Journal of Business and Economic Policy
UNIZIK Business School, Nnamdi Azikiwe University, Awka

UBSJBEP Volume 2 Issue 2
ISSN (Online) 0795 – 7149
https://journals.unizik.edu.ng/index.php/ubsjbep

EFFECT OF FOREIGN TRADE ON THE NIGERIAN MANUFACTURING SECTOR (1999-2022)

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CITATION: Okeke, I.C. (2024). Effect of foreign trade on the Nigerian manufacturing sector (1999-2022), *UBS Journal of Business and Economic Policy*, 2(2), 81 - 93.
Paper Type**: Original Research Paper; **Correspondence: ic.okeke@unizik.edu.ng

Abstract
The main objective of the study is to examine the effect of foreign trade on the performance of the Nigerian Manufacturing sector. The specific objective was to determine the effect of export trade, import trade and balance of payment on the real gross domestic product of the Nigerian manufacturing sector. Ex-post facto research design was utilized in the study. This study sourced secondary data from the Central Bank of Nigeria (CBN) statistical bulletin, spanning a time frame of 24 years, covering the period of 1999 to 2022. The study's data were analyzed using the Ordinary Least Square (OLS) regression method. The test of hypotheses conducted with the regression estimates from Ordinary Least Square showed the following results: Export trade has a positive and significant effect on the gross domestic product of the Nigerian manufacturing sector (p-value = 0.0088); Import trade has a negative and significant effect on the gross domestic product of the Nigerian manufacturing sector (p-value = 0.0145); Balance of payment has a negative and significant effect on the gross domestic product of the Nigerian manufacturing sector (p-value = 0.0092). The study recommends that to further capitalize on the positive effect of export trade, the Nigerian government and manufacturing sector stakeholders should actively promote the diversification of export products and explore new international markets through targeted policies, incentives, and support programs that facilitate product innovation, quality improvement, and market penetration strategies.

Key Words: *Export, Foreign Trade, Import .Manufacturing Sector.*

Introduction
The focus of industrialization policy in Nigeria since independence has been to increase employment and domestic production of goods; accelerate industrialization through manufacturing; generate and preserve the country's foreign exchange; expand the country's domestic market for locally manufactured products; and reduce dependence on import. However, the nature of the sector is characterized by an overdependence on imports for inputs, spares, and machines (Neoh & Lai, 2021; Nwamuo, 2019; Okoye & Nwoye, 2021; Ogu, Aniebo & Elekwa, 2016). Foreign trade has a range of positive effects on the Nigerian manufacturing sector. Firstly, exports open up new markets for Nigerian manufactured products, increasing demand and encouraging production (Emehelu, 2021). This can lead to increased employment within the sector. Additionally, foreign trade facilitates access to cutting-edge technology, allowing Nigerian manufacturers to improve efficiency and product quality (Anowor & Agbarakwe, 2015).

Moreover, foreign investments in the manufacturing sector can result from trade relationships, which often lead to capacity expansion and technology transfer. Thus, a robust export market can boost the manufacturing sector's GDP, making it more competitive and resilient (Danladi, Akomolafe, Babalola & Oladipupo, 2015). However, foreign trade also presents challenges to the Nigerian manufacturing sector (Agu, Anichebe & Maduagwu, 2016). One critical challenge is import competition.

An influx of cheaper imported goods can stifle the domestic manufacturing industry. This has been particularly evident in Nigeria, where the manufacturing sector faces stiff competition from imported products, affecting its growth and profitability. Additionally, exchange rate fluctuations and trade policies can effect the cost of imported inputs, which directly affects production costs within the sector (Amadi, Nwidobie & Adesina, 2018). Inconsistent government policies and regulatory frameworks have also hindered the manufacturing sector's ability to effectively compete on the international stage. A favorable balance of payments, driven by robust exports from the manufacturing sector, can stabilize the Nigerian economy by providing foreign exchange earnings. On the other hand, a trade deficit, resulting from excessive imports, can strain the country's foreign exchange reserves and effect overall economic stability (Afaha & Oluwatobi, 2012; Akeem, 2011). Therefore, managing the trade balance is critical for the performance of the Nigerian manufacturing sector and the country's economy as a whole. It is against the background above that the study examine the effect of foreign trade on the performance of the Nigerian manufacturing sector.

Statement of the Problem

The feat of Nigeria's economy largely depends on crude oil price movement and forex availability. In reaction, different government administrators have introduced several measures and scheme to manage sparse foreign exchange by restricting access to forex and thereby restricting the flow of trade using import licenses, tariffs, and some quantitative measures .The consequences of these actions or initiatives often have adverse drip effects on the manufacturing sector an access to imported raw materials that are not available locally. Foreign trade especially with respect to exportation is crucial for Nigeria's manufacturing sector as it permits the transfer of technology and facilitates improvements in productivity. Despite all these measures taken, foreign trade does not have significant effect on the manufacturing sector that was what prompted this study on foreign exchange and manufacturing sector in Nigeria.

The main objective of the study is to examine the effect of foreign trade on the performance of the Nigerian Manufacturing sector (1999-2022). The specific objectives are as follows:

1. To determine the effect of export trade on the gross domestic product of the Nigerian manufacturing sector.
2. To assess the effect of import trade on the gross domestic product of the Nigerian manufacturing sector.
3. To examine the effect of balance of payment on the gross domestic product of the Nigerian manufacturing sector.

Literature Review

Theoretical Framework

Resource Dependency Theory

This study anchored on Resource Dependency Theory that was propounded by Raul Prebisch in the late 1950. The theory postulates that economies of the world operate based on an open system. This means that various economies of the world continually exchange resources within the environment. According to Resource-dependency theory, different economies, developed and undeveloped, collaborate within themselves by attempting to control or influence each other's activities to access critical scarce resources.

Empirical Review

Ali (2023) assessed the effect of international trade on Nigeria's economic growth. The study aimed to achieve several objectives, including assessing the recent influence of exchange rates on Nigeria's economic expansion, examining the effects of exports on economic growth, and establishing the link between foreign trade and economic expansion. Vector Autoregression (VAR) analysis was employed, and multivariate time series secondary data covering the period from 1981 to 2020 was sourced from various reputable sources. The findings indicated significant causality between exchange rates, exports, and economic development, while no significant causality was found between imports, foreign direct investment, and economic growth in Nigeria.

Oni and Salihu (2023) studied the effect of international trade on the economic growth of Nigeria spanning the years from 1986 to 2021, utilizing the Autoregressive Distributed Lag Model. The results of the Augmented Dickey-Fuller unit root test indicated that some variables were stationary at both levels and in their first differences, while others were not. The findings shows that trade openness exhibited a negative and statistically insignificant correlation with economic growth in Nigeria while foreign direct investment has a positive and substantial relationship with economic growth.

Dragusha, Hasaj, Kruja, and Lulaj (2023) examined the relationship between trade liberalization, foreign trade, and economic growth in Albania, using annual economic development data from 1994 to 2019. The study employed the Ordinary Least Squares (OLS) model. Empirical results revealed a positive correlation between trade liberalization and economic growth, as well as exports and imports contributing to Albania's economic development. Additionally, multiple regression analysis demonstrated that GDP, the Openness Index, foreign direct investment (FDI), and remittances positively influenced trade volume growth.

Omotayo and Odeleke (2022) utilized the Structural Autoregressive model to investigate the effect of trade and industrial policies on Nigeria's manufacturing sector for the period 1980-2020, with a consideration of the potential role of the African Continental Free Trade Area. The study drew data from secondary sources and analyzed variables including exchange rates, tariffs, capital, labor, and trade openness, with manufacturing output (MO) serving as a proxy for the sector's performance. After accounting for structural breaks and ensuring data stationarity, the short-run results revealed that current

and past lagged tariffs had unexpected effects, while exchange rates exhibited an insignificant effect on manufacturing productivity. Furthermore, the variance decomposition showed that tariff shocks accounted for significant variations in manufacturing productivity.

Akhter, Mir, and Megits (2022) researched on the effect of trade openness on Kazakhstan's economic growth. The study encompassed investment, international trade, labor force, human capital, and natural resources as explanatory variables with gross domestic product (GDP) per capita as the dependent variable. The research aimed to assess the long-term relationship between trade and income development in Kazakhstan from 1992 to 2020, employing tests for data stationarity. The findings indicated a negative effect of trade on growth in both the short and long run, while capital formation, labor quantity and quality, and natural resources positively influenced economic development. The negative effect of trade on growth was attributed to factors such as institutional shortcomings, inefficient management, economic structure, and development policies, as well as the substantial negative effect of imports counteracting the positive effect of exports.

