

Comparative Analysis of Impact of Trade Liberalization on Employment Generation during the Military and Civilian Regimes in Nigeria (1980-2012)

Yemi Meroyi

Department of Social Sciences, Rufus Giwa Polytechnic, Owo, Ondo State, Nigeria.

Email: meroyem@yahoo.com

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Abstract

This study examined the comparative analysis of impact of trade liberalization on employment generation in military and civilian regimes in Nigeria. This was with the goal of comparing how trade liberalization affects employment generation during the military and civilian regimes in Nigeria.

Secondary data were used for the study. Annual data from 1980 to 2012 on variables such as employment level, import, export, exchange rate, interest rate and foreign direct investment in Nigeria were sourced from CBN Statistical Bulletin, National Bureau of Statistics (various editions) and World Development Indicator (WDI). Tables, graphs Ordinary Least Square (OLS) and Error Correction Model (ECM) were used for the analysis of the data.

Results of the study showed that import intensity at lag 3 showed a significant negative relationship with employment generation ($t = -2.380$, $p < 0.05$). On the contrary, military rule does not have significant effect on the employment generation ($t = -1.0268$, $p > 0.05$). However, foreign direct investment increases the employment generation at both lag 1 ($t = 3.0549$, $p < 0.005$) and lag 2 ($t = 2.1733$, $p < 0.005$). As regards the export intensity, increase in export will induce growth in the employment generation, though judging by its p-value, it is statistically insignificant ($t = 1.3935$, $p > 0.05$) but the reverse is the case at lag 2, which shows that export intensity decreases employment generation during the civilian dispensation, as well as military regime ($t = -2.9397$, $p < 0.05$). In addition, interest rate shows negative relationship with employment generation, the lag 3 and lag 4 report that an increase in interest rate will lead to decrease in employment generation, thus, it takes three to four years before interest rate affect the country employment generation ($t = -2.4083$, $p < 0.05$). Furthermore, error correction coefficient of -0.8723 is appropriately signed and it is statistically significant ($t = -4.4585$, $p < 0.05$). It indicates that about 87.23 percent of disequilibrium will be corrected periodically. It also indicates a mean reverting behavior of the model during civilian dispensation.

In conclusion, this study has successfully compared the employment generation during the military and civilian regimes as a result of trade liberalization, and submitted that trade liberalization brings about more employment during civilian rule than during the regime of military rule in Nigeria.

1. INTRODUCTION

Many countries all over the world have imposed trade restrictions or barriers at one time or the other either partially or totally and have been deliberately designed to discourage trade. The adoption of trade liberalization is generally perceived as the major driving force behind globalization (ILO, Geneva, 2001). At the same time, rapidly increasing flow of goods and services across national borders has been the most visible aspect of increasing integration of the global economy in recent decades (Eddy Lee, 2005). By engaging in trade liberalization, each national economy can use its resources most efficiently, concentrating on the activities it is best suited to pursue, and can reap significant economies of scale.

Many developing countries are now emerging as major exporters of manufactured goods and opening up their protected manufacturing industries to import competition and foreign investment (Jen and Sen;2006). Nigeria has experimented two major trade regimes, namely, restricted trade and the liberalized trade and two major regimes of government, the military and the civilian regimes,. Few policy issues evoke as contentious debate in developing economies as trade liberalization, openness and globalization (Sadiq Ahmed *et al*, 2004). It is contentious because there are divergent views on the impact of trade liberalization on employment generation in the developing countries. Opponents of trade liberalization argued that it outcomes include rising unemployment and wage inequality in the advanced countries, amplified exploitation of workers in developing countries, marginalization of low-income countries, increasing poverty and global inequality. Not only that, trade restrictions help to protect domestic jobs from “cheap” labor abroad, improve trade deficit, protect infant industries and protect countries from dumping and provision of revenues to the government. In Nigeria, trade liberalization became known and popular through the IMF Structural Adjustment programme (SAP) in 1986 which its primary aim was to restructure and diversify the productive base of the economy. In addition, the SAP was also designed to establish realistic and sustainable exchange rate system, liberalization, tariff reforms, commercialization and privatization of public enterprises (Oyejide, 1990).

Between the periods of 1981 to 1999 unemployment rate in Nigeria averaged 4.11%. The rate increased at more than geometric rate in year 2000. The unemployment rate in Nigeria which was 13.1 % in year 2000 went up to 14.8% 2003. The rate fell slightly to 11.9% in 2005 and since then it has been on the increase. In 2006 it was 12.3%; it rose to 14.9% in 2008. Since 2006, Nigeria unemployment rate averaged 14.6 Percent reaching an all time high of 23.9 percent in December of 2011(National Bureau of Statistics, 2012). This is a matter of considerable concern to all Nigerians especially when we compare it with that of United State of America which stood at 2.5% for the same period, (World Development Indicators, 2012).

Several policies have been put in place by each successive governments of Nigeria to combat unemployment problem. These include the Structural Adjustment Programme (SAP) which was introduced in 1986 by the military regime of former president Ibrahim Babangida, the National Directorate of Employment (NDE), the National Poverty Alleviation programme inaugurated in 2001 which later metamorphosed to National Poverty Eradication Programme (NAPEP), the National Economic Empowerment and Development Strategy (NEEDS)

inaugurated in 2003 and the Subsidy Reinvestment and Empowerment Programme (SURE-P) established by former president Goodluck Ebele Jonathan in Feb.2012 to encourage wealth creation and mitigate the spate of youth unemployment in the country. In spite of all these efforts by successive governments, population of Nigeria as at 2011 was put 168.8 million people while the unemployment rate stood at 67.6% of the population (World Development Indicators, 2011).

Nigeria depends majorly on the exportation of oil for survival. Hence, there is this dichotomy between government and the public on the gains from trade liberalization in terms of employment generation..

Nigeria attained independence in 1960 and has witnessed two major political dispensations; the military and the civilian regimes. During these two regimes Nigeria applied varying degree of trade liberalization. Between 1980-1982, Shagari government after initially soothing trade restrictions tightened the noose in 1982. The period between 1986-1987 was characterized with trade liberalization regime. The government specifically abolished import and export licensing, reduced items on import prohibition list from 74 to 16 and took off the 11 items on the export prohibition list (Rodrik, 1992; Moser, *et al* 1997). In 1987, Nigeria abolished 30% surcharge on imports and reduced the 100% advance payment in respect of import duty to 25%. Between 1986 and 1987 trade tariffs were significantly reduced from an average of 33% to 23% and tariff dispersions were drastically reduced or compressed. By 1989 through 1990, it was clear that trade liberalization had been drastically compressed as tariffs were significantly raised and export prohibition list appeared. (Rodrik, 1992, Moser, *et al* 1997). This remained until 1999. The civilian regime was restored in 1999 with expectations that it would usher in trade liberalization in view of government's declaration of commitment to major economic reforms. Although trade liberalization continued even at the advent of the civilian regime but it was at a level comparable to that recorded between 1986 and 1987.

