run distortions in the model is correction to forestall equilibrium in the long run. Table 12 presents the result which is estimated based on the ARDL approach.

**Table 12: Short Run Error Correction Model Result for the Growth Model**

| <i>Dependent Variable: D(GDPG)</i>               |                    |                        |                    |                    |
|--|--------------------|------------------------|--------------------|--------------------|
| <i>Selected Model: ARDL(1, 1, 1, 0, 2, 0, 2)</i> |                    |                        |                    |                    |
| <i>Variable</i>                                  | <i>Coefficient</i> | <i>Standard Error</i>  | <i>t-Statistic</i> | <i>Probability</i> |
| D(GFCF)  | 1.0317             | 0.1774                 | 5.8160             | 0.0000**           |
| D(TARF)  | 0.0939             | 0.0267                 | 3.5124             | 0.0034**           |
| D(BMS)   | 0.0567             | 0.0224                 | 2.5304             | 0.0240*            |
| D(BMS(-1))                                       | 0.0728             | 0.0217                 | 3.3565             | 0.0047*            |
| D(UNMR)  | -2.0136            | 0.6784                 | -2.9684            | 0.0102*            |
| D(UNMR(-1))                                      | -5.8643            | 1.3619                 | -4.3061            | 0.0007**           |
| ECM(-1)  | -0.6708            | 0.1125                 | -5.9620            | 0.0000**           |
| R-squared  | 0.7147             | Mean dependent var     |                    | -0.2295            |
| Adjusted R-squared                               | 0.6332             | S.D. dependent var     |                    | 3.4730             |
| S.E. of regression                               | 2.1035             | Akaike info criterion  |                    | 4.5374             |
| Sum squared resid                                | 92.9165            | Schwarz criterion      |                    | 4.8704             |
| Log likelihood                                   | -56.5232           | Hannan-Quinn criterion |                    | 4.6392             |
| Durbin-Watson stat                               | 2.0356             |                        |                    |                    |

*Note:* \*\* and \* represents that the parameter estimate is significant at 1% and 5% respectively.

*Source:* Researcher Computation



The result presented in Table 12 indicates that trade protectionism (tariff) has a positive and significant short run effect on the economic growth of Nigeria during the study period. Thus, increased tariff will curb excessive importation, and the proceeds could be used to provide the economic infrastructure required to boost domestic production. Such will lead to an increase in the productive capacity of the domestic economy with the resultant effect of an increase in the growth rate of the economy. Given the parameter estimate, a 1% increase in tariff will lead to a 0.0939% increase in economic growth on the average. The findings of this study therefore support the infant industry argument for trade protectionism and earlier studies like Harrison & Hanson (1999), Rodriguez & Rodrik (2000), Irwin (2002), Yanikkaya (2003), Effiong (2023) who observed a positive effect of trade protectionism on economic growth.

Other key findings from the short run estimates are that capital stock and broad money supply exerts positive and significant effect on the growth of the Nigerian economy. A 1% increase in capital stock leads to a 1.0317% increase in economic growth; while a 1% increase in the broad money supply leads to a 0.0567% increase in economic growth. The one-period lag of broad money supply also increases economic growth by 0.0728% on the average. On the contrary, unemployment rate and its one-period lag exerted a negative and significant short run impact on economic growth. This is in line with a priori expectation since unemployment represents an inefficient utilization of available human capital which could dampen growth. The estimate indicates that a 1% increase in unemployment rate will lead to a 2.0136% decrease in economic growth, while the one-period lag of unemployment reduces growth by 5.8643% on the average.

The error correction term possesses the required attributes of being negative and statistically significant for the errors in the model to be corrected. It follows from the coefficient that 67.08% of the total short run disequilibrium in the model is corrected every year. The coefficient of multiple determination signifies that the explanatory variables in the model jointly account for 71.47% of the total changes in the economic growth of Nigeria. The Durbin-Watson statistic of 2.04 is an indication that the estimated model is free from serial correlation.

#### ***4.5.2. Long Run Estimates for the Growth Model***

In the long run, the regression result on the effect of trade protectionism on economic growth of Nigeria is presented in Table 13.