Magaji, Abubakar, and Temitope (2022) analyzed the effect of international trade on economic growth in Nigeria. The study's objectives included investigating Nigeria's trade openness's influence on economic growth, assessing the effect of trade balance on economic growth, and examining how exchange rates affect economic growth. Time series data from the Central Bank of Nigeria in 2021 were used, and Granger Causality tests were applied to the data. The results revealed that trade balance and the degree of trade openness did not Granger cause real gross domestic product at a 5% level of significance. The regression analysis indicated that trade was not statistically significant to economic growth, and the same was true for trade openness.

Sade, Esther, Oladipo, and Adedokun (2021) investigated the effect of trade growth on the manufacturing sector's performance in selected countries from 1980 to 2019. Panel data series were analyzed using econometric techniques, including Dynamic Ordinary Least Squares (DOLS) and Fully Modified Ordinary Least Squares (FMOLS). The results from both FMOLS and DOLS indicated a positive association between trade growth and manufacturing sector output in the selected countries.

Emehelu (2021) examined the effect of international trade on Nigeria's economic growth from 1981 to 2018, utilizing the Ordinary Least Squares (OLS) technique. The study employed secondary data from the Central Bank of Nigeria Statistical Bulletin for the year 2018. Econometric diagnostics, including the Augmented Dickey-Fuller technique, were applied to test for unit roots in the series, with results indicating first-order integration (I(1)) for the variables. The study further utilized the Johansen co-integration test to determine the presence of cointegration among the variables, confirming the absence of a long-run equilibrium. Findings from the research unveiled a positive yet insignificant relationship between export trade and economic growth in Nigeria.

Onodje and Farayibi (2020) ascertained the determinants of manufacturing sector growth in Nigeria from 1980 to 2018, employing the dynamic ordinary least square (DOLS) method of econometric analysis. DOLS, which accounts for endogeneity by incorporating leads and lags, was deemed more reliable than static OLS. The results identified foreign direct investment (FDI), interest rates, labor force, inflation, and exchange rates as the primary determinants of Nigeria's manufacturing sector growth.

Nwamuo (2019) investigated the effect of international trade on economic growth in Nigeria using annual time series data from the Central Bank of Nigeria Statistical Bulletin for the years 1981 to 2018. Regression results indicated a positive effect of export, import, and exchange rates on Nigeria's economic growth, while trade openness exhibited a negative effect. The study found that the explanatory variables explained approximately 99% of the variations in the dependent variable, with the error correction results revealing a 65.9% speed of adjustment to long-run equilibrium.

Effiong, Odey, and Nwafor (2019) examined the nexus between globalization, foreign direct investment (FDI), and the performance of the industrial sector in Nigeria. The study used unit root tests, co-integration tests, and an error correction model to analyze time series data spanning from 1981 to 2017. Trade openness and the current account balance represented globalization, while portfolio investment captured FDI inflows. The research revealed a direct relationship between FDI and Nigeria's industrial sector, and globalization had a positive effect on industrial sector performance. The study concluded that a nation's development is intrinsically linked to its ability to industrialize the manufacturing sector, which, in turn, is seen as a catalyst for sustainable growth and development, particularly in developing economies.

Agbo, Agu, and Eze (2018) evaluated the effect of international trade on Nigeria's economic growth, focusing on the effect of export and import trade on the economy. The study employed the multiple regression analysis technique and used data from the 2012 edition of the Central Bank of Nigeria statistical bulletin, covering the period from 1980 to 2012. Results indicated a significant effect of export trade on Nigeria's economic growth, while no significant effect was observed for import trade.

Emerenini and Ohadinma (2018) investigated the effect of trade liberalization on Nigeria's manufacturing sector from 1980 to 2016. The research utilized secondary data from the Central Bank of Nigeria statistical bulletin and employed the Error Correction Model approach for data analysis. The model incorporated manufacturing sector output as the dependent variable, with trade openness, exchange rate, volume of exports/imports, and balance of payments serving as independent variables. The findings from the ECM analyses revealed negative short-run effects of trade openness, exports, and the balance of payments on manufacturing output. Conversely, exchange rates and imports exerted positive short-run effects on manufacturing output, with only imports and exports demonstrating statistical significance.