This paper consists of seven sections. Following the introduction are the literature review and theoretical literature. Section four and five anchor methodology and theoretical framework. Section six looks at the estimation of comparison of trade liberalization and employment generation under military and civilian rules. Summary, conclusion and recommendations formed the last section.

2. LITERATURE REVIEW

In the last three decades or thereabout, many developing countries in the world have liberalized their economies. It is increasingly becoming a serious issue of great concern for academia to understand the effects of trade liberalization on employment generation in these economies. Theoretically, liberalizing trade is assumed to be good for developing countries since most of them are labour abundant. In this study, series of literature have been reviewed both within and outside Nigeria to establish the relationship between trade liberalization and employment generation.

2.1 Evidence from Nigeria.

There has been very few empirical works on trade liberalization and employment generation in Nigeria.

Ijeoma, (2014) examined the impact of trade liberalization on annual export trade in Nigeria using time series analysis. This result implies that the observed period (Year) was able to explain about 93.8% behavior of annual export in Nigeria. The trend of annual export was found to be steeply increasing from the year 2003 which could be attributed to stability of democracy in Nigeria. It was revealed that there is a strong association between import restriction and export promotion in Nigeria.

Umoru (2013), using unit root, co – integration and vector error correction model examined employment and international trade flows in Nigeria. While the long-run coefficients of total trade volume and trade liberalization are negative, the long-run coefficients of real wages, labour market regulation policy and foreign direct investment were positive, reflecting positive long-run effects on employment generation in Nigeria. The study established that employment effect of total international trade volume is significant but negative in Nigeria.

Akinlo, Adeleke and Aremo (2013) looked at the effect of trade liberalization on some selected poverty indicators in Nigeria (1980-2009). The methodology applied was Generalised method of Moments. They observed using the GMM that the four models estimated are well-behaved in terms of goodness of fit as suggested by high coefficients of determinations and adjusted R-Squared. They found out that trade liberalization does not contribute significantly to the enhancement of labour participation rate in Nigeria. They further concluded that trade liberalization does not seem to contribute positively towards reduction in crude death rate, real per capita expenditure on consumption in Nigeria..

Umoh, Ekpeno and Effiong (2013) offered a sector-specific analysis which focused on the manufacturing sector for meaningful policy insights using autoregressive distributed lag approach to co integration to establish the relationship between openness to trade and manufacturing performance in Nigeria for the period 1970-2008. Results suggest that trade openness has a significant positive impact on manufacturing productivity in Nigeria both in the long and short run.

Asongo,Jamala, Joel and Waindu (2013) looked at the impact of trade liberalization on the performance of the manufacturing sector in Nigeria (1989 to 2006) using OLS) method to estimate parameters by conducting multiple and simple regression analysis. The result of the major findings reveals that there is a negative relationship between the interest rate and exchange rate on the manufacturing sector's output. While, there is a positive relationship between domestic credit to private sector and the foreign private investment on the manufacturing output on one hand, and there is a positive relationship between the manufacturing output and the Gross Domestic Product on the other hand. This shows that the manufacturing sector plays a prominent role in the economic development of the country.

Onya, Ojimadu and Ogu (2013) enquired into the impact of international trade on poverty and how it affects economic growth in developing countries with particular reference to Nigeria. The analysis was based on (OLS) regression model using data from 1990 -2009.

Findings reveal and conclude that international trade has a great impact on poverty and the impacts are positive in Nigeria.

Kareem (2010) investigated the relationship between international trade flows and employment in Nigeria for the period 1981 to 2006 using time series estimation technique. The result showed no specific link between trade flows and employment in Nigeria in the short-run and long-run. She found that external factors such as FDI, real effective exchange rate, SAP and internal factors such as political stability, labour regulation and real wage are more important factors in explaining employment rate in Nigeria.

Akanni, Adeokun and Akintola (2004) looked at the effects of trade liberalization on Agricultural exports in Nigeria. The methodology used by the researchers was the regression of the value of all export earnings from agricultural produce on the aggregate domestic prices and other relevant parameters of the four export commodities (cocoa, palm kernel, palm oil and groundnut). The result of the data analysis showed that producer prices were substantially below the world market prices for most of the period. High value of co-efficient of elasticity further confirmed that export trade in these four commodities would dominate the Nigerian agricultural export trade for years to come.

Olomola (1998) looked at the impact of openness on the long-run economic growth in Nigeria between 1960 and 1998 using OLS methodology. He found that for Nigerian government to attain long-run growth, trade policy is an important tool. He concluded that private sector initiatives must be put in place to ensure economic growth in Nigeria.

From the above empirical review, we can observe that there is no unanimous conclusion about the relationship between trade liberalization and employment generation in Nigeria. Some scholars concluded in their findings that trade liberalization have significantly impacted negatively on employment generation in Nigeria, while other researchers argued that there is insignificant relationship between the two. Others however, concluded that there is no specific link between trade liberalization and employment.

2.2. Evidence from other countries

Biramo Allaro(2012) investigates the impact of trade liberalization on the Ethiopia's trade balance using the data over the period 1974 to 2009 from NBE (National Bank of Ethiopia). According to the study, the country has undertaken serious trade reforms, either as a part of major macroeconomic reforms and commitments with international regulations, or by decisions driven by a process of internal adjustment for the last two decades. One of the anticipated gains from the trade liberalization policies adopted by Ethiopia is improved export performance. In the research, the arguments on which this expectation is based were reviewed and the impact of trade liberalization on Ethiopian trade balance was analyzed with the application of export equation of Santos-Paulino and Thirlwall [2004], it showed that trade liberalization led to the deterioration of the trade balance or too fast of an increase in imports. Thus, it was deduced by the evidence that the trade liberalization worsens trade balance due to more imports than exports [Santos- Paulino and Thirlwall, 2004].

Olayiwola (2010) examined trade liberalization and employment performance of textile and clothing industry in Tanzania using Vector Error Correction Modeling (VECM) and co-

integration method of analysis. The analysis shows that effective rate of protection and export intensity have an insignificant positive impact on demand for labour, but import penetration has a significant negative impact on wage. The impact of import penetration is larger than that of export orientation, as the increase in import competition leads to a decline in labour demand.

David Cheong and Xiaohong Sonnenschein (2010) used Computable Generalised Equilibrium (CGE) models to investigate trade liberalization and employment in Indonesia. The CGE model is applied to the case of Indonesia in order to stimulate the aggregate and sectoral effects of a potential free trade agreement (FTA) with the European Union. For Indonesia, the simulation results showed that pursuing an FTA with the EU will expand trade by around 3% and raise workers' wages and household' incomes. The simulations predict a small rise in real GDP of less than 1%. It is, however, predicted that the FTA will have uneven impact on different sectors of Indonesian economy in term of output, total employment, and employment by labour category.

