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THE IMPACT OF INTERNATIONAL TRADE ON EMPLOYMENT GENERATION IN NIGERIA

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ABSTRACT

The severity and the depth of unemployment in Nigeria has been alarming and of great concern to government and the general public. The task of creating sufficient new jobs to overcome unemployment, underemployment and problems of low wages and salaries ranks as the primary challenge to economic and social policies. Government had, over the years, implemented some macroeconomic policies with the aim of generating new employment and reducing the growing unemployment. The slow pace of employment generation has been attributed to the prevailing policy inconsistencies and institutional weaknesses in the nation. The divergence between the policy prescriptions of government and employment generation has, therefore, made a rethink on the appropriateness of policy interventions necessary. The paper examine the macroeconomic policies and employment relationship in Nigerian economy. It adopted the Keynesian theory of output and employment as theoretical framework. Macroeconomic variables considered were; employment growth; import rate; export rate; inflation rate and exchange rate. A simple employment model was formulated and estimated using Ordinary Least Square (OLS). The result of the dynamic analysis showed positive and statistically significant relationship between macroeconomic variables, output and employment. Specifically, import rate and export rate significantly boost employment. This result was consistent with our theoretical framework which implied that macroeconomic variables play important role in employment generation. Based on the findings, it has been concluded that macroeconomic policy variables have positive impact on employment generation in the economy. The outcome of the research shows that the macroeconomic policies that appropriately moderates import rate and exchange rate have the greatest potential to generate employment. The paper in its conclusion advocated a coherent policy framework that would allow for multiple policy instruments aimed at supporting the economy for employment generation in the long run.

Keywords; Employment and Unemployment ,Macroeconomics, Import and Export rate, and policy framework.

INTRODUCTION

The issue of employment is very germane to any economy. This is why one of the main macroeconomic objectives of any country is to attain full employment. The issue of employment is paramount to Africa and Nigeria in particular, where high-level poverty is obvious with rising unemployment rate. However, in order to combat the problem of poverty, Oni (2006) argued that reducing the level of unemployment will increase the income level in the economy and thereby reduce the level of poverty.

To increase the level of employment, some scholars have argued that the flow of goods and services (trade flows) could propel employment generation, especially in developing countries. And according to Pianta and Vivarelli (2006), growth in employment has a feedback on economic growth, such that an increase in income would expand domestic demand, which in turn will lead to sustainable GDP growth and reducing risk of excessive reliance on uncertain foreign markets. Given these facts, trade can absorb Nigerian's surplus labour and this can go a long way alleviating poverty for the majority of the poor Nigerians. This is because of many developing nations, unemployment and underemployment have been found to be the major causes and consequences of wide spread poverty. Inspite of the role of employment, the implementation of policies on employment creations in many developing countries has not yielded much impact as there is a wide gap between the number of job available and the number of job seekers actively seeking work in most poor nations (Adebayo and Ogunrinola (2006),Hill et al*(2008)).

The challenges of globalization and economic liberalization have brought about new realities having uncertain implications for employment creation in many developing nations like Nigeria (Lall (2004), Lee and Vivarelli (2004), Kareem (2010), Ogunrinola and Osabuobien (2010)). Nigeria has experimented two distinct trade regime, namely, restricted trade and the open-that is liberalized trade regime. According to Kareem (2010), the philosophy of controlled trade regime embodied a regime of regulation that has both direct and indirect instrument of control in the conduct of foreign trade and pajinent. This is to achieve efficiency in the face of market failure (Messeriim (1995), Olomola (1995), Jenins and Sen (2006), as the condition for competitive equilibrium is not satisfied. The proponents of the open regime often argue that openness enhance the growth prospects of the participating countries (Krugman, (1996)).

In recent years, the negative pressure which the volatile capital market of the advanced capitalist economist exerts on the developing countries has given rise to counter opinions which supports the negative aspects of openness and questions are being asked as to whether developing countries actually share in its benefits. Thus, it becomes an issue of great relevance to investigate whether increased international trade in Nigeria has had any significant impact of the employment growth in Nigeria.

THE PROBLEM

However, government has tried to reverse this trend through the implementation of policies to diversify the country's export base away from oil so as to promote a stronger export performance. Such export policy includes export promotion strategy in which incentive were given for the promotion of non-oil export particularly Agriculture and labour intensive manufactures. As noted by Carneiro and Arbache (2003) and Rama (2003), export promotion improves employment level in the country embracing these strategies. Therefore, there had been an ongoing argument between government and public, while the former opined that her export promotion policies have increased the level of employment, majority of the people believed that unemployment is on the rise, it is against this backdrop that we consider it interesting to determine whether the flow of export have brought any significant effect on the employment in Nigeria.

