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Economic Policy Choices and Economic Growth of Nigeria: Lessons from the Asian Pacific

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Abstract

This study examined the effect of economic policy choices on the growth of Nigeria with specific reference to the Asian Pacific from 1994 to 2022 (i.e. 29 years). Specifically, the study covered three (3) variables. The three economic policy variables are broad money supply, total trade and government revenue. The three economic policy variables accounted for monetary, trade and fiscal policy measures. Meanwhile, the economic growth proxy is considered to be real gross domestic product (RGDP). Data were retrieved from the Central Bank of Nigeria Statistical Bulletin, 2022. The robust regression analysis was suitable for the study. The study confirmed that the broad money supply negatively affects economic growth. However, total trade and government revenue positively affected economic growth. Overall, the study concludes that economic policy choices have a mixed effect on the growth of the Nigerian economy. As such, the Nigerian government should use its monetary policy tools to curb excess cash from circulation. Further, efforts should be made to reduce some trade barriers that mitigate successful trading in Nigeria. Lastly, the Nigerian government should reappraise the country's current trade policies, as this may be the main reason the Nigerian economy is still underdeveloped.

Keywords: Economic Growth, Real Gross Domestic Product, monetary policy, fiscal policy, trade policy, Policy Choices, Asian Pacific

Introduction

For any economy to be able to provide a well definite degree of economic growth and the intention of the country to experience least amount of instability in the macro-economy is a process of policies adopted by the government and the specific actions taken by the Central Bank of that country. Subsequently, after two decades, the Nigeria economy have experience what is called 'recession 'which started in 2016, displaying adverse economic panics, contradiction economic policies and also experiencing security issues (Chakravarty, 2017). However the Asian financial crisis played a role in opening us to detect some of the unknown structural problems amid the quick economic growth of most of the Eastern part of the Asian countries especially the errors they made in their macro policies and it's defect on their financial systems. Nevertheless this made it a forcing task that prompted the international communities to have a change and enhanced the international financial system, and also to make sure there is safety smoother operation in the international financial market.

Although policies have been adopted and changed occasionally in other to proffer solution and come up with a corrective measure to the unstable economy. In Nigeria, the task of making policies to fit in, in all sphere of the government, industries that possess crucial and significant economic elements and ministries are channelled to the Federal Government and the Central Bank of Nigeria (Bende-Nabende, 2018). CBN is faced with the task of facilitating monetary policies for the financial sector of the economy while the Federal Government is tasked with concurrence with other relevant agencies to propose relevant policies that best fit the industries. Few of the challenges faced by the Nigeria economy has been the problem of surplus liquidity, systematic changes in the foreign reserve, stagnancy of GDP, yearly budget deficit, uncertainty of inflation rate, inconsistency in exchange rate and untapped revenue deriving source not including revenue derived from crude oil resulting in several systems of fiscal and monetary policies to develop in Nigeria Mlachila (2018). In stabilizing prices in Nigeria the most techniques adopted are the expansionary and the contractionary method, but still the nation lacks rapid economic growth and the issue of lack of development still persists in the country. This study tends to accommodate the recent financial disruption that reminds us that economics panics are not a go-easy process. Hence, it aimed to determine the procedure by which economic policy impacts economic growth. Positivism economics was adopted to evaluate the effectiveness of economic policies. These clarified how both the economy and the economic policies are interrelated, without turning to value judgment, and about which result is best.

Accordingly, economics policies are glimpse in terms of trade policy and macro-economic stabilization policies. Trade policies are seen as tariff, and trade treaties with other policies that are proposed in other aid the promotion of trades activities by incorporating supply side policies which can increase productivity. According, Morakinyo (2018), the intention to stabilize the supply of money in other not to cause high inflation, and to slow down the business cycle, calls for the development of macro-economic stabilization policies.

In this view, this study seeks to investigate the impact of economic growth on policy choices with reference to Asian experience.

Literature Review

Conceptual Clarification

In mid-1997, an experienced occur that sparked the Asian borders. International bettors traded in a large volume the Thailand Baht, which greatly disrupted the Thai financial system. On July of that same particular year, Thailand agreed on changing the fixed exchange rate into a floating rate, resulting in a sudden devaluation of Thailand money by a very big margin, which led to currency devaluation in various southern Asian countries. In October of that same year this financial crisis stretched to two other countries: the Republic of Korea and Japan, resulting in currency depreciation, bankruptcy experienced by big companies and great fall on the stock market. In the following the financial crises grew worse and deeper to the extent of having effect on Russian and most Latin America countries and areas, which bring about the instability and result to political unrest. However China was not greatly affected by the financial crisis, and fortunately for China they were able to cope and regulates it is economic and financial stable, with regards to the financial policy and several control measures undertaken by the authorities. In easing off their financial crisis the Chinese governmental authorities employed various pro-active policies such as; (i) the Chinese government undertakes the step to contribute in the IMF-organised aid projects for several Asians countries. During the period of the financial crisis assisted Thailand and other Asians country involved with over 4 billion US dollars under the guideline of IMF; (ii) Processing a somewhat amount of responsibility agreed on not to evaluate its Renminbi in the widespread interest of controlling stability and growth in the country. This decision was carried out under a great pressure; however contributes greatly to the stability and development attain in finance and economic respectively in Asian. (iii) In the wake of gluing to the non-devaluation policy the policy of stimulating domestic demand and fascinating economic growth was adopted by the Chinese government, which resulted in achieving a strong and permanent economic growth reducing the tension on Asian economy and steering economic growth recovery. (iv) China actively contributed in and recommended local and worldwide monetary cooperation collectively with the applicable groups.

President Jiang Zemin recommends a three-factor suggestion on APEC's Sixth Informal Leadership Meeting. He suggested to prevent the unfold of the disaster thru greater worldwide cooperation, reform and enhance the prevailing worldwide economic system, and appreciate the selections made through the applicable nations or areas to triumph over the monetary disaster. Vice President Hu Jingtao careworn on the Second Informal Leadership Meeting amongst ASEAN, China, Japan and the Republic of Korea (or nine plus 3) and the assembly among ASEAN and China (or nine plus 1) in Dec. 1998 that East Asian nations must take an energetic element within side the reform and readjustment of the global monetary system. He mentioned that the maximum urgent assignment then become to manipulate and display the float of short-time period capital. He proposed that East Asian nations have to alternate perspectives on monetary reform and different macro issues. In this regard, Vice Ministers of Finance and Deputy Governors of the Central Banks of the nations worried must have interaction in talk in the framework of nine plus 3. When necessary, an professional organization might be installation to examine the go with the drift of the short-time period capital and unique way to manipulate the go with the drift. This notion of the Chinese aspect changed into nicely received.

Economic policy choices are actions taken by the government to affect the economy by directly influencing the market data (Elakhe, 2016). Overall, economic policies are developed and executed by the government to foster economic efficiency, facilitate economic stability, secure economic growth and enhance economic security with enormous employment and dearth of inflation. However, in formulating policies they are formulated in other to achieve specific goals; in other to influence the direction of the economic, both the monetary policies, fiscal policies and policies trade policies are formulated.

Specifically, monetary policies are the mixture of techniques utilized by monetary authorities in other to control the liquidity and manage the money supply of a given nation in other to substantive it's economic growth.(Anowor, & Okorie, 2016). The actions put up with by monetary authorities exploit the nation's economic goals via the management of the direction and the quantity of money supply, massive employment, stabilization of interest rate, economic growth and advancement and establishing a vast and continual market for government securities and , credit and cost of credit in order to attain the primary economic goals of optimal price stability.

Furthermore, fiscal policy can either be expansionary or contractionary (Bende-Nabende, 2018). Expansionary fiscal policies are developed during recessions to accelerate the economy. It pertains to the nation spending additional cash, reducing taxes, or both to curtail unemployment or upgrade the business cycle (Knight, 2024). Onoh (2017) opined that monetary policies and fiscal are similar and they are inextricably connected in macro-economics and each in one sectors directly has development impact on the other. Hence they concluded that in any economy the fiscal policies plays a vital key and stands as the heartbeat as a result of government's power towards tax.

Meanwhile, economic growth accounts for increase in the monetary values of goods and services over a period of time usually one year. This signifies that GDP per capita has the capacity to intensify the policy options is strongly dependent on the level of growth inherent in a country.

Literature Review

The endogenous growth theory began in the 1980s. This theory states the growth of economy is outcomes of the economic system of the nations and not the consequences of external factor. It discloses that the Nigerian economic development relies on the actions of its government, practical use of resources, technological progress, and applying the concept of learning by doing (Ayodeji, & Oluwole, 2018). Meanwhile, the theory of economic growth is pertained with the Nigerian economy's supply, saving, and expenses. The neoclassical theory explains that development of a country's economy hinges on the technological improvement and the main input, i.e. capital and labour of the country, and emphasis upon saving to increase the country's capital resources (Bodunrin, 2016; Knight, 2024). While the classical theory states that there in impact of change in technology and increase in input would result in shirking profit

Zhang (2018) stressed that, the economies theories such as stated above, help Nigerian government to develop effective strategic planning for prosperity of the country in future. For example, with the help of endogenous theory the Nigerian government will make strategy to effectively use its resources to increase economies of scale and maximize the profit of the country. Besides, the economic growth theory could assist the Nigerian government to encourage the saving and revenue and reduce expenditures to grow its economy.

S/N	**Author**	**Country Covered**	**Period Covered**	**Method**	**Findings**
1	Ijirshar (2019)	ECOWAS	1975–2017	Pooled Mean Group estimator	Trade openness improves the growth of ECOWAS countries.
2	Isaac John and Udoye (2018)	Nigeria	Not Specified	OLS estimate	Monetary policy improves economic growth, but high inflation undermines it.
3	Morakinyo (2018)	Not Specified	Not Specified	OLS estimate	Both monetary and fiscal policies significantly improve economic growth.
4	Ebikila, Agada, Lucky, and Matthew (2018)	Nigeria	1985–2016	OLS estimate	High money supply has a significant impact on per capita income.
5	Odimgbe and Ezeabalisi (2018)	Nigeria	Not Specified	OLS estimate	monetary policy rate, investment, exchange rate, money supply, lending rate, and exchange rate.
6	Mlachill (2018)	South Africa	Not Specified	OLS estimate	Exchange rate pass-through is affected inflation negatively but monetary policy uncertainty resulted to stochastic inflation volatility.
7	Lawal, Somoye, Babajide, and Nwanji (2018)	Not Specified	Not Specified	OLS estimate	Both monetary and fiscal policies influenced stock market returns and economic development significantly.
8	Ajayi and Aluko (2016)	Nigeria	Not Specified	Multiple Regression (St. Louis Equation)	Money supply and trade impacted economic development positively
9	Nwankw, Kalu, and Chiekezie (2017)	Nigeria	Not Specified	OLS estimate	Fiscal policy positively affected economic growth.
10	Elakhe (2016)	Nigeria	Not Specified	Multiple Regression	Monetary policy influences short-term economic growth, while fiscal policies (government expenditure) affect GDP over time.
11	Omodero, Ihendinihi, Ekwe, and Azubuike (2016)	Nigeria	1994–2014	Multiple Regression (OLS)	Recurrent expenditure, capital expenditure, tax revenue have minimal effect on real GDP.

Source: Researchers' Compilation (2024)

Research Method

The study adopted the *ex-post* facto research design. In this research work, the sample studied from 1993-2019 based on data collated from the CBN bulletin, 2020. Econometrically, the model for the study can be expressed using univariate analysis below:

Model 1: RGDP = β_0+ β_1BMOS+ β_2TTR +β_3GOR +U_{it}----------------------------------(1)

Where:

RGDP = RGDP (economic growth measure)

BMOS = Broad money supply to GDP (Monetary policy measure)

GOR = Government revenue (Fiscal Policy Measure)

TRR = Total trade to GDP Ratio (Trade Policy Measure)

β_0 = Constant

β_1 = Parameter Estimate

U_{it} = Error term

Results and Discussions

Data Analysis

For proper evaluation of this sub-section, this section began the descriptive statistics to check whether the variables were volatile over the study periods. Lastly, we proceeded to the presentation of the regression, discussion of the regression results alongside the policy implications of each of the results.

Table 1: Descriptive Statistics of all Study Variables

	RGDP	BMOS	TTR	GOR
Mean	47880.79	11473.21	14613518	5324.603
Maximum	74694.00	40318.29	41598669	11116.80
Minimum	22449.41	165.3400	368848.0	192.8000
Std. Dev.	16855.91	12721.52	12611497	3864.076
Jarque-Bera	2.356584	4.123869	2.360596	2.572445
Probability	0.307804	0.127208	0.307187	0.276313
Observations	29	29	29	29

Source: Researchers' Compilation (2024)

The descriptive statistics in table 1 clearly revealed that RGDP accounted for the highest mean value with a mean value of 47880.79 while broad money supply reported the lowest mean value. In terms of volatility, the standard deviations of all the study variables were lower than their mean values. This suggests that the study variables are not volatile. On this note, the authors proceeded to the presentation of the correlation analysis (See Table 2):

Table 2: Correlation Analysis:

Sample: 1994 2022

Included observations: 29

Correlation Cases	RGDP	BMOS	TTR	GOR
RGDP	1.000000			
BMOS	-0.745186	1.000000		
TTR	0.802483	0.132257	1.000000	
GOR	0.742783	0.176395	0.177986	1.000000

Source: Researchers' Compilation (2024)

From Table 2, BMOS reported a negative coefficient value of -0.745186 suggesting that rise in BMOS causes RGDP to fall. This further confirmed that both BMOS and RGDP moves in non-linear direction. Meanwhile, TTR and GOR are positively related to RGDP. By implication, if TTR and GOR, RGDP will increase as well and vice versa.

Robustness Checks

Some robustness checks were done to ensure that the model is suitable for policy formulation and also ascertain the right model for the analysis. They are presented thus:

Table 3: Multi-collinearity Tests

Variables	**VIF**	**TOV**
BMOS	1.0464	0.9557
TTR	2.0968	0.4769
GOR	2.6682	0.3748
Average	**1.9371**	**0.5162**

VIF = Variance Inflation Factors & TOV = Tolerance Value

Source: Researchers' Compilation (2024)

From Table 3, BMOS has a VIF value of 1.0464 and TOV value of 0.9557, TTR has a VIF value of 2.0968 and TOV value of 0.4769 while GOR has a VIF value of 2.6682 and TOV value of 0.3748 suggesting that BMOS, TTR and GOR are not multi-collinear. On the average, the model reported VIF value of 1.9371 and TOV of 0.5162 suggesting that the model is not multi-collinear. The justification for this is that the VIF values are below 10 and TOV are above 0.10 (Ewiwile, Sinebe, Mokobia, Agbogun, & Ighoroje, 2024; Enakirerhi, & Ighosewe, 2024).

Table 4: Other Tests

Other Tests	**F-statistic**	**Prob. F**	**P-Value**	**Conclusion**
Heteroskedasticity Test-HET	3.515137	3,25	0.0297	Heteroskedastic
Ramsey Reset Test-RRT	3.664509	1, 24	0.0676	Well-Specified

Source: Researchers' Compilation (2024)

From Table 4, the HET and the RRT reported P-value of 0.0297 and 0.0676 suggesting that the model spreads unequally though well-specified. By implication, the robust regression estimate is the most appropriate model for the study (Pervez, & Ali, 2024).

Regression Estimate

The robust regression estimate is presented in Table 5:

Table 5: Robust Regression

Dependent Variable: RGDP
Sample: 1994 2022
Included observations: 29

Variable	Coeff.	Std. Error	z-Statistic	Prob.
C	7.774080	0.616029	12.61967	0.0000
BMOS	-0.366043	0.076447	-4.788222	0.0001
TAR	0.388676	0.083939	4.630446	0.0002
TTR	0.506761	0.146317	3.463443	0.0026
R^2	0.546832	Mean dependent var		10.71082
Adj. R^2	0.522981	Durbin-Watson stat		1.548032
F-statistic	22.92707	Prob.(F-statistic)		0.000128

Source: Authors' Compilation (2024)

The regression estimate revealed a reported R^2 value of 0.546832 (54.68%). This indicates that the regressor together explained 54.68% of the systematic variation in the regressed. Adjusting for the degree of freedom resulted in an adjusted R-squared of 52.30% which further suggest that, the regressor jointed accounted for 52.30% of the systematic variations in the regressed. It also indicates that the error term captures about 47.70% of this variation. On the other hand, Durbin Watson Statistics of 1.548032 suggest the model is free from the problem of serial-auto correlation since it is within the acceptable threshold.

The regression estimate evidenced that broad money supply reduces economic growth significantly. This is premised on the positive coefficient value of -0.366043, positive t-statistics value of -4.788222, and a p-value less than 5%. This result is not surprising in that the higher money in circulation reduces growth of the Nigerian economy. If there is too much money in circulation, banks' ability to generate money will be reduced. More so, the money is in the hands of few privileged people.

The study further confirmed that total trade ratio and government revenues (revenue from oil, non-oil, tax, capital revenue, foreign aids, revenue from state-owned enterprises, and non-tax revenue sources) exerst positive significant effect on economic growth. This result is not surprising in that the higher the money supply the better the growth of the Nigerian economy. This supports the findings of Omodero, Ihendinihi, Ekwe & Azubuike (2016); Ajayi and Aluko (2016); Nwankw, Kalu, and Chiekezie (2017); Elakhe (2016).

Conclusion

This study examined the effect of economic growth on Nigeria's policy choices with specific reference to the Asian Pacific Crises. Our study spanned from 1994 to 2022. Specifically, the study covered three (3) variables. The robust regression analysis was suitable for the study. Overall, the study concludes that economic policy choices have a mixed effect on the growth of the Nigerian economy. As such, the Nigerian government should use its monetary policy tools to curb excess cash from circulation. Further, efforts should be made to reduce some trade barriers that mitigate successful trading in Nigeria. Lastly, the Nigerian government should reappraise the country's current trade policies, as this may be the main reason the Nigerian economy is still underdeveloped.

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