**Table 13: Long Run Estimates for the Growth Model**

| <i>Dependent Variable: GDPG</i> |                    |                       |                    |                    |
|---------------------------------|--------------------|-----------------------|--------------------|--------------------|
| <i>Variable</i>                 | <i>Coefficient</i> | <i>Standard Error</i> | <i>t-Statistic</i> | <i>Probability</i> |
| GFCF                            | -0.4927            | 0.2761                | -1.7844            | 0.0960             |
| TARF                            | -0.3338            | 0.1381                | -2.4162            | 0.0299*            |
| REXR                            | -0.0001            | 0.0216                | -0.0027            | 0.9979             |
| BMS                             | 0.0268             | 0.0801                | 0.3338             | 0.7435             |
| GEXP                            | -1.9168            | 1.0269                | -1.8666            | 0.0830             |
| UNMR                            | 8.1101             | 4.6544                | 1.7425             | 0.1033             |
| C                               | -1.1290            | 9.3921                | -0.1202            | 0.9060             |

*Note:* \* represents that the parameter estimate is significant at 5% level.

*Source:* Researcher Computation

It is observed from Table 13 that trade protectionism has a negative and statistically significant effect on economic growth. This signifies that an increase in trade protectionism in the long run will hurt the domestic economy since the country will not benefit from the potentials of free trade which include competition for efficiency and technological transfers. Thus, a 1% increase in tariff will lead to a 0.3338% decrease in economic growth in the long run. This negative effect of trade protectionism on growth observed in this study aligns with the earlier findings of Dollar (1992), Sachs & Warner (1995), Edwards (1998), Vamvakidis (1998), Frankel & Romer (1999), Okere & Iheanacho (2016), and Atan & Effiong (2020). While broad money supply and unemployment exerted positive but insignificant effect on growth in the long run, capital stock, real exchange rate, and government expenditure exerted negative but insignificant effect.

#### **4.6. Empirical Evidence on Trade Protection-Unemployment Relationship**

To check on the influence of trade protectionism on unemployment in Nigeria, the dynamic ordinary least squares approach is employed since the ARDL approach could not yield reliable estimates. The result is obtained in Table 14 where it is observed that trade protectionism exerts a negative and significant effect on unemployment. A 1% increase in tariff is associated with a 0.1306% decrease in unemployment. This implies that increased protectionism protects domestic jobs by not allowing domestic firms to be exposed to the dangerous competition that could emanate from foreign goods which are believed to be

superior in quality. In that way, domestic jobs are protected, and unemployment is reduced. This finding that trade protectionism aids in reducing unemployment supports earlier findings of Davis (1998), Egger & Kreickemeier (2009), Helpman & Itskhoki (2010), and Effiong, Udofia & Okon (2020) who advocated that free trade obliterate employment.

**Table 14: Regression Estimates for the Unemployment Model**

| <i>Dependent Variable: UNMR</i>             |                    |                       |                    |                    |
|---|--------------------|-----------------------|--------------------|--------------------|
| <i>Method: Dynamic Least Squares (DOLS)</i> |                    |                       |                    |                    |
| <i>Variable</i>                             | <i>Coefficient</i> | <i>Standard Error</i> | <i>t-Statistic</i> | <i>Probability</i> |
| TARF  | -0.1306            | 0.0303                | -4.3108            | 0.0050**           |
| BMS   | -0.0497            | 0.0087                | -5.7150            | 0.0012**           |
| GDPG  | -0.4274            | 0.0761                | -5.6144            | 0.0014**           |
| GEXP  | -0.3254            | 0.0871                | -3.7381            | 0.0096**           |
| REXR  | -0.0261            | 0.0050                | -5.1815            | 0.0021**           |
| C   | 13.8379            | 1.8275                | 7.5718             | 0.0003**           |
| R-squared                                   | 0.9800             | Mean dependent var    |                    | 4.5667             |
| Adjusted R-squared                          | 0.9133             | S.D. dependent var    |                    | 1.5344             |
| S.E. of regression                          | 0.4518             | Sum squared resid     |                    | 1.2247             |
| Long-run variance                           | 0.0985             |                       |                    |                    |