Shastri, Tripathi and Singh (2010) reviewed the impact of liberalization on employment in India and concluded that organized sector employment suffered a severe collapse in the early years of that adjustment process but has since recovered to a pace similar to that of pre-reform era. They opined that to partake in the benefits from trade liberalization, supports are required from the national economic and social policies and institutions. In India during the period under review, recession played a major role in decreasing the growth rate of employment opportunities which is the one facet of liberalization.

Kakarlapudi (2010) investigated the impact of trade liberalization on employment in India's manufacturing sector. He looked at the possible impact of trade liberalization on the growth of organized manufacturing employment at the two digits levels by dividing industries into export oriented and import competing industries. Both the overall and manufacturing employment trends shows that there is a reduction in employment growth in the post – liberalization period compare to the pre - liberalisation period. It is further found that deceleration of employment growth in the import competing industries is higher than export competing industries and that; trade liberalization did not create growth in employment through scale effect.

Dutt, Mitra and Ranjan (2009) looked at International Trade and Unemployment using OLS. Using cross-country data on trade policy, unemployment, and various controls, and controlling for endogeneity and easurement-error problems. Findings show a fairly strong and robust evidence for the Ricardian prediction that unemployment and trade openness are negatively related. This effect dominates the positive H-O effect of trade openness on unemployment for capital-abundant countries, which turns negative for labor-abundant countries. Using panel data, they find an unemployment-increasing short-run impact of trade liberalization, followed by an unemployment-reducing effect leading to the new steady state.

Christev, Kupets and Lehmann (2008) looked at trade liberalisation and employment effect in Ukraine using GMM estimator, they provided, evidence on job flows at the three- digit sector level in Ukrainian manufacturing and showed that these flows are predominantly driven by idiosyncratic factors within industries. However, they also established that trade openness

does affect job flows differently across different trading areas. They found that while trade with commonwealth of independent states decreases job creation, trade with the European Union increases excess reallocation mainly through job creation.

Jen and Sen (2007) examined international Trade and manufacturing employment in the south: four country case studies. These are Bangladesh, Kenya, South Africa and Vietnam. The research was conducted by employing a variety of methodological approaches; factor content, growth accounting; and econometric modeling. The result showed that it is not possible to generalize about the impact of closer integration with global economy on manufacturing employment since this is highly context dependent. According to them, international trade seems to be associated with the net creation of jobs in Bangladesh and Vietnam, with female workers being the key beneficiaries. In contrast, international trade has been associated with adverse employment outcomes in Kenya and South Africa. In Kenyan case, there has been a net decline in manufacturing employment due to falling export and increasing import penetration in the 1990s. In South Africa, there has been a relatively small net increase in jobs via a scale effect of export expansion. However there have been dominated job losses due to a significant increase in labour productivity since the mid-1990s. Their econometric results suggest that increased import penetration may have been a causal factor for such a productivity increase. Thus, the net effect of international trade on manufacturing employment in South Africa is ambiguous.

Ferreira, Leite and Wai-Poi (2007) investigated trade liberalization, employment flows and wage inequality in Brazil using nationally representative data in Brazil between 1988 – 1995 trade liberalization. They found that unlike Latin American countries, trade liberalization appears to have made a significant contribution towards a reduction in wage inequality. Trade reforms did contribute to the observed reduction in inequality, but this happened through other channels. Chief among them were trade-induced changes in employment levels across sectors, industries and formality categories (formal, informal, self-employed, employer). The reallocation of workers that the model predicts have arisen from changes in levels of protection, exchange rates, import penetration and export shares between 1988 and 1995 accounts for more than half of the observed changes in three out of four measures of inequality in hourly wages.

Penélope, and Thirlwill (2008) reviewed the evidence of the impact of trade liberalisation on the economic performance of poor developing countries with respect to poverty reduction, the distribution of income within countries, the distribution of income between countries, trade and the balance of payments, and economic growth, and finds that liberalisation has not delivered the benefits expected. The review concluded that economic theory, and the historical and contemporary evidence, all provide arguments for protection of industrial activities in developing countries.

Mouelhi (2007) used statistical test and System GMM to examine the Impact of trade liberalization on Tunisian manufacturing: Structure, Performance and Employment. The results of statistical and econometrics tests are alike and suggest that the reduction in tariffs and non tariffs levels conducted in this first active phase of liberalization in Tunisia had no significant effects on manufacturing growth nor on employment growth. Also no significant improvements

were recorded in the overall production growth, which appears to be due mainly to a decrease in productivity growth.

Centre for Policy Dialogue (CPD) and International Labour Organisation (2007) examined the employment consequences of trade liberalization in Bangladesh, observing the sectoral and overall employment growth, they stated that during the second face of trade liberalization, employment, in general, has suffered. In particular, agriculture and manufacturing sector have experienced average negative growth. On the other hand, recovering from the negative per annum growth in the first phase, service sector has experienced positive growth during the second and third phases. According to them, throughout the period of analysis manufacturing employment has remained stagnant while service sector showed an increasing trend with a big jump in 1995 -1996 and agriculture has experienced a decrease in 1995-1996 following which employment in this sector has again increased. The share of agriculture in GDP has also been declining.

Brühlhart, Cerrere and Trionfetti (2004) assessed how wages and employment adjust to trade liberalisation in Austria. Their basic estimation strategy followed the difference-in-difference approach applied by Redding and Sturm (2008). They regressed the endogenous variable of interest on the interaction between a dummy for border regions (Border) and a dummy that is equal to one for all years from 1990 onwards (Fall), as well as on a full set of time (t) and location (i) fixed effects. They found that trade liberalization has had statistically significant differential effects on both nominal wages and employment of a rather narrow band of border regions. Most of the observed impact was confined to locations within 25 km of the border, and no statistically significant effects are found beyond a distance of 50 km. The estimated effect on employment exceeds the estimated effect on nominal wages by a factor of around three. Over the entire post-Iron Curtain period, locations within 25 km of the border are estimated to have experienced a 5% increase in nominal wages and a 13% increase in employment, relative to regions in the Austrian interior.

Gilbert (2003) used computable general equilibrium model explored the potential effect of comprehensive trade liberalization in a selection of Latin American developing economies. The results indicate that significant changes in the trade pattern could be expected to follow from trade reform, and there does not seem to be any strong difference in the pattern over the two alternative closures, suggesting that employment effects are felt at the level of the overall economy rather than at the sectoral level. Similarly, the significant estimated percentage increase in motor vehicle production in Colombia largely reflects the small initial size of the industry – it is not estimated to even come remotely close to rivaling the industry in Mexico, Brazil or Argentina. In terms of employment effects, large structural changes imply the possibility of temporary adjustment costs that cannot be directly captured by the model used.

Ghose (2003) researched into link between trade liberalization and manufacturing employment in some selected industrialised and developing nations. Using General Indices, his findings shows that in spite of wide spread adoption of trade liberalization policies, significant advances in transport and communication systems and rapid growth of cross – border capital flows, world trade and GDP have recorded deceleration growth over the past two decades. He opined that the probable reason for this is that a large majority of developing countries, given

their inadequate physical and infrastructure, have been unable to benefit from trade liberalization. His analysis of the changing pattern of world trade shows that the significant recent development is the emergence of a handful of developing economies as important exporters of manufactures. The employment and labour market effects of trade liberalization, therefore, have basically been felt in industrialised economies and in a handful of developing countries.