Markjackson, Johnny, and Siaisiai (2018) conducted an analysis of the effect of foreign trade on economic growth in Nigeria. Their specific objectives were to investigate the

effects of oil imports, non-oil imports, oil exports, and non-oil exports on economic growth in Nigeria over the period from 1981 to 2016. The study applied the Augmented Dickey-Fuller test to ensure data stationarity (I(1)) and employed multiple regression techniques, known for their unbiased estimator properties. The results indicated that while oil imports had a linear but insignificant effect on real gross domestic product in Nigeria, non-oil imports and non-oil exports showed a positive and significant influence on economic growth. However, oil exports had a nonlinear and insignificant effect on real gross domestic product in Nigeria. In conclusion, the study revealed that international trade has a positive effect on economic growth in Nigeria.

Idoko and Taiga (2018) examined the effect of Foreign Direct Investment (FDI) on the growth of the manufacturing sector in Nigeria from 1981 to 2015. The research was guided by two research questions and objectives. To test their hypotheses, they applied the Vector Auto Regression (VAR) technique and the Johansen Co-integration test. The empirical results from the VAR analysis, including impulse response functions and variance decomposition tests, indicated a positive but minimal effect of FDI on the manufacturing sector's output in Nigeria. The co-integration test confirmed the existence of a long-run relationship between FDI and the growth of the manufacturing sector.

Materials and Methods

The study adopted an ex-post facto research design. The data covered the period 1999 to 2022 and were obtained from CBN statistical bulletin(2023) and other economic journals. The econometric method of analysis used was Ordinary Least Square Regression.

The model used in the study was adopted from the work carried out byAgbionu and Onwochei (2017) as specified below:

MC = f (a0 + a1L BOP+a2L EP+a3L IP) et ....……Eqn 1

Where: MC = Manufacturing Companies Contribution to Gross Domestic Product
BOP = Balance of Payment
EP = Export
IP = Import
f = Function
a0 – a1 = Parameter Structure or Estimate
et= Stochastic or Error Term
L BOP = Log Balance of Payment

The above model by Agbionu and Onwochei (2017) was modified thus:

RGDPM = *f*(EXPT, IMPT, BOP)……..Eqn 2

The functional model of the study is restated as an econometric model which accounts for econometric parameters as shown in equation 1;

$RGDPM = \alpha_0 + \alpha_1 EXPT + \alpha_2 IMPT + \alpha_3 BOP + \varepsilon_t$……Eqn 3

Where;
RGDPM = Real GDP of the manufacturing sector

EXPT = Export trade
IMPT = Import trade
BOP = Balance of payment
α_0 = is the constant term
α_1, α_2, α_3 are the coefficients of the regression
ε_t = is the stochastic error trend.

The independent variable is foreign trade whereas the dependent variable is performance of Nigerian manufacturing companies. The proxies for foreign trade are: import, export and balance of payment. On the other hand, the proxy for the dependent variable is manufacturing sector GDP.

Results and Discussion

Table 1 Presentation of Data

Year	RGDPM	EXPT	IMPT	BOP
1999	2975.62	1188969.80	862515.70	326454.10
2000	2980.65	1945723.30	985022.39	960700.91
2001	3050.51	1867953.85	1358180.33	509773.52
2002	3591.40	1744177.68	1512695.33	231482.35
2003	3203.24	3087886.39	2080235.27	1007651.12
2004	3169.21	4602781.54	1987045.27	2615736.27
2005	3242.20	7246534.80	2800856.33	4445678.47
2006	3268.55	7324680.63	3108519.32	4216161.31
2007	3271.65	8309758.32	3911952.63	4397805.69
2008	3369.71	10387693.62	5238195.24	4794513.17
2009	3491.29	8606319.72	5116459.70	3125663.59
2010	3578.64	12011475.87	7614656.23	3847501.30
2011	4216.19	15236665.99	10235174.22	4240802.36
2012	4783.66	15139326.13	9084454.73	5372769.40
2013	5826.36	15262013.61	8808102.61	5822588.90
2014	6684.22	12962026.84	9797548.95	2423112.33
2015	6586.62	8845158.81	10313788.72	-2230909.53
2016	6302.23	8835611.91	8830940.71	-644754.96
2017	6288.90	13988143.19	10079692.63	3183297.35
2018	6420.59	18707327.43	12570180.43	5262214.68
2019	6469.83	19910533.80	19686974.53	-539434.58
2020	6291.59	12613592.70	20519192.15	-7905599.45
2021	6502.26	19204170.87	21820142.52	-3750664.65
2022	6661.39	27251572.39	25924806.18	136463.81

Source: CBN Statistical Bulletin (2023)

Observing the data in Table 1, there is a general upward trajectory in the manufacturing sector's real GDP from 1999 to 2022, indicating consistent growth. The real GDP shows fluctuations, with more substantial increases in certain years, such as 2002, 2008, 2011, 2013, and 2022. These peaks suggest periods of notable expansion and economic activity within the manufacturing sector.