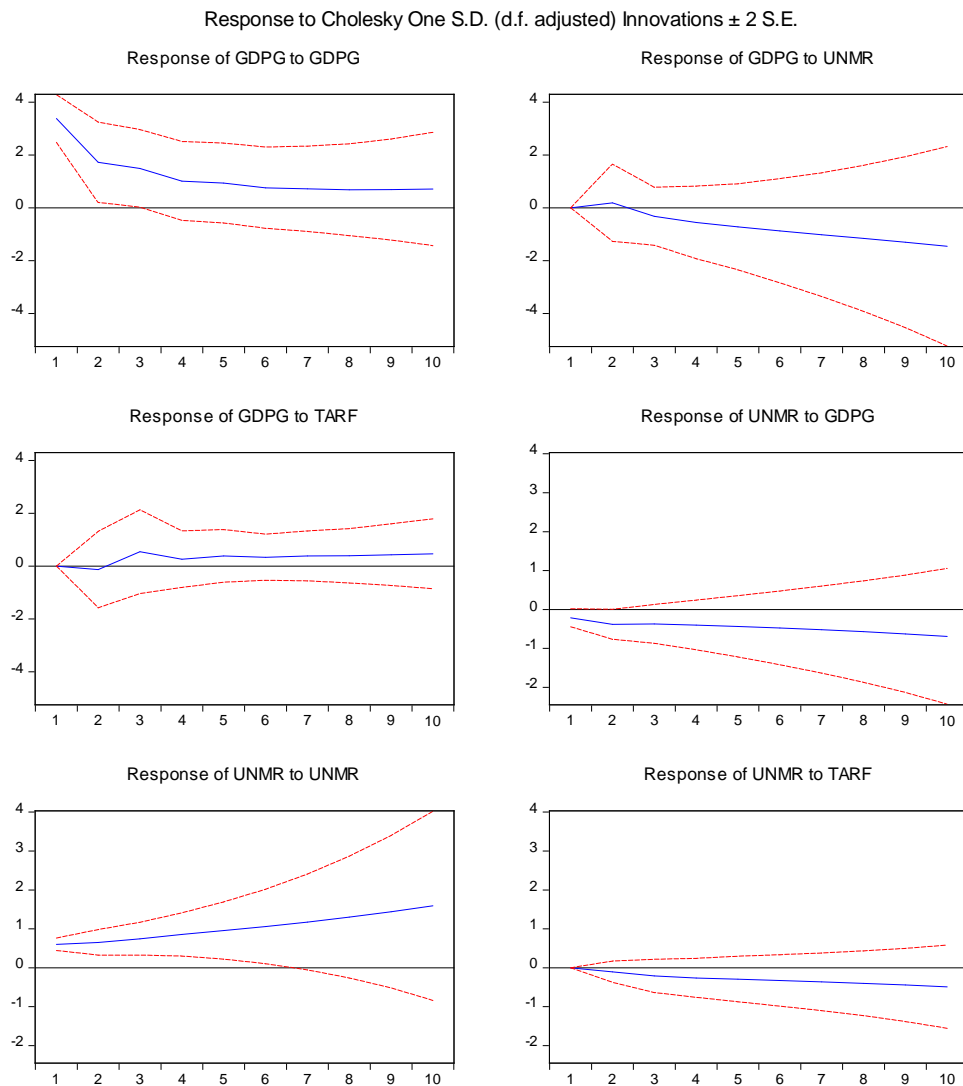
*Note:* \*\* represents that the parameter estimate is significant at 1% level.

*Source:* Researcher Computation

The result further indicates that broad money supply, output growth, government expenditure, and real exchange rate all exert negative and significant effect on unemployment in Nigeria. A 1% increase in these variables reduces unemployment by 0.0497%, 0.4274%, 0.3254%, and 0.0261% respectively. Increased broad money supply is an expansionary monetary policy which will likely boost output and employment within the economy. Also, increased growth of output will also create employment opportunities which will check the level of unemployment within the economy; while increased government expenditure is an expansionary fiscal policy which can boost output and employment thereby reducing unemployment within the economy. It is also observed that holding all the independent variables constant, the level of unemployment within the economy will be 13.84% on the average. The R-squared indicates that the explanatory variables account for 98% of the total variation in the rate of unemployment during the study period.