Casacuberta, Fachola, Gandelman (2003) examined employment, capital flows and productivity in the Uruguayan manufacturing sector using a panel of establishment level data between 1982 and 1995. Findings show that though the opening of the Uruguayan economy implied both the creation and destruction of jobs, overall, there were very high net destruction rates. Concurrently total factor productivity increased during the nineties at an annual average rate of above 3%. Higher competition through tariff reductions, and the availability of cheaper and better intermediate inputs and capital goods may be behind that higher productivity. Unions acted as buffers on the effects of higher international exposure.

Mohammed (2000) assessed the impact of trade policy reform on Industrial Capacity and Employment in Bangladesh, using the participatory method of field investigation and adding it with the more traditional quantitative approach. He found that while access to imported inputs at zero duty may have facilitated growth of the export-oriented industry, international garments market conditions, viz. the MFA-quota system, has undoubtedly been the major factor in spurring growth of this industry. It is suggested that rather than using devaluation to stimulate export growth, policies should be put in place to increase factor productivity in the country. Such policies may include skill-training of labour and the introduction of new and more efficient technology and that the speed of import liberalization should be reviewed and made consistent with the pace of complementary reforms in other sectors.

Goldar (2000) found that employment elasticity for organized manufacturing sector increased from 0.26 in the pre-reform period (1973-74 to 1989-90) to 0.33 in the post-reform period (1990-91 to 1997-98). The significant increase in employment elasticity is observed only in the export-oriented industries, whereas the import-competing industries revealed a fall in the employment elasticity from 0.425 to 0.264 during the same period. The study also found that growth in real wages has slowed down appreciably in the post-reform period. At the aggregate level, the annual growth rate of real wages per worker declined from 3.29 percent in the pre-reform period to 1.16 percent in the post reform period.

Taymaz (1999) examined trade liberalization and employment generation of Turkey in the 1980's. The employment performance of the Turkish economy in the 1980s has been rather poor, at least unsatisfactory given the high rate of population growth. which have played the key role to attract capital inflows after the liberalization of capital accounts in the late 1980s, and real wage hikes in the early 1990s have a very important effect on employment of the manufacturing industries.

An OECD (1992) study used the growth accounting methodology to establish the link between trade and employment and concluded that between 1970 and 1985 trade was a net source of employment.

3. THEORETICAL LITERATURE

The theories of international trade explain how trade openness affects employment in developing countries. The Hechker-Ohlin model (H-O model) is a general equilibrium mathematical model of international trade, developed by Eli Heckscher and Bertil Ohlin at the Stockholm School of Economics. It is built on David Ricardo's theory of comparative advantage by predicting patterns of trade and production based on factor endowments of a trading region. This approach to trade theory is based on two suppositions: Goods differ in their factor requirements. That is, goods can be ranked by factor intensity; the second supposition is that countries differ in their factor endowments, that is, countries can be ranked by factor abundance. According to the theory, in a two-factor world comprising of capital and labour as the only factors of production, capital-abundant countries will specialize in the production of capital intensive goods while labour-abundant countries will specialize in the production of labour intensive goods. In other words, a capital abundant country will tend to specialize in capital intensive goods and will export those goods in exchange for labour intensive goods.

The theory argues that trade openness is good for developing countries because they are labour-abundant. Trade liberalization will increase efficiency and growth, raise employment opportunities and wages for their most abundant resource, that is, unskilled labour. This in turn would lead to additional favourable effects of reducing wage and income inequality since the unskilled are among the lowest paid in the labour market.

Under the H-O framework, trade leads to redistribution of employment from the importing sector towards the exporting sector in the developing countries which export mainly labour intensive product. Although in the long-run, trade opportunities can have a major impact in creating more productive and higher paying jobs. The major problem with this theory is the assumption of full employment. Hence international trade will only lead to reallocation of labour across sectors of the economy. The H-O assumption of full employment may not be applicable to most developing countries since the major problem of many of these countries is unemployment related. Also, the assumptions of perfect competition and constant returns to scale are debatable and clearly at odds with the real world, especially in developing countries, where imperfections are the order of the day and where many branches of industrial production are characterized by economies of scale.

Although some issues have been raised about the real world applicability of H-O theory, this paper will still rely on it. This is because Hechker-Ohlin theorem posits essentially that countries will export products that utilize their abundant factor(s) of production and import products that utilize the countries' scarce factor(s). Competitive pressures within the model produce this prediction fairly straightforwardly. Besides, the model is convenient to use and provides for easily testable hypothesis.

4. METHODOLOGY

This section presents the methodology employed for this study. It discusses the specification of the model, procedures for estimation, data sources and contribution to knowledge. The objective of this study is to analyze the impact of trade liberalization on

employment generation during the military and civilian regimes in Nigeria. This section provides the techniques for achieving the objective of the study.

5. THEORETICAL FRAMEWORK

The framework put forward by Winters (2000) and McCulloch *et al.* (2001) focuses on of the effects of liberalization through the channels of enterprise to wages and employment.

One of the channels of influence of trade liberalization policy is the effect that the opening of trade has on the labour market and the resultant changes in employment (Prus, 2001). With liberalisation, firms face price changes in the goods that both they and other firms produce, resulting in a change in incentives. How these relate to the labour market depends on the elasticity of labour supply i.e. the flexibility of the labour market (Winters, 2000a). If labour supply is perfectly inelastic then any change in prices and incentives relates to a change in wages with no change in employment. The Stolper-Samuelson framework claimed that if there is an increase in demand for labour factors in the expanding sector and sector-specific capital is fixed in supply, which raises its nominal return, then the utilisation of more labour with a given amount of specific capital increases the marginal physical product of that capital and lowers the marginal physical product of labour in the expanding sector. Therefore, the real income of capital specific to the expanding sector increases in terms of the export good while the real return to labour falls in terms of the export good. The real income of capital specific to the expanding sector therefore rises unambiguously (i.e. in terms of either good), since the price of the import-competing good falls with the opening of trade.

In the contracting import-competing sector, the decrease in demand for capital specific to that sector lowers its nominal return. Since sector-specific capital is in fixed supply, its use with a reduced amount of labour decreases its marginal physical product and hence its real return in terms of the import-competing good. The real return to capital specific to the contracting sector therefore falls unambiguously (in terms of other good), since the price of the export good increases with the opening of trade. The marginal product of the remaining labour in this sector increases, and hence labour's real wage in terms of the import-competing good actually rises. The distributional impact for the mobile factor labour therefore depends on whether primarily export goods or import-competing goods are purchased. The suggestion in this case is that a more open trade regime should increase wages in developing countries and help alleviate poverty (Winters, 2000b). However, the predictions of the theorem often do not hold in reality and, even if they did, the least-skilled workers in a country would have to be used in tradable goods production for a positive distributional impact to occur. There is little evidence to suggest that this occurs in reality.