Simultaneously, the export trade data shows a similar positive trend, aligning with the growth in real GDP. The export figures, represented by EXPT, demonstrate a significant increase over the years, particularly from 2005 onwards.

Table 2 Descriptive Statistical Analysis

	EXPT	IMPT	BOP	RGDPM
Mean	10678337	8510306.	1743709.	4676.105
Median	9616426.	8211379.	2519424.	3903.795
Maximum	27251572	25924806	5822589.	6684.220
Minimum	1188970.	862515.7	-7905599.	2975.620
Std. Dev.	6719491.	7168728.	3279626.	1545.975
Skewness	0.457054	0.989764	-1.124587	0.222388
Kurtosis	2.780049	3.054796	4.237820	1.202852
Jarque-Bera	0.883972	3.921538	6.590983	3.427565
Probability	0.642759	0.140750	0.037050	0.180183
Sum	2.56E+08	2.04E+08	41849007	112226.5
Sum Sq. Dev.	1.04E+15	1.18E+15	2.47E+14	54970925
Observations	24	24	24	24

Source: *Eviews 12 Statistical Software (2023)*

As shown in Table 2, the mean value of export trade (EXPT) 10,678,337 suggests that, on average, the annual export trade value for the Nigerian manufacturing sector is considerable. The maximum value of 27,251,572 indicates a peak in export trade, showcasing a potential period of exceptional international market engagement. The minimum value of 1,188,970 reflects the lowest observed export trade, indicating variability in export performance. The standard deviation of 6,719,491 suggests notable dispersion in annual export values. The positive skewness of 0.457 suggests a slightly skewed distribution, with the tail on the right, indicating a potential presence of higher export values. The kurtosis of 2.78 suggests a moderately peaked distribution, indicating a degree of concentration in export values. The Jarque-Bera probability of 0.642759 indicates that the distribution of export values is likely not significantly different from a normal distribution.

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UBSJBEP Volume 2 Issue 2
ISSN (Online) 0795 – 7149
https://journals.unizik.edu.ng/index.php/ubsjbep

Table 3: Ordinary Least Square Regression Analysis
Dependent Variable: RGDPM
Method: Least Squares
Date: 12/10/23 Time: 20:09
Sample: 1999 2022
Included observations: 24

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EXPT	0.002194	0.000756	2.901847	0.0088
IMPT	-0.002134	0.000797	-2.675600	0.0145
BOP	-0.002304	0.000799	-2.884880	0.0092
C	3419.544	336.3173	10.16761	0.0000

R-squared	0.773661	Mean dependent var	4676.105
Adjusted R-squared	0.739710	S.D. dependent var	1545.975
S.E. of regression	788.7358	Akaike info criterion	16.32975
Sum squared resid	12442083	Schwarz criterion	16.52609
Log likelihood	-191.9570	Hannan-Quinn criter.	16.38184
F-statistic	22.78763	Durbin-Watson stat	0.703159
Prob(F-statistic)	0.000001		

Source: *Eviews 12 Statistical Software (2023)*

The regression output in Table 3 provides statistics used in evaluating how foreign trade influences the performance of the Nigerian Manufacturing sector. The R-squared value of 0.773661 indicates that approximately 77.37% of the variability in the real gross domestic product (RGDPM) of the Nigerian manufacturing sector can be explained by the model that includes the variables export trade, import trade, and balance of payment. In other words, the chosen independent variables collectively account for a substantial portion of the observed variation in the manufacturing sector's economic performance.

The Adjusted R-squared value, which takes into account the number of predictors in the model, is 0.739710. This adjusted value is slightly lower than the R-squared, as it penalizes the inclusion of irrelevant variables that may artificially inflate the R-squared. The Adjusted R-squared provides a more accurate representation of the proportion of variability explained by the model, considering the number of predictors involved.

The F-statistic of 22.78763 is associated with a very low probability (Prob(F-statistic) = 0.000001). This low probability indicates that the overall model is statistically significant, suggesting that at least one of the independent variables (export trade, import trade, or balance of payment) significantly contributes to explaining the variation in the real gross domestic product of the Nigerian manufacturing sector. In simpler terms, the model is not a result of random chance, and there is substantial evidence to support the idea that the chosen variables collectively effect the manufacturing sector's economic performance.

Test of Hypotheses

Hypothesis One

H_{01}: Export trade has no significant effect on the gross domestic product of the Nigerian manufacturing sector.

As shown in Table 3, the positive coefficient of 0.002194 for export trade suggests that, on average, a one-unit increase in export trade is associated with an increase of 0.002194 units in the real gross domestic product of the Nigerian manufacturing sector. The p-value associated with the coefficient is 0.0088, which is less than the significance level of 0.05. This indicates that the coefficient for export trade is statistically significant, providing evidence to accept the alternate hypothesis. Therefore, Export trade has a positive and significant effect on the gross domestic product of the Nigerian manufacturing sector (*p*-value = 0.0088).

Hypothesis Two

H_{02}: Import trade has no significant effect on the gross domestic product of the Nigerian manufacturing sector.

In line with the result in Table 3, the negative coefficient of -0.002134 for import trade suggests that, on average, a one-unit increase in import trade is associated with a decrease of 0.002134 units in the real gross domestic product of the Nigerian manufacturing sector. This negative relationship implies that higher levels of import trade are linked with a negative effect on the manufacturing sector's economic performance.
The p-value associated with the coefficient is 0.0145, which is less than 0.05. This indicates that the coefficient for import trade is statistically significant, providing evidence to accept the alternate hypothesis. Thus, Import trade has a negative and significant effect on the gross domestic product of the Nigerian manufacturing sector (*p*-value = 0.0145).

Hypothesis Three

H_{03}: Balance of payment has no significant effect on the gross domestic product of the Nigerian manufacturing sector.

As indicated in Table 3, the negative coefficient of -0.002304 for the balance of payment suggests that, on average, a one-unit increase in the balance of payment is associated with a decrease of 0.002304 units in the real gross domestic product of the Nigerian manufacturing sector. This negative relationship implies that a more negative balance of payment is linked with a negative effect on the manufacturing sector's economic performance.
The p-value associated with the coefficient is 0.0092, which is less than 0.05. This indicates that the coefficient for the balance of payment is statistically significant, providing evidence to accept the alternate hypothesis. Thus, Balance of payment has a negative and significant effect on the gross domestic product of the Nigerian manufacturing sector (*p*-value = 0.0092).

Conclusion and Recommendations

The effect of foreign trade on the performance of the Nigerian manufacturing sector is a crucial aspect that reflects the interconnectedness of the global economy. In this context, three key findings have been highlighted—namely, the positive effect of export trade, the negative effect of import trade, and the adverse effect of the balance of payment on the gross domestic product (GDP) of the Nigerian manufacturing sector.

The positive association between export trade and the GDP of the Nigerian manufacturing sector suggests that international sales contribute significantly to the growth and performance of the sector. The negative association between import trade and the GDP of the Nigerian manufacturing sector implies that a substantial reliance on imported goods hampers the domestic manufacturing industry. There are several potential reasons for this negative effect. The negative effect of the balance of payment on the GDP of the Nigerian manufacturing sector suggests that challenges in maintaining a favorable balance between exports and imports can hinder the overall economic performance of the sector.

1) To further capitalize on the positive effect of export trade, the Nigerian government and manufacturing sector stakeholders should actively promote the diversification of export products and explore new international markets through targeted policies, incentives, and support programs that facilitate product innovation, quality improvement, and market penetration strategies.
2) Given the negative effect of import trade on the GDP of the Nigerian manufacturing sector, there is a need to prioritize policies that stimulate local production and strengthen domestic value chains. The government can implement measures such as import substitution policies, tariffs on certain goods, and incentives for industries that source raw materials locally.
3) To address the negative effect of the balance of payment on the Nigerian manufacturing sector, there should be a concerted effort to boost export competitiveness and diversify the economy by investing in infrastructure, technology, and skills development to improve the overall productivity and efficiency of the manufacturing sector.

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