### 4.7. Impulse Response Function

To check how unemployment and growth respond to shocks in trade protectionism, the impulse response functions represented in Figure 3 are therefore obtained from the VAR system.



**Figure 3: Response of Unemployment and Economic Growth to Trade Protectionism**

*Source:* Researcher Computation

Given the impulse response functions, it is observed that economic growth (GDPG) responds positively to shocks in tariff. It portrays that a positive shock in trade protectionism (increase in tariff) will cause economic growth to be increased. This is an indication that high tariff will curb excessive importation and therefore encourage domestic production. Also, unemployment responds negatively to shocks in trade protectionism, implying that an increased tariff will lead to a reduction in unemployment. This is valid since increased trade protection will protect infant industries thereby protecting domestic jobs, and the reduced importation associated with increased tariff will cause an increase in domestic production which will cause increased employment within the economy.

#### 4.8. Post Diagnostic Tests

The post diagnostic test conducted for the study include the stability test, normality test, serial correlation test, and heteroscedasticity test. The stability test is conducted using the cumulative sum (CUSUM) test, and Figure 4 presents the result.

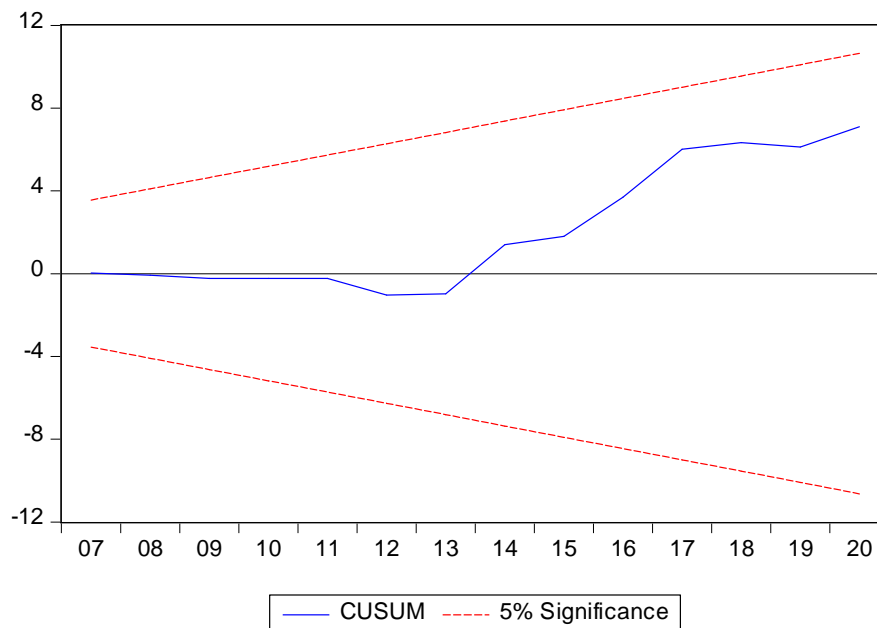


Figure 4: Cumulative Sum Test for Stability

Source: Researcher Computation

The result presented in Figure 4 indicates that the CUSM line lies within the 5% lower and upper bounds. This therefore validates that the estimates of the model are stable and can be reliably utilized for inferences.

In testing for normality of the error terms, the histogram normality test is conducted, and the result is presented in Figure 5. It is expected that for normality of the residuals to be guaranteed, the Jarque-Bera statistic must not be statistically significant at the 5% level.

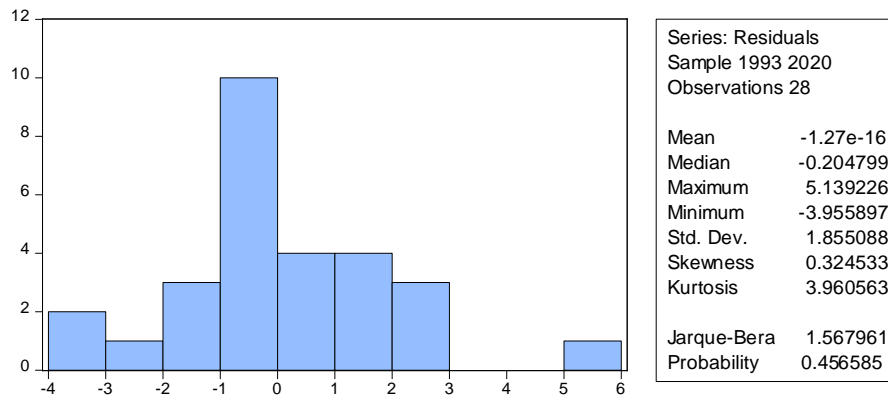


Figure 5: The Histogram Test for Normality

Source: Researcher Computation

Given the result in Figure 5, the Jarque-Bera statistic is 1.5680 with a p-value of 0.4566 which is statistically insignificant at the 5% level. Thus, we conclude that the residuals are normally distributed and has a mean equal to zero and a constant variance.

The serial correlation is conducted using the Breusch-Godfrey serial correlation Lagrange Multiplier (LM) test. For the null hypothesis to be rejected, the F-statistic must be statistically significant at the 5% level. The test result is presented in Table 15 where the F-statistic is 0.1269 and the associated p-value is 0.8820 which is statistically insignificant at the 5% level.

Table 15: Serial Correlation Test Result

| <i>Breusch-Godfrey Serial Correlation LM Test:</i> |        |                     |        |
|--|--------|---------------------|--------|
| F-statistic  | 0.1269 | Prob. F(2,12)       | 0.8820 |
| Obs*R-squared                                      | 0.5799 | Prob. Chi-Square(2) | 0.7483 |

Source: Researcher Computation

Consequently, the model is free from serial correlation implying that the residual of one period is not correlated with that of another period.

The heteroscedasticity test is conducted using the Breusch-Pagan-Godfrey test. The test is based on three test statistic -F-statistic, Obs\*R-squared, and scaled explained sum of squares. The result is presented in Table 16 and the rejection of the null hypothesis requires that the aforementioned test statistics must be significant at the 5% level.

**Table 16: Heteroscedasticity Test Result**

| <i>Heteroskedasticity Test: Breusch-Pagan-Godfrey</i> |        |                      |        |
|---|--------|----------------------|--------|
| F-statistic   | 0.3732 | Prob. F(13,14)       | 0.9578 |
| Obs*R-squared   | 7.2061 | Prob. Chi-Square(13) | 0.8912 |
| Scaled explained SS                                   | 2.6668 | Prob. Chi-Square(13) | 0.9989 |

*Source:* Researcher Computation

Given the result in Table 16, all the three test statistics are statistically insignificant at the 5% level given their respective p-values. Thus, the residuals are homoscedastic implying that they have a constant variance.

#### **4.9. Discussion of Major Findings**

The positive effect of trade protectionism on growth and the negative effect of trade protectionism on unemployment therefore validates the fact that trade protectionism is desirable for the Nigerian economy given her present stage of economic structure that shapes the country's level of development. protectionism will likely curb excessive importation thereby reducing the pressure on exchange rate with the attendant effect of stimulating growth of import substituting industries. The growth of these industries will therefore boost domestic production which also stimulates employment within the economy. The negative long run effect of protectionism on growth is valid since upon reaching a certain stage of development, refusal to embark on free trade will limit the country from receiving technological transfers and lack of competition will kindle inefficiency within the economy.

### **5. CONCLUSION AND RECOMMENDATION**

This study on trade protectionism have revealed that protectionism doctrine could help in addressing economic growth and unemployment problems facing

the country. It signals the need for monitoring the level of openness to external competition as it may likely destroy the domestic industries since foreign goods are relatively cheap and of high quality given the state of technology when compared to Nigeria. Further, excessive openness will open the economy up for excessive importation which kills domestic jobs as domestic firms could shut down due to the competitions faced from foreign goods. This is therefore a pointer that economy should be driven with some forms of protectionism doctrine in the short term until the economic structure of the country is strongly developed to compete favourable with developed countries of the world. Thus, the country should pass through the learning curve of free trade bit by bit until the domestic economy is strong enough to compete favourably with the rest of the world.

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