At the opposite extreme is a perfectly elastic labour supply. Here, the changes are purely employment adjustments with wages remaining the same as pre-liberalisation wages. In this case, there is an abundant supply of labour at an exogenously fixed wage. People can move in and out of employment easily as enterprises demand more or less labour as a result of price shocks. When increased prices lead to an incentive to increase production, this translates into an increase in employment, with no change in the wages received by labour (Bannister and Thugge, 2001). If trade increases the price of exportable goods, more workers will be

demand for the production of the goods and formal sector employment will increase. At the same time, however, the opposite result would occur in enterprises producing importable goods and employment in these sectors would decrease. The ultimate poverty impact depends on the relative employment changes and whether employment in the formal sector experiences a net increase or decrease as a result of the trade price shocks.

Obviously, neither extreme is ever fully present in reality and changes in output prices due to trade will tend to translate into changes in both employment and wages. Rural and informal urban sectors tend to conform more closely to the assumption of elastic labour supply. Since these markets are unregulated and highly flexible, a trade shock would generally transmit as changes in employment (Bannister and Thugge, 2001).

5.1. Model Specification

Employment generation is a function of trade liberalization.

$$N_t = f(Q) \dots \dots \dots (1)$$

However, breaking the trade liberalization policy into import intensity index and export intensity index (McCullough et al, 2001), the relationship between employment generation and trade liberalization can be specified as follows:

$N_t = f(M_t, X_t) \dots \dots \dots (1)$ Mathematically,

$$\ln N_t = \alpha_0 + \alpha_1 M_t + \alpha_2 X_t \dots \dots (2)$$

Equation (2) shows that employment is a function of import intensity and export intensity. An export oriented country tends to create more jobs especially in the formal sector of the economy. This is done through the expansion in capacity as a result of an enlarged market coupled with the foreign competition; this brings about efficiency and job creation. Therefore, there is need to accommodate foreign direct investment in determining employment generation.

$$\ln N_t = \alpha_0 + \alpha_1 M_t + \alpha_2 X_t + \alpha_3 FDI_t \dots \dots (3)$$

Incorporating other macroeconomic variables such as exchange rate and interest rates, the model becomes:

$$\ln N_t = \alpha_0 + \alpha_1 M_t + \alpha_2 X_t + \alpha_3 FDI_t + \alpha_4 EXR_t + \alpha_5 INT_t \dots \dots (3)$$

Moreso, by taking into consideration the political dispensations and the introduction of SAP, the equation becomes:

$$\ln N_t = \alpha_0 + \alpha_1 M_t + \alpha_2 X_t + \alpha_3 FDI_t + \alpha_4 EXR_t + \alpha_5 INT_t + D_1 + D_2 \dots \dots (4)$$

Adding the error term to incorporate all other variables not included in the above equation, we now have the following

$$\ln N_t = \alpha_0 + \alpha_1 \ln M_t + \alpha_2 X_t + \alpha_3 \ln FDI_t + \alpha_4 \ln EXR_t + \alpha_5 \ln INT_t + D_1 + D_2 + \varepsilon_t \dots \dots (5)$$

Equation (5) can be specified in dynamic autoregressive distributed lag model as follows:

$$\Omega_t = \alpha_0 + \beta_1 X_{t-1} + \beta_2 X_{t-2} + \beta_3 X_{t-3} \dots \dots \dots + \beta_q X_{t-k} + D_1 + D_2 + \varepsilon_t \dots \dots (6)$$

Where: $\Omega_t = N_t, M_t, X_t, FDI_t, EXR_t, INT_t, D_1, D_2$

Equation (6) can be written more compactly as:

$$\Omega_t = \alpha_0 + \beta_i \sum_{j=1}^k \Omega_{t-j} + \varepsilon_t \dots \dots \dots (7)$$

Equation (7) can be written in a more parsimonious ECM form as:

$$\Delta \Omega_t = \alpha_0 + \rho \Omega_{t-1} + \sum_{j=1}^k \gamma_j \Delta \Omega_{t-j} + ECT \dots \dots \dots (8)$$

N_t is the employment level, M_t is the import intensity index (measured by import-output ratio), X_t is the export intensity index (measured by export-output ratio), FDI_t is the foreign direct investment, EXR_t is the exchange rate, and INT_t is the interest rate. The dummy variables D_1 and D_2 capture the influence of political dispensation and SAP era respectively. Equation (5) above is used to achieve objective II and III. The impact of trade liberalization on employment generation during the military regime and civilian regimes is separately sought.

5.2. Data and Data Source

Secondary data were used for this study, with annual data from 1980 to 2012 on variables like employment level, export, import, foreign direct investment, exchange rate and interest rate in Nigeria were sourced from CBN statistical bulletin and National Bureau of Statistics (various editions) and World Development Indicator (WDI). The choice of 1980 as the base year was due to trade restrictions adopted just before the military regime began. Data collected were analysed using econometric techniques. Specifically, Error Correction Model was used.

5.3 Methods of Estimation

Econometric methods were used for the analysis. Objective one of the study was achieved using a frequency distribution by plotting the trend of employment over the sample periods. More so, the variables were subjected to unit root test to ascertain their level of stationarity, Error correction model was adopted to achieve objective two and objective three was analysed using the impulse response technique which was obtained as a single equation of the residual of the variables concerned.

6. ESTIMATION OF COMPARISON OF TRADE LIBERALIZATION AND EMPLOYMENT GENERATION UNDER MILITARY AND CIVILIAN RULES

TABLE1: UNIT ROOT TEST

Variable	ADF Statistics		Critical Value	Remarks
	I(0)	I(1)		
EMPLOY	-1.79003	-5.0573	-3.6616	I(1)
XIT	0.3786	-5.4722	-3.6722	I(1)
MIT	-3.012	-6.4528	-3.6616	I(1)
EXR	0.0406	-5.5061	-3.6616	I(1)
INTR	-2.2109	-6.1996	-3.6616	I(1)
FDI	-0.1665	-11.1933	-3.6701	I(1)

Source: Author Computation (2015)

The table 1 above is the result of the augmented unit root test for stationarity. Six variables were subjected to the test; the variables report non-stationarity at level but showed stationarity at first difference. This implies that the variables were not mean reverting in their form. Nevertheless, the ordinary least square will not yield an efficient results; hence long run relationship will be carried out to examine its convergence (i.e. equilibrium)

Moreover, exchange rate and export intensity (XIT) with value of 0.0406 and 0.3786 at level indicate the explosive nature of the variables, while their first difference exhibit convergence in the long run and in contrary, employment rate, import intensity, interest rate and log of foreign direct investment show the tendency of convergence at level, their first difference reaffirmed stationarity at first difference by exceeding the critical value of -3.661

Table 2: JOHANSEN COINTEGRATION TEST

Hypothesis No of CE(s)	Maximum Eigenvalue	Trace Statistics	Critical Value
None *	0.827275	111.1231	95.75366
At most 1	0.582833	58.44151	69.81889
At most 2	0.398868	32.21344	47.85613
At most 3	0.319970	16.94523	29.79707
At most 4	0.160259	5.376676	15.49471
At most 5	0.004550	0.136807	3.841466

Source: Author computation (2015)

The table 2 above reports the Johansen cointegration test. The eigenvalue (0.8272) with trace statistics (111.1231) and critical value of 95.75 shows that there exists one cointegrating equation, judging by the fact that trace statistics of 111.1231 is greater than 95.75. Similarly, the Engle and Granger two step procedure of testing cointegration, shows that the residual of the longrun estimated model is stationary at level by using the Augmented Dickey Fuller test method. Thus, this implies the existence of long run equilibrium of the variables.

Table 3: Residual Test for Cointegration.

Variable	ADF Statistics	Critical value	Remark
Residual	-3.7739	-3.6537	Stattionary at level :I(0)

Source: Author computation (2015)

Lag selection Criteria

In selecting the appropriate lag for the model, the study compared the value of the Schwarz criterion, Akaike information criteria at different lag of the variables, in addition, the performance of some diagnostic statistics were used to examine the best lag of the model. However, in achieving a robust model, different lags were selected for the variables, by using the Akaike information criteria and Schwarz criterion the research went for the model with least information criteria that is the one that has the lowest AIC. Moreover, it was discovered that 2.0363 was the least AIC values and therefore lag of 2 and 4 for employment generation, while foreign direct investment has lag of 1 and 1, exchange rate with 1 and 2 lag, the some

scenario repeat itself in case of export intensity and import intensity became stable with lag of 2 and 3.

Table 4: Error correction Model Estimation.

Variable	Coefficient	P-Value
D(EMPLOY(-2))	0.113427	0.5307
D(EMPLOY(-4))	0.708453	0.0189
D(LFDI(-1))	1.177378	0.0100
D(LFDI(-2))	1.062629	0.0505
D(EXR(-1))	-0.014489	0.1701
D(EXR(-2))	-0.011755	0.2897
D(MIT(-2))	0.487763	0.0868
D(MIT(-3))	-0.855247	0.0348
D(XIT(-1))	0.122115	0.1887
D(XIT(-2))	-0.641752	0.0124
D(XIT(-4))	-0.541648	0.0202
D(INTR(-3))	-0.064991	0.1517
D(INTR(-4))	-0.139355	0.0330
C	0.712723	0.0950
MILITARY	-0.355917	0.3248
ECT2(-1)	-0.872320	0.0008
R-squared	0.766910	
Adjusted R-squared	0.475548	
F-statistic	2.6321	
Prob(F-statistics)	0.0490	
Durbin-Watson	2.073	

Source: Author computation (2015)

The table 4 above reports the estimate of the coefficient of model which captures the relationship between the trade liberalization and employment generation in between the two

political regimes, that is military and civilian dispensations, import intensity and export intensity was used to capture the trade liberalization, while military was a dummy variable which used 1 for military dispensation and 0 for democratically elected government. In order to include the macroeconomic performance of the economy, the exchange rate and interest rate was included in the model, while lag of foreign direct investment was also included to capture the inflow of investment between the two dispensations.

The result of the model showed that about 76.69 percent of the variation was accounted for by the explanatory variables, while after adjusting for the loss in degree of freedom; the explanatory power shows that 47.55 percent of the variation was accounted for by the variables. More so, the F-statistics with the value of 2.6321 and p –value of 0.049, indicate that the variables are jointly different from zero, while the Durbin-Watson with the value of 2.073 report the likelihood of no serial correlation, The variables of import intensity was estimated at lag of 2 and 3, it was shown that the second period lagged of import intensity is positively related with the employment generation in Nigeria, at 10 percent level of significance, the time period involved in importation and also high level of consumers goods being imported into the country may be responsible for the low significance impact of the variables on the country employment generation. In contrary, the third lagged of the import intensity reports a negative relationship with the employment generation with the value of -0.8552 and probability of 0.0348 implies that the rise in intensity of import will induce decreasing effect on the employment generation of the country, during the civilian dispensation, while military rule does not have significant effect on the generation of employment. In addition, the failure of the economy to encourage the importation of capital goods could be attributed to the negative relationship with the employment as it is well known that capital goods are engine of growth and no economy survive or grows if the constituents of its import are not for investment and industrialization; The increasing nature of the country importation which is skewed towards finished goods and therefore leads to depletion of the external reserve. This could results in weak currency and thereby leads to volatility of naira and brings about high level of exchange rate instability and cause increasing inflation. It is an established fact that unstable currency and exchange rate will discourage inflow of investors in long run. However, foreign direct investment increases the employment generation at both one and two lagged period. At the one lagged period with the coefficient of 1.1773, one percent increase in foreign inflow induces about 117.73 percent rise in the employment generation, while at the second lagged period foreign direct investment induces about 106.26 percent growth in the employment drive of the country. More so as regards the export intensity, the coefficient of 0.1221 shows that increasing export will induce growth in the generation of the employment, though judging by its p-value it is statistically not significant but reverse is the case in second lagged which shows that export intensity decreases employment by 0.6417, during the civilian dispensation, as military regime is not statistically significant as regards the model. Moreover, interest rate shows negative relationship with the employment generation, the coefficient value of -0.064 at third lagged and -0.1393 at fourth lagged report that an increase in interest rate will lead to decrease in

employment generation at these periods, thus, it takes three to four years before interest rate affect the country employment.

Furthermore, error correction coefficient of -0.8723 is appropriately signed and it is statistically significant at 5 percent level of significance. It indicates that about 87.23 percent of disequilibrium will be corrected periodically, More so, it indicates a mean reverting behavior of model during civilian dispensation, owing to the insignificance of the military regime in term of employment generation. We consider trade liberalization in its various realizations an important determinant of job reallocation; we anticipate that industry-specific shocks will dominate the determination of gross job flows in the studied period. The results confirm this as the foreign inflow and export intensity appear to aid job growth which is mainly driven by the lagged values of employment creation and destruction. Net employment growth is consistently dominated by both import and export growth.

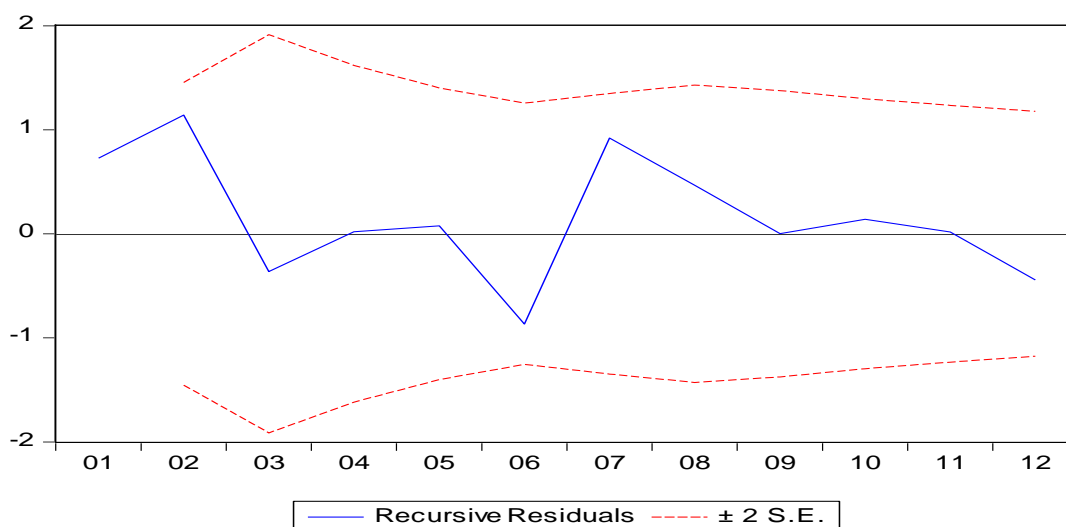


Figure 2: Residual Stability Test

The residual stability test was conducted using cesium stability approach with the aim of identifying the reliability of the model and evaluates it prediction ability. The test shows that the model residual is stable and therefore failed to exceed the allowance bands of oscillation and movement. Hence, the behavior of the residual indicates the existence of stability and the likelihood of mean – reverting tendency of the residual whenever shock or innovation occurs. The stability is a good omen for the model robustness and forecasting due to the fact that the adequacy of the model forecast is certain and both external and internal shocks will flatten out in short time.

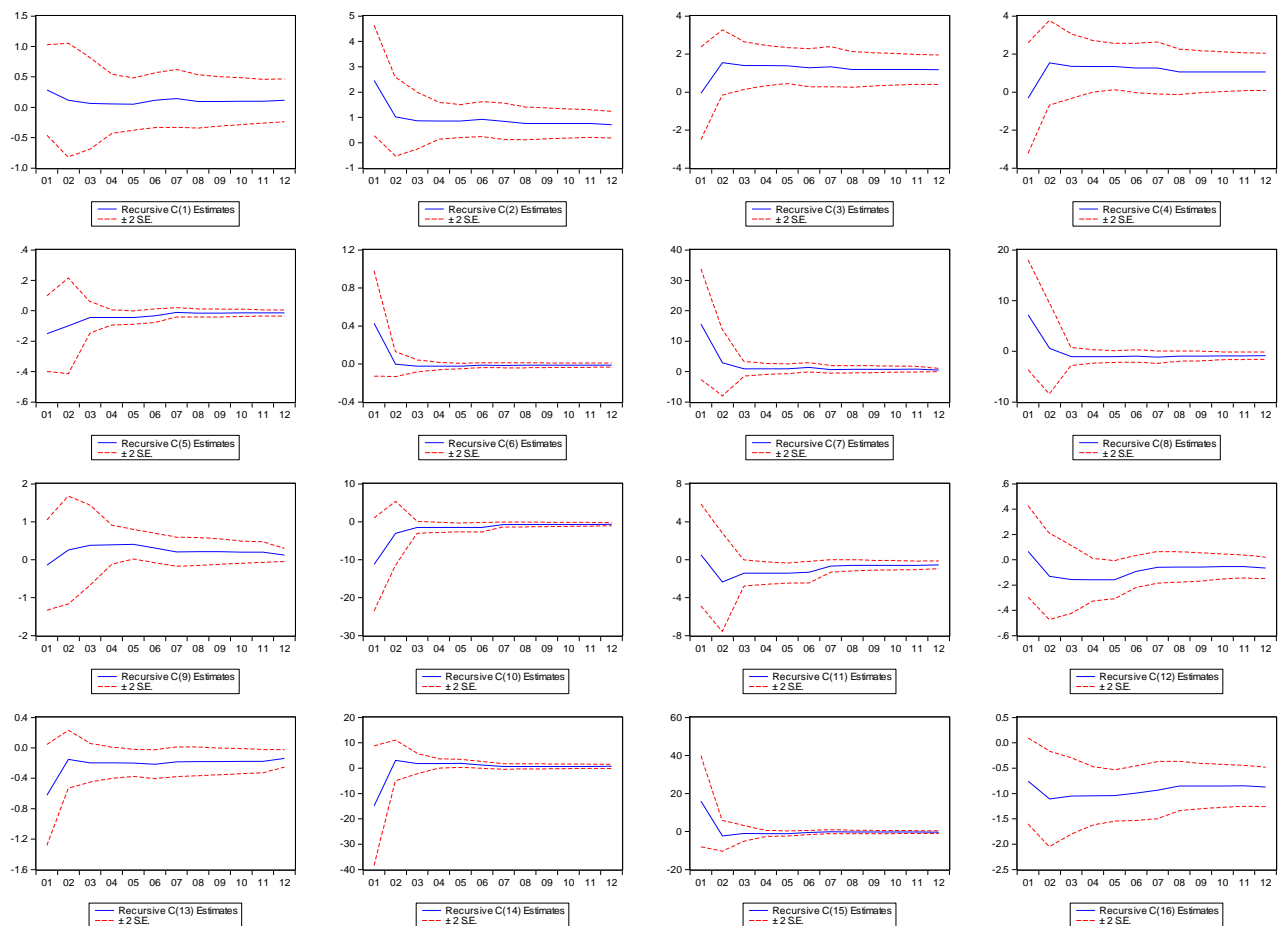


Figure 3: Stability Test for the Coefficient of the Model

In the same vein, the coefficients stability test shows that the entire model coefficients are stable with estimate of +2 standard error. The graphs reveal that foreign direct investment rises with employment generation in Nigeria and later achieve constant ratio of change; this is a clear indication that foreign direct investment will initially induce growth, but the growth in employment generation brings about by increase in foreign capital inflow have a constant change and therefore steady in the long run, the variable appears stable over the sample period and therefore, it is expected to be stable in forecast. The exchange rate at both first and second lagged also shows high level of stability, but two-lagged difference of exchange rate define with the employment, though flatten out at short interval, therefore, a shock to the model will have sudden impact on the second periodical change in the exchange but this will die out easily, while one –lagged difference of exchange rate will rise in respect to the employment generation at sudden occurrence of shocks innovation but it will be steady in growth.

Furthermore, import intensity at both two and three lagged reveal a declining rate of employment, in regards to shock response and stability. The graph shows that the coefficient of import is stable and falls in rate as employment generation increases. However, there exists sudden fall in the oscillation band of the coefficient. The export intensity also reveals

that the coefficients are stable and tend to rise with the increase in employment generation. The error correction coefficient shows high level stability due to its small oscillation band.

Table 5: Test for autocorrelation: Breusch – Godfrey Serial Correlation LM

F – statistic	0.8255	Prob. F(2,10)	0.6144
Obs* R-square	1.9692	Prob. (chi square (2))	0.3736

Source: Author computation (2015)

Table 6: Test for heteroskedasticity: Breusch – Godfrey

F – statistic	0.8255	Prob. F(15,12)	0.6424
Obs* R-square	14.22	Prob.	0.5089
Scaled explained	3.6119	Prob.	0.9983

Source: Author Computation(2015)

The two tests were conducted to examine the robustness of the residual using the BG serial correlation and BPG heteroskedasticity test, the test revealed that the model is free from both autocorrelation and heteroskedasticity. The p-value of 0.3736 with the chi-square value of 1.1692 shows that the null of no serial correlation is accepted judging by the fact that its p-value is greater than 0.05. Similarly, the heteroskedasticity test with the chi-square value of 14.22 and p-value of 0.5089 indicate the existence of homoskedasticity in the residual

7. Summary Conclusion and Recommendations

7.1 Summary

This study sought to determine the relationship between trade liberalization and employment generation during the Military and Civilian regimes in Nigeria (1980 to 2012). Facts emerged from the literatures reviewed that the relationship between employment and trade liberalization in Nigeria as regards the differential in regimes has been left unexplored. In an attempt to achieve the objective of the study, we adopted the error correction model to examine the significance of trade liberalization using both export and import intensity as a proxy.

In view of the above, the study showed that the third lagged of the import intensity reports a negative relationship with employment generation. This implies that the rise in intensity of import will induce decreasing effect on the employment generation of the country, during the civilian dispensation. On the contrary, military rule does not have significant effect on the employment generation. In addition, the failure of the economy to encourage the importation of capital goods could be attributed to the negative relationship with the employment as it is well known that capital goods are drivers of growth and no economy thrives or grows if the constituents of its import are not for investment and industrialization;

The increasing nature of the country importation which is skewed towards finished goods or consumer goods leads to depletion of the external reserve. This could result in weak currency thereby leading to volatility of the naira. Consequently, it brings about high level of exchange rate instability and increasing inflation. It is an established fact that unstable currency and exchange rate will discourage inflow of investors in the long run. However, foreign direct investment increases the employment generation at both one and two lagged. As regards the export intensity, increase in export will induce growth in the employment generation, though judging by its p-value it is statistically insignificant but reverse is the case in its second lagged, which shows that export intensity decreases employment generation during the civilian dispensation, as well as military regime. In addition, interest rate shows negative relationship with employment generation, the third lagged and fourth lagged report that an increase in interest rate will lead to decrease in employment generation, thus, it takes three to four years before interest rate affect the country employment generation. Our empirical findings do not corroborate those of Kareem (2010) who found insignificant relationship between trade flows and employment in Nigeria. Indeed, the recent empirical evidence is that of a significant negative employment effect of total volume of trade in Nigeria. The finding could be traced to the SAP-induced trade liberalization of 1986 forced on the country by the IMF and World Bank as condition for loan procurement and possible debt forgiveness. What is more, the employment effect of trade liberalization is insignificant and negative in this study. In effect therefore, Nigeria should make her export competitive by broadening the horizons of production and reduce her volume of importation in order to make the negative trade balance positive.

Furthermore, error correction coefficient of -0.8723 is appropriately signed and it is statistically significant at 5 percent level of significance. It indicates that about 87.23 percent of disequilibrium will be corrected periodically. It also indicates a mean reverting behavior of the model during civilian dispensation. We consider trade liberalization in its various realizations an important determinant of job creation. We anticipate that industry-specific shocks will dominate the determination of gross job flows in the studied period. The results confirm this as the foreign inflow and export intensity appear to aid job growth which is mainly driven by the lagged values of employment creation and destruction. Net employment growth is consistently dominated by both import and export growth.

7.2 CONCLUSION

The efforts of Nigeria to benefit from the trade liberalization require essential support from the right national economic and social policies and institutions. The foundation for this is democratic, transparent and competent governance of a well-functioning market-based economic system. Without this, the potential gains from trade liberalization and other economic reforms will be thwarted by obstacles such as barriers to entry into newly competitive activities, market failures and other limitations on factor mobility. In addition, the gains that are realized are also likely to be unevenly distributed because of the lack of an even playing field for all economic agents. Freedom of association is an indispensable element of the civil and political liberties that underpin a democratic and transparent political system. In

tandem with the right to collective bargaining, it also constitutes a countervailing force to unequal economic power that can bring about a more equitable distribution of the benefits of economic growth. These are obtainable in democratic settings unlike the military government. The poor deliberation and consultation in military system which can be linked to the failure of SAP, could have been responsible to the poor performance of trade liberalisation policy under this system of government. Meanwhile, the policy tends to achieve reasonable results in democratic government.

Nigeria's experience with trade liberalization has been one in which an open trade regime has resulted in an increase in the already high unemployment and inequality figures of the country. Due to the fact that the country is a low-income country, with a large natural resource base and a history of capital-intensive industry subsidization, trade reform has resulted in increasingly capital- and skill intensive production in most sectors of the economy. There has been a structural shift away from primary sectors towards services and manufacturing sectors, which tend to be more capital-intensive in nature than the primary sectors. However, at the same time, within-sector shifts towards capital-intensive production have occurred in most industries as a result of the increased use of technology. Therefore, as a result of both within- and between-sector shifts in the domestic economy, production in Nigeria has become more capital- and skill-intensive and consequently, less labour- (and especially unskilled-labour) intensive, resulting in a decline in employment for those that are uneducated and unskilled. Coupled with the increased employment levels of those that are the most highly-skilled in the economy, it is clear that these trends have lead to a large increase in inequality of access to assets and income in the country, mostly ruling and opportune lines. The instability of the naira has further exacerbated the unemployment impacts of liberalization and has resulted in an increase in the prices of the goods consumed in large quantities by the poor, eroding their real income by a substantial amount. This effect is, however, only expected in the short run as the dropping world oil price and increasing instability of the naira should ultimately contribute to a fall in their prices if competition in the domestic market is increased. What is clear is that the Nigerian experience of liberalization, however short, has had significant adverse impacts on the country capability to create jobs. The combination of the short-run price increases and the longer-term production and employment changes in the country has resulted in a further worsening of an already wide-spread and persistent problem. While it is difficult to ascertain whether some of the employment impacts are merely the short-term adjustment costs or whether they will continue into the long term, especially if the present democratic setting is sustained

7.3. RECOMMENDATION

From the findings of the studies, the following recommendations are worthwhile:

The local industries should be encouraged to import capital goods especially machineries, in order to make them competitive and enhance their capability to create jobs.

More so, there is a clear need of policies that would help strengthen the export base of the country.

It is imperative to improve the education and skills base of the country workforce in order to minimize the problem of inflows of foreign skilled labour.

Efforts should be geared towards creating employment for the unskilled labour through improved incentives for labour-intensive production via public investment.

It is also important to increase competition in domestic industries so that it is possible for the poor to gain from the price decreases that are likely to result, in the short run.

The non oil export sector responds to the trade liberalization policy, therefore a favourable trade policy should be encouraged in the non-oil export in order to reap the inherent advantages of non oil export promotion.

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