EMPIRICAL LITERATURE

Numerous authors have examined the relationship between trade flows and productivity, growth and employment. These include, Krugman (1986), OECD (1992), Messerlin (1995), Rodrik (1997), Bernard et al (2006), Rattso and Torvik (1998), Morawezynski and Wach (2004), Christev et al (2005) etc. Krugman (1986) empirically ascertained that the elasticity of demand for labour is higher with greater openness when there is imperfect competition. An OECD (1992) study used the growth accounting methodology to investigate the link between trade and employment and concluded that between 1970 and 1985 trade was a net source of employment gains. Messerlin (1995) found that the estimated net impact of trade on total employment is very small and positive for most of the period examined, though the effect was negative during the economic expansion of 1988 to 1999 and that French unemployment is more related to macroeconomic factors, policies, poorly functioning labour and product market than to foreign trade. Rodrik (1997) ascertained that international trade generates increased output demand or productivity growth which in turn makes the demand for labour more elastic. This induces employment and wage shocks. Rattso and Torvik (1998) analyzed the employment effect following the liberalization of trade in Zimbabwe in the early 1990's and capture the economy-wide interaction using a computable general equilibrium (CGE) model. He found that opening up of trade led to a contraction in output and employment, an accompanying sharp increase in imports and a rising trade deficit. Morawezynski and Wach (2004) found empirical evidence import growth negatively affect employment changes in the 28 sectors of Poland economy between 1993 and 1999. This is in addition to an insignificant positive link between export growth and employment. Bernard et al. (2006) argued that trade reforms will lead to both job creation and job destruction in all sectors when there is imperfect competition because both net exporting and net importing sectors would be characterized by expanding high productivity firms and low productivity firms that shrinks or close down. The bulk of empiricism on employment and trade flows have generally found that trade have little links with employment generation (Hill et al. (2008)). Recently a number of empirical studies have investigated the effects of trade flows on labour demand elasticities (Bruno et al. (2001)), Slaughter (2001), Krishna et al. (2001)). Slaughter (2001) found that both elasticity of labour demand and trade has increased overtime. He however ascertained no robust linkage between them. Onwioduokit (2006) examined the link between unemployment and several macroeconomics variables in Nigeria and found that 'the shift in the composition of unemployment in Nigeria since 2000 is very instructive as it has brought to the fore the inadequacies of the received theory towards explaining the unemployment phenomenon in the country. Oladeji (1987) investigated the issue of graduate unemployment in Nigeria while Borisade (2001) examined the structure of educational system and employment relationship in Nigeria. Both conclude that a re- orientation of the educational system towards the employment needs of the economy would go a long way towards promoting productive employment in Nigeria. Swane and Vistrand (2006) examined the GDP-employment growth relationship in Sweden. Using the employment-population ratio as a measure of employment generation, the study found a significant and positive relationship between GDP and employment growth. Jenkins and Sen (2006) examined the impact of trade flows and foreign investment on employment in four developing countries. Their empirical evidence has it that the economic integration of Bangladesh and Vietnam has brought about significant increase in the number of unskilled jobs, job creations biased towards more skilled workers and that for a given level of output, trade appears to have led to a significant fall in employment in South Africa and Kenya. Christev et al. (2005) found that trade is a factor of some but of minor importance in the determination of aggregate job flows. Over time, industries reallocates jobs faster as they become more exposed to trade and competition in ££/markets. In addition, while sectors which engage in more trade with the rest of the world show job destruction rate, trade with commonwealth of independent states (CIS) decreases job destruction with net employment growth occurring only in sectors that maintain strong trade ties in the CIS. Sen (2008) analyzed the effects of international trade on manufacturing employment in India for the period 1975 to 1999 and found that the overall effects of international trade on manufacturing employment has been minimal. Kareem (2009) found no significant link between trade flows and employment in Nigeria both in the short-run and long-run.

CONCLUSION

This work attempts to ascertain empirically how international trade impacts employment growth in Nigeria. Data were obtained from central bank of Nigeria (CBN) statistically bulletin for the year 1981 to 2011 and fitted into a single linear model in which employment growth was the dependent variable and import rate, export rate, inflation rate, and exchange rate served as the independent variables. Where import rate and export rate had a significance impact on employment in Nigeria, inflation rate and exchange rate did not have a significant impact on employment in Nigeria. Ordinary least square (OLS) method was used to estimate the parameters aided by E-view computer software. The result showed that there was a significant impact of international trade on employment growth in Nigeria.

RECOMMENDATIONS

From the foregoing, we recommend as follows;

i. The trade reforms or free trade when combined with complementary actions such as diversification of productive base of the nation away from oil and other primary products will not only spur investment, it will also make export to become mpre competitive, and lead to faster aggregate employment growth.

ii. Government should fortify enabling institutional policy and regulatory environment to burst non-oil exports sectors (diversification) and associated private sector development supplemented by export processing zones so that more jobs will be provided in the non-oil export sector.

iii. Government should use the revenue they earned from their trade with other countries to establish more industries in the country which in turn will provide more jobs for the people.

iv. Towards the achievement of balanced (stable) and sustainable growth in the Nigerian economy, there must be shift of focus from import substitution to export oriented development. This requires that the country adopt export produce standardization policy with the primary product processed in to manufactured products as to attain international standard. The Nigerian export processing zones (NEPZs) should also be liberalized since it represents an instrument of export led industrialization.

v. More attention should be paid to the agricultural sector, which until recently has be earning a high percentage of Nigerian's foreign exchange. In this regards, large some of revenue should be devoted to agriculture by the government to complement the efforts of banks and other financial institutions by providing loan to farmers. Commercial banks should be encouraged to establish branches in rural areas throughout the federation. This will not only enhance the foreign exchange earning capacity but will also reduce the high level of food importation. Thus, providing more job opportunities especially those in the rural areas and also helping foreign exchange conservation.

Finally, if the above recommendations are given trial, the country's international trade would have a more dynamic dimension were the gains from trade would be maximized translating the employment generating effect of external trade into real change and development and at the same time increase the backward and forward linkages between the external sector and other sectors of the economy.

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