Quest Journals
Journal of Research in Business and Management
Volume 10 ~ Issue 7 (2022) pp: 10-18
ISSN(Online):2347-3002
www.questjournals.org

Research Paper

Effect of Foreign Exchange Fluctuation on International Trade in the Nigerian Economy

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Abstract
Exchange rate depreciation normally is expected to promote output growth in the economy. From recent developments, there has been instability in the exchange rate of naira to other currencies. This has contributed negatively to macroeconomic variables including inflation rate and international trade. The main argument on this study is to know whether the exchange rate depreciation has a significant effect on the level of exports and imports empirically for the period of 1987-2017. The research made use of both descriptive and quantitative research methodology to arrive at major conclusions. With the use of data and empirical analysis, data was analysed and effects of exchange rate depreciation on international trade were critically examined. The major findings include that, the instability of the exchange rate policy is due to attempts being made by government to reduce the variations between the officials and parallel markets and that the fluctuation in exchange rate have had significant effect on international trade in Nigeria. Based on the above conclusions, recommendations are being made on the effective implementation of tight fiscal and monetary policies as well as proper management of exchange rate policies and resilient financial market to reduce the instability of foreign exchange rate.
Key Words:*Foreign Exchange, Fluctuation, International Trade, Economy, Purchasing Power*

R*eceived 25 June, 2022;* ***R****evised 05 July, 2022;* ***A****ccepted 07 July, 2022* *© The author(s) 2022.*
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I. Introduction

Like other areas of economics, various people have defined foreign exchange. But virtually all those definitions tend towards the same meaning. For instance, the encyclopaedia of social course defines it as "a mechanism by which payments and receipts between two or more countries operating different systems are affected without the passing of actual money or articles having intrinsic values".In line with Ademola Adebayo, he defined foreign exchange as "the national currency of another country that is required to carry out international transactions". Appleyerd and Field defined it as the in which debts between two nations that use different currencies are paid". Foreign exchange can also be said to be the purchasing power that a country or individual has over the goods and services of other nations.Foreign exchange in Nigeria and other developing economies is essentially made up of convertible currencies that are generally accepted in the finance of international trade and the settlement of other external obligations. Such currencies include those of the group of seven(G7) industrialised countries- that is, United States dollar, British France, Italian Lira and Canadian dollar.

In the simplest form, International Trade means exchange of goods and services across international borders. In other to know what is happening in the course of international trade, governments keep track of the transactions among nations.

International Trade has been and is today an economic force that has spurred commerce, promoted technology and growth, spread cultural patterns, stimulate exploration and colonization and frequent fanned the flames of war.

The history of international trade has gone hand in hand with the development of civilizations. From very ancient times, international trade brought about the exchange of products and raw materials between one land or nation and another. Although such trade was conducted in barter form and was of small volume by today's standard, this interchange of products was important in economic and historic development. International trade in its early beginnings was necessary, not just because it provided one society with products such as cowries from West Africa to other areas; international trade also formed the basis for cultural interchange, thus, trading not only on products, but also on lifestyles, