

**TRADE POLICY AND GROWTH OF SMALL – MEDIUM ENTERPRISES IN NIGERIA**

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**ABSTRACT**

Nigeria's current trade policy clearly acknowledges the role of international trade in the nation's economy and therefore makes a strong reference to vibrant engagement in bilateral, regional and multilateral trade negotiations, as a way of boosting trade and achieving full integration into the global economy. The trade document entitled: Trade Policy of Nigeria is a bold step in recognizing the need to be proactive at both the regional and multilateral levels of trade negotiations. The study examines the effect of trade policy on the growth of Small – Medium Enterprises in Nigeria. Despite the emphasis placed on trade policy in the management of the economy, the SMEs sector inclusive, the Nigerian economy particularly SMEs are yet to come on the path of sound growth and development. The main objective of this study was to examine the effect of trade policy on the growth of Small – Medium Enterprises in Nigeria, from 1986 to 2017. Ex-post facto research design was adopted and the population of seventy-two thousand eight hundred and thirty-eight (72,838) SMEs in Nigeria was used. The sample size was the entire 72,838 SMEs of which the study relied on reports from World Bank, Central Bank Statistical Bulletin and SMEDAN, thereby employing the Error Correction Mechanism (ECM) tool of analysis to analyse the time series data. The study found that trade policy (proxies: tariff and degree of trade openness) has no positive significant effect on the growth of SMEs in Nigeria. Therefore, the study recommends that trade policy should be set in such a way that the objectives the SMEs wants to achieve through tariff and degree of trade openness should be realistic and feasible in terms of growth.

**Keyword:** Trade Policy, Tariff, Degree of Trade Openness, and Small-Medium Enterprises.

**1. INTRODUCTION**

Nigerian government like many other developing countries considers trade as one of the main engine of its development strategies, because of the implicit belief that trade can create jobs, expand markets, raise incomes, facilitate competition and disseminate knowledge. (WTO, 2005: 15). The main thrust of trade policy is therefore the enhancement of competitiveness of domestic industries, with a view to, inter alia, stimulating local value-added and promoting a diversified export base. Trade policy also seeks (through gradual liberalization of the trade regime) to create an environment that is conducive to increased capital inflows, and to transfers and adoption of appropriate technologies (Briggs, 2007). The government pursues the liberalization of its trade

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regime in a very measured manner, which would ensure that the resultant domestic costs of adjustment do not outweigh the benefits. The reforms, which accompany this policy direction, are also aimed at re-orientating attitudes and practices towards modern ways of doing business. However, the instruments of trade policy such as the tariff regime are designed in a manner, which allows a certain level of protection of domestic industry and enterprise. (Briggs, 2007)

Accordingly, Nigeria's trade policy since the 1960s reflects a trend, which has been known to characterize uncertain and unpredictable trade regimes over the years. Trade policy since the 1960s has witnessed extreme policy swings from high protectionism in the first few decades after independence to its current more liberal stance (Adenikinju, 2005:113). In line with this, attempts were made to use trade policy to promote manufactured exports and enhance the linkages in the domestic economy, to increase and stabilize export revenue, and scale down the country's reliance on the oil sector (Olaniyi, 2005: 7). Trade policies were accordingly directed at discouraging dumping; supporting import substitution; stemming adverse movements in the balance of payments; conserving foreign exchange; and generating government revenue (Bankole&Bankole, 2004). Trade policy between 1970 and 1976 assumed a less restrictive stance, ostensibly because of demands necessitated by the post-war reconstruction. However, duties were eventually abolished, as a result of the oil boom and the need to promote agricultural exports as part of the export diversification strategy. (Briggs, 2007)

In 1981, there was a policy shift towards exports promotion and a move to intensify the use of local raw materials in industrial production (Ogunkola, Bankole&Adewuyi, 2006). However, the increase in the value of imports led to a worsening of the balance of payments. From 1986 the structural adjustment era, there was a significant shift in trade policy direction towards greater liberalization. This shift in policy is directly attributable to the adoption of the structural adjustment programmes. The Customs Excise duty, Tariff etc (Consolidation) Decree, enacted in 1988, was based on a new Customs goods classification, the Harmonized System of Customs Goods Classification Code (Ogunkola, Bankole&Adewuyi, 2006). It provided for a seven-year (1988 -1994) tariff regime, with the objective of achieving transparency and predictability of tariff rates. Imports under the regime thus attracted ad valorem rates applied on the Most Favoured Nation (MFN) basis.

From the 1980s, and in recognition of the role of SMEs in the economic development process of nations, successive governments in Nigeria have shifted their emphasis away from large-scale capital-intensive industrialization in favour of SMEs. The growth and development of SMEs is therefore perceived as a cardinal and veritable tool in the industrialization process of Nigeria. But as observed by Ovat (2013) and Afolabi (2013), the existence and survival of these SMEs are to a large extent dependent on both a robust trade policy and financing.

In our perspective, one of the fundamental logic behind the efforts towards ensuring that trade occupies an important place in Small and Medium Enterprises (SMEs) is that international trade is essential to SMEs growth and SMEs growth is essential to economic growth. Accordingly, both broad and narrow economic trade conditions such as poor tariff, low degree of openness and weak macroeconomic variables, have worked to create instability within the growth of SMEs in

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Nigeria. As a result, the growth of SMEs has been met with important problems such as the collapse of SMEs within five to six years of operations and poor innovations. To combat the effects of this and other related problems, the Nigerian government has had to adopt a much-revised trade economic policy.

Despite the emphasis placed on trade policy in the management of the economy, the SMEs sector inclusive, Nigerian economy particularly SMEs are yet to come on the path of sound growth and development because of weak tariff and poor degree of openness, which in turn affect low output and productivity in the SMEs sector to the economy (GDP). In the light of the above therefore, this study intends to subject these issues to empirical examination in order to examine the effect of trade policy on the growth of SMEs in Nigeria.

The main objective of this study was to examine the effect of trade policy (tariff and degree of trade openness) on the growth of small and medium enterprises in Nigeria.

In line with the objective of the study the following hypotheses is stated in a null form and tested, and it is:

**H<sub>01</sub>:** Trade Policy (tariff and degree of trade openness) has no significant effect on the growth of SMEs in Nigeria

The scope of this study was restricted to trade policy and growth of SMEs in Nigeria with reference to the entire registered SMEs in Nigeria, which is seventy-two thousand eight hundred and thirty-eight according to SMEDAN and National Bureau of Statistic (2013) from 1986 to 2017 a 32-year time frame, and this period was chosen because it assesses the period of the past and present government efforts to gradually shift away from the dependency on crude oil and improve the level of her SMEs.

Previous studies such as Ubi and Archibong (2018) looked at the impact of trade policy on industrial sector performance in Nigeria from 1970 to 2014, using ARDL bounds testing approach. Also, Ishola, Ajayi, Onafowokan, and Giwa, (2015) examines the impact of trade openness on economic growth in Nigeria, employing the ordinary least square regression method and finally, Okon and Ekong (2013) examines trade openness and manufacturing sector performance in Nigeria. Using a modern econometric technique, which is the autoregressive distributed lag approach to cointegration. However, none of these studies used SMEs as the dependent variable to analyze trade policy. Therefore, this study fills the research gap by examining the effect of trade policy on the growth of SMEs in Nigeria.

### **Concept of Trade Policy**

**Trade policy** defines standards, goals, rules and regulations that pertain to trade relations between countries. These policies are specific to each country and are formulated by its public officials. Their aim is to boost the nation's international trade. A country's trade policy includes taxes imposed on import and export, inspection regulations, and tariffs and quotas (Economywatch, 2010). A commercial policy (also referred to as a trade policy or international

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trade policy) is a governmental policy governing economic transactions across international borders. This covers tariffs, trade subsidies, import quotas, voluntary export restraints, restrictions on the establishment of foreign-owned businesses, regulation of trade in services, and other barriers to international trade (Economywatch, 2010). To the researchers, trade policy is a designed framework of a nation, pertaining to how trade should be conducted within the nation and globally given the nations' factor of endowment.

### **Tariff**

A tariff is a tax imposed on the import or export of goods (Morrison, 2016). In general parlance, however, a tariff refers to import duties charged at the time goods are imported (Morrison, 2016).

Tariffs are policy tool used to protect domestic industries by changing the conditions under which goods compete, in such a way that competitive imports are placed at a commercial disadvantage. In point of fact, a cursory examination of the tariff rates employed by different countries does seem to indicate that they reflect, to a considerable extent, the competitiveness of domestic industries. In some cases, "tariff quotas" are used to strike a balance between market access and the protection of domestic industry. Tariff quotas work by assigning low or no duties to imports up to a certain volume (primary duties) and then higher rates (secondary duties) to any imports that exceed the initial import volume level. (Morrison, 2016)

### **Degree of Trade Openness**

The degree of openness to trade indicates the importance of international trade linkages for a country. This broad definition is necessary to account for the large amount of alternative measures of openness, which accentuate different aspects of international trade (Belke, 2005). Importance refers to the power that trading partners abroad have to influence the operation of a market economy. He also, stated that a value of zero for the degree of openness indicates that the country is a closed economy in total economic independence. The higher the level of openness, the more likely it is that the foreign countries have a stronger effect on the economic variables of the home country. Common synonyms for the term degree of trade openness are 'degree of openness to international trade' and simply degree of openness. The degree of openness might rise over time, either because of reduced official obstacles in trade flows or due to decreased transportation and information costs between markets. (Belke, 2005)

### **Concept of Small and Medium Enterprises**

In Britain, small-scale business is conceived as that industry with annual turnover of 2 million pound or less with fewer than 200 paid employees. It is conceptualized in Japan as a type of industry with a paid-up capital and number of employee (Bakare&Babatunde, 2014). As stated by Etuk, Etuk and Baghebo (2014) Small and Medium Scale Enterprises (SMEs) can be defined based on certain criteria including, turnover, number of employees, profit, capital employed, available finance, market share and relative size within the industry. The definition can be based on either some quantitative or qualitative variables. Quantitative definitions mainly express the

size of enterprises, mainly in monetary terms such as turnover, asset value, profit, as well as quantitative index like number of employees (Etuk, Etuk&Baghebo, 2014).

### **Empirical Review**

Ubi and Archibong (2018) investigates the extent to which trade policy impact on industrial sector performance in Nigeria within the period of 1970 to 2014. Particularly, the study was carried out using ARDL bounds testing approach. It was observed that the trade policy variables of exchange rate, trade openness and tariff significantly impact on industrial sector performance. Specifically, exchange rate and tariff have negative and significant impact on manufacturing sub-sector and industrial sector performance in Nigeria. On the other hand, trade openness has a significantly positive effect on industrial sector growth.

Ishola, Ajayi, Onafowokan, and Giwa, (2015) empirically examines the impact of trade openness on economic growth in Nigeria. The study employed ordinary least square regression to find out the relationship between trade openness and economic growth. The result suggests that the positive sign of the coefficient of non-oil export, trade openness underscore their increasing relationship with gross domestic product, increasing in their value link to increase in GDP all other things being equal. The negative sign of the exchange rate and balance of payment show that a depreciating exchange rate and unfavourable bank payment lead to a decline in gross domestic product. The joint significance of all coefficient estimates was evaluated using F test and the outcome of the evaluation indicate that the coefficient is statistically insignificant which means that GDP is a poor estimate.

Okon and Ekong (2013) examines trade openness and manufacturing sector performance in Nigeria. Using a modern econometric technique—the autoregressive distributed lag approach to cointegration—this article attempts to establish the relationship between openness to trade and manufacturing performance in Nigeria for the period 1970–2008. The results suggest that trade openness has a significant positive impact on manufacturing productivity in Nigeria both in the short and long run. These coefficient estimates are robust and stable over the time. Therefore, the policy direction for the manufacturing sector in Nigeria should focus more on open policies through trade liberalisation as a long-term plan.

## **2. THEORETICAL FRAMEWORK**

### **Heckscher-Ohlin Trade Theory**

The theoretical framework found adequate for this study is the Heckscher-Ohlin trade theory, which was propounded by both Eli Heckscher and Bertil Ohlin, two Swedish economists. The theory focuses on the differences in relative factors endowments and factors prices between nations as the most determinants of trade (On the assumption of equal or similar technology and tastes). They maintained that the sources of the factors endowments determine a nation's comparative advantage. The Heckscher – Ohlin model identified difference in pre-trade product prices between nations as the immediate basis for trade. The prices depend on production

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possibility curve (supply side) and then taste and presences (demand side) in the trading nations. Production possibility curve depends on technology and resources endowment (Bankole, 2004)

According to the theory, a nation should produce and export a product for which the large amount of the relative abundance resources is used. Such country should import the commodity in which a great deal of its relative scarce and expensive factors is used. Where a resource is abundant, its cost is less than the cost in country where it is relatively scarce. This scenario facilitates comparative advantage. From the foregoing, therefore, it is imperative to note that tariff and degree to trade openness to an economy, helps to acquire skills and influence SMEs growth through records of the trade policies output and this has a Heckscher-Ohlin effect on the SMEs, hence the choice of Heckscher-Ohlin trade theory.

### **3. MATERIALS AND METHODS**

The research design adopted for this study was the ex post facto, because the events the researchers are studying had already taken place. This design can also be applicable for studies geared toward ascertaining the cause–effect association between the independent and dependent variables (Onwumere, Onodugo, &Ibe, 2013). Determining cause–effect relationships among the selected variables is the major aim of this study; hence, the data are of secondary nature, collated from SMEDAN, National Bureau of Statistics, the Central Bank of Nigeria (CBN) statistical bulletins and World Bank for thirty-two years, covering the period 1986-2017. The annualized time series data was analyzed using the Error Correction Model (ECM), whereas the Johansen co-integration approach was employed to test for the long-run relationship among the series. In other words, the underlying assumption was that all variables are integrated of Order 1 or I(1). The speed of adjustment was ascertained based on the ECM and was able to tell the rate at which the previous period disequilibrium was adjusted toward equilibrium path on an annual basis.

#### **Model Specification**

The aim of the researchers was to derive the output effect of trade policy. To establish the relationship between trade policy and growth of SMEs variables, the researchers adopted a growth model, which is in line with that applied by Ishola, Ajayi, Onafowokan, and Giwa (2015) with a slight modification to suit the adaptation to this study. The mathematical specification of the implicit model that expresses the relationship between both variables was expressed as:

$$gsmep = f(tp) \text{-----}(1)$$

Factoring in the proxies of TP into the implicit functions of equation (1), we have:

$$gsmep = f(tarri, dto) \text{-----}(2)$$

Setting up equation (2) in a linear stochastics form or econometric form is expressed as



$$gsmep = \varphi_0 + \varphi_1 tarri + \varphi_2 dto + v_t \text{-----} (3)$$

The introduction of natural logs to equation (3) would be more efficient in estimating the parameters because: i) It helps convert and integrate different values (of a variable) into a common denominator, and (ii) It brings different units to a common base for measurement.

On the strength of this, taking the natural logs of both sides of equation (3) will result in the following equation (4):

$$\log(gsmep) = \varphi_0 + \varphi_1 \log(tarri) + \varphi_2 \log(dto) + v_t \text{-----} (4)$$

Where; log = Natural Logarithms, gsmep= Growth of Small and Medium Enterprises (proxy for SMEs Productivity); tarri= Tariff and dto= Degree of Trade Openness. Also,  $\varphi_0$  = Intercept or autonomous parameter estimates for trade policy,  $\varphi_1 - \varphi_2$  = Coefficient of trade policies (tariff and degree of trade of openness) and  $v_t$  = The white noise Error terms

Building equation(4) into an ARDL model, we have:

$$\Delta \log(gsmep) = \varphi_0 + \sum_{i=1}^m \varphi_1^i \log(gsmep)_{t-i} + \sum_{i=1}^m \varphi_2^i \log(tarri)_{t-i} + \sum_{i=1}^m \varphi_3^i \log(dto)_{t-i} + \varphi_4 \Delta \log(gsmep)_{t-i} + \varphi_5 \Delta \log(tarri)_{t-i} + \varphi_6 \Delta \log(dto) + v_t \text{-----} (5)$$

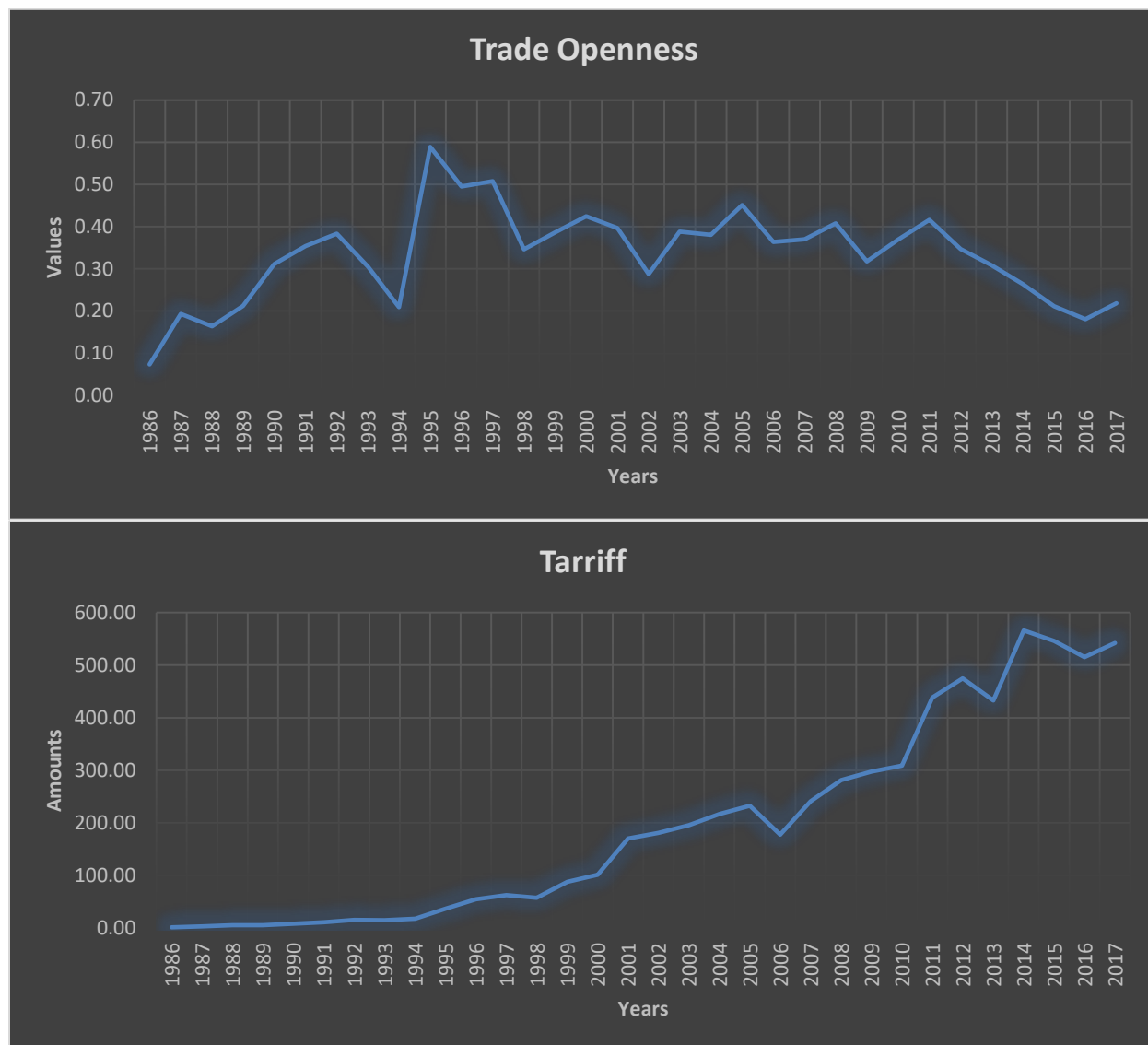
Once a long-run association is established between the variables in equation (5) the study proceeded to examine the long-run effect and the short-run dynamics using unrestricted Error Correction Model (ECM) approach.

$$\Delta \log(gsmep) = \varphi_0 + \varphi_2 \Delta \log(gsmep)_{t-i} + \varphi_2 \Delta \log(tarri)_{t-i} + \varphi_3 \Delta \log(dto) + \xi ECT_{-1} + v_t \text{-----} (6)$$

The  $ECT_{t-1}$  further captures the output evolution process by which agents adjust for prediction errors made in the last period. Hendry’s (2005) general-to-specific modelling approach is adopted to derive a satisfactory parsimonious model for the trade policy and the growth of SMEs equation (6) which are data admissible, theory consistent and interpretable. It would involve ‘testing down’ the general model by successively eliminating statistically insignificant regressors and imposing data acceptable restrictions on the parameters to obtain the final parsimonious dynamic equation

### **Trend Analysis of Trade Policy**

**Figure 1:** Graphical Movement of Trade policy: 1986-2017



Source: Authors Computation, 2020

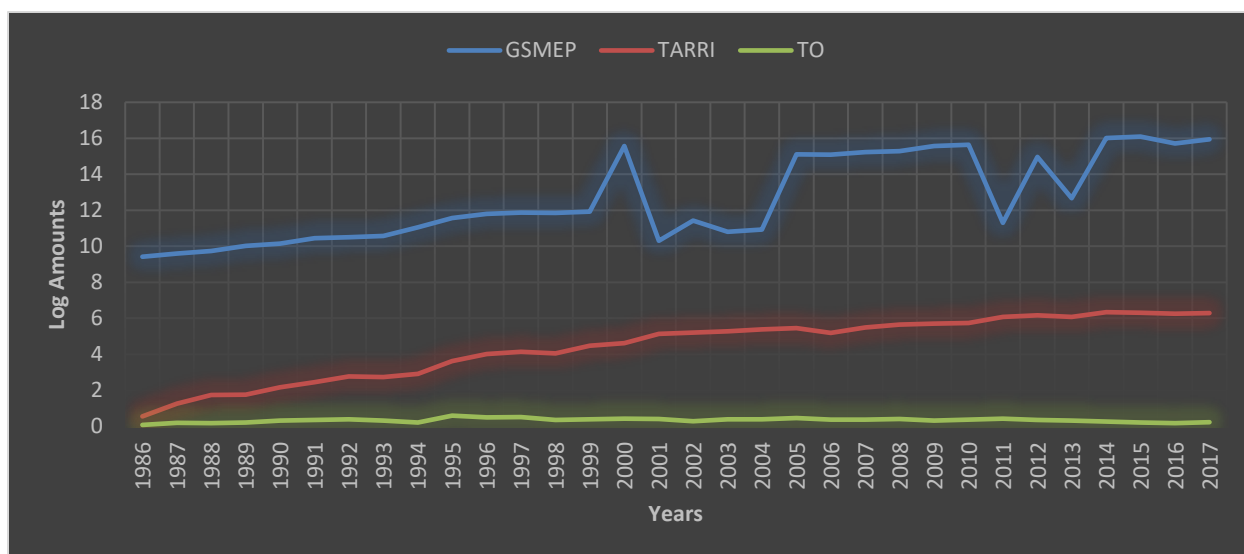
The above Degree of Openness trend shows a relatively unstable trend. The degree of openness increased marginally in the 1980s through to the early 1990s; rising from 0.104 in 1985 to 0.382 in 1992. The rise in the degree of openness in this period was perhaps as a result of a trade policy of structural adjustment that was adopted in 1986 and was intended to last till 1988 but lasted up to the 2000s. The implementation of SAP led to the removal or abolition of the import and export licensing system, bureaucratic controls on trade, as well as foreign exchange control on all current transactions. In 1997 the degree of openness recorded a remarkable increase of about over 50 per cent (0.515) and declined to over 30% in 1999 (0.345), it increased from 0.345 in



1999 to 0.493 in 2003 this could be as a result of changes in business environment and friendly government trade policies. From 2004 the degree of openness began to drop from 0.493 of 2003 to 0.413 in 2010, This absolute decline could be due to the global economic crisis that affected flow of foreign investment, however after the significant increase of 0.533 in 2011 the degree of openness has been declining until now to about 0.263 in 2017.

However, the graphical movement of tariff showed that income generated from importation has been on the constant increase. Tariff was found to increase from 87.9 billion in 1999 to 302 billion in year 2010. It continued to increase up to 542.33 billion in 2017.

**Figure 2:** Graphical Movement of Trade Policy and GSMEs Productivity: 1986-2017



**Source:** Authors Computation, 2020

Since 1960 Nigeria’s trade policy, as observed by Adenikinju (2005), has gone through periods of high protectionism to its current more liberal stance. From 1960 up to the mid-1980s measures such as high import duties and quantitative restrictions were used to support trade policy which was intended to protect local manufacturing industries. This direction of policy was informed by the Import Substitution Industrialization (ISI) and indigenization policy of government towards developing the industrial sector. The design of trade policy in this era was to support domestic production by the discrimination in favour of capital goods against consumer goods. This was shown by the gradual increase in trade tariff and degree of trade openness as shown in figure 2.

**Descriptive Statistics**

In order to have glimpse of the data used in the study, a first pass at the data in form of descriptive statistics was carried out. It shows the nature of the data for the variable and gives the average of the entire variable both the dependent variable and the independent variable of the study. This gives us a good idea of the patterns in the data used for the analysis.

**Table 1: Descriptive Statistics for Selected Variables**

	GSMEP	TARRI	TO
Mean	2249354	197.1673	0.332436
Median	137196.8	174.15	0.350648
Maximum	9764836	566	0.589182
Minimum	12322.4	1.73	0.073603
Std. Dev.	3146131	190.4593	0.110999
Skewness	1.072279	0.681958	-0.10723
Kurtosis	2.765847	2.116342	2.948644
Jarque-Bera	6.205275	3.521489	0.064841
Probability	0.044931	0.171917	0.968099
Sum	71979338	6309.353	10.63796
Sum Sq. Dev.	3.07E+14	1124517	0.381945

**Source: Authors Computation, 2020 (Eviews-10)**

From the descriptive results in Table 1, the analysis of the means(M) and standard deviations(SD) shows the following descriptive statistics GSMEP ( $M = 2249354$ ,  $SD = 3146131$ ); TARRI ( $M = 197.1673$ ,  $SD = 190.4593$ ); TO ( $M = 0.332436$ ,  $SD = 0.110999$ ).The analysis indicates all the variables have their mean values been higher than their standard deviations with the exception of GSMEP.Skewness, which measures the shape of the distribution, shows that only TO have its value to be negative, which suggests the distribution tailed to the left of the mean. However, the skewness for of the other two variables have their values to be positive which suggests their distribution tails to the right of their means.

Variables with value of kurtosis less than three are called platykurtic (fat or short-tailed), GSMEP, TARRI, and TO variables qualified for this during the study period. Jarque-Bera is a statistical test that determines whether the series is normally distributed. The null hypothesis here is that the series is normally distributed so as to be consistent with skewness test. The Jarque-Bera statistics here accepts the null hypothesisTARRI and TO since their probability values are greater than 0.05. In summary, we can conclude that the variables are normally distributed during the period under study.

**Table 2:Summary of Unit Root Test Results**

V ariable	Order of Integration	ADF Test Statistics	Critical ADF Test Statistics
G			
SMEP	I(0)	-4.259614	-3.562882**
TARRI	I(1)	-4.629604	-4.374307*
TO	I(1)	-5.479442	-4.323979*

Note: MacKinnon critical values for the rejection of hypothesis of unit root are in parenthesis in Columns 1 and 2 and the tests include intercept with trend; \* *significant at 1%*; \*\* *significant at 5%*; \*\*\* *significant at 10%*; Mackinnon critical

*Source: Authors Computation, 2020 (Eviews-10)*

From Table 2, it could be observed that only one variable GSMEP was found to be stationary at levels, that is, they are integrated at order zero {I(0)}. However, TARRI and TO were found to be stationary at first difference; that is integrated at order one. At this order of integration, their ADF test statistics, -4.259614, -4.629604 and -5.479442 were greater than the critical test statistics of (-

3.562882 at 1%), (-4.374307 at 10%), and (-4.323979) at 1% significant level respectively. Since the variables were found to be stationary at different orders, it was safe for the study to employed ARDL bound test approach to validate or test for the presence of Co-integration.

**Table 3: Results of ARDL-Cointegration Test on Trade policy and Growth of SMEs**

<b>F-Bounds Test</b>		<b>Null Hypothesis: No levels relationship</b>		
Test Statistic	Value	Significance	I(0)	I(1)
F-statistic	4.351319**	10%	2.63	3.35
k	2	5%	3.1	3.8
		2.50%	3.55	4.38
		1%	4.13	5

Notes: \*\* *significant at 5%*.

*Source: Authors Computation, 2020 (Eviews-10)*

The result revealed that there is an existence of co-integration among the variables. The F-statistics values at 4.351319 (trade policy model) is greater than the lower and upper bound values put at 5percent level of significance. Hence, there is a sufficient proof of the existence of a long-run equilibrium relationship between trade policy and the growth of Small and Medium Enterprises (SMEs) in Nigeria 1986 to 2017. The result thus shows that trade policy has long run sustainability on the growth of SMEs in Nigeria within the period under study.

**Statistical Test of Hypotheses**

The hypotheses formulated in this study were tested using Wald test and the associated p-value. The level of significance for the study is 5percent (for the two-tailed test). The Wald test computes a test statistic based on the unrestricted regression and tests for the joint significance of the coefficients. It is used to denote whether the joint impact of the explanatory (exogenous/independent variables) actually have a significant influence on the dependent variable.

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**Table 4: Results of Wald Test for Trade Policy and Growth of Small and Medium Enterprises (SMEs) in Nigeria**

Test Statistic	Value	df	Probability

F-statistic	2.452222	(4, 19)	0.0812
Chi-square	9.808887	4	0.0438

*Source: Authors Computation, 2020 (Eviews-10)*

The Wald-test in Table 4, indicates that the F-value for the relationship between Trade policy (tariff and degree of trade openness) and the growth of Small and Medium Enterprises (SMEs) in Nigeria was found to be 2.45 and its probability value is 0.0812. Since the probability value is greater than 0.05 or 5percent level of significance (which fell in the acceptance region); hence, we accept the null hypothesis ( $H_0$ ) and conclude that Trade policy (tariff and degree of trade openness) has no significant effect on the growth of SMEs in Nigeria between 1986 and 2017.

**4. DATA ANALYSIS**

**Trade Policy and Growth of SMEs**

**Table 5: Trade Policy Model: ARDL (2,4,1) ECM Results**

**Dependent Variable: DLOG (GSMEP)**

Variable	Coefficient	t-Statistic	Prob.
DLOG(GSMEP(-1))	-0.30687	-2.27648	0.0346
DLOG(TARRI)	-4.32744	-3.40572	0.0031
DLOG(TARRI(-1))	-2.57685	-1.80394	0.0871
DLOG(TARRI(-2))	-4.3549	-3.44294	0.0027
DLOG(TARRI(-3))	-2.9552	-2.16171	0.0436
DLOG(TO(-1))	0.463027	2.815506	0.0156
ECT(-1)*	-0.70651	-4.48926	0.0003
R-squared	0.658325		
Adjusted R-squared	0.580671		
Durbin-Watson stat	1.948445		

*Notes: \*\*\*, \*\* and \* indicate statistical significance at 10%, 5% and 1% levels, respectively*

*Source: Authors Computation, 2020 (Eviews-10)*

The ECT coefficient value of -0.7065 revealed that once there is disequilibrium in the system, it takes an average (annual) speed of 70.65percent to restore a long-run relationship between the trade policy and Growth of Small and Medium Enterprises (SMEs) in Nigeria. The implication of this is that, once there is disequilibrium in the system, it takes an average speed of 70.65% to adjust itself back towards long-run equilibrium level.

Furthermore, the coefficient of determination (R-square), used to measure the goodness of fit of the estimated model, indicates that the model is also reasonably fit in prediction. The (R-square) value of 0.6583 shows that TARRI and TO has a very good impact on GSMEP. It indicates that about 65.83 per cent of the variation in GSMEP is explained by TARRI and TO, while the remaining unaccounted variation of 34.17 percent is captured by the error term. The model also indicates that there is no autocorrelation among the variables as indicated by Durbin Watson (DW) statistic of 1.94. This shows that the estimates are unbiased and can be relied upon for

policy decisions.

## **5. DISCUSSION OF FINDINGS**

Findings from this study showed that trade policy (tariff and degree of trade openness) have no significant effect on the growth of Small and Medium Enterprises (SMEs) in Nigeria. This is due to the fact that SMEs lack the needed technology and the capability to achieve large-scale production, which should help reduce cost of production. This has indirectly constrained their ability to gain access to the global market because their products are not price competitive and mostly not standardized. It shows that amount generated from tariff placed on imported and exported goods in Nigeria has not hugely influenced SMEs growth in Nigeria. This finding is in tandem with the findings of Ishola, Ajayi, Onafowokan, and Giwa, (2015) who found an insignificant impact between trade openness and economic growth in Nigeria. Also, with the findings of Obokoh (2008) who found negative significance between trade liberalisation policy and development of manufacturing small and medium sized enterprises in Nigeria. But the finding is not in line with the findings of Ubi and Archibong (2018) who investigated the extent to which trade policy impact on industrial sector performance in Nigeria and found trade policy variables of exchange rate, trade openness and tariff to significantly impact on industrial sector performance. The theoretical framework that supports this study is the Heckscher – Ohlin trade theory, which focuses on the differences in relative factors endowments and factors prices between nations as the most determinants of trade (on the assumption of equal or similar technology and tastes).

## **6. CONCLUSIONS AND RECOMMENDATIONS**

Having examined the effect of trade policy on the growth of SMEs in Nigeria, the results have shown that SMEs lack the needed technology and the capability to achieve large-scale production, which should help reduce cost of production. This has indirectly constrained their ability to gain access to the global market because their products are not price competitive and mostly not standardized. It shows that amount generated from tariff placed on imported and exported goods in Nigeria has not hugely influenced SMEs growth in Nigeria. The policy insinuation therefore, is that government trade policy should be set in such a way that it should directly lead to achieving large-scale production of SMEs. Based on the findings, the study therefore recommends that trade policy should be set in such a way to SMEs that the objectives it wants to achieve through tariff and degree of trade openness should be realistic and feasible in terms of growth. Also, trade policy, proxy by (tariff and degree of trade openness) to SMEs must have the needed technology and the capability to achieve large-scale production, which would help reduce cost of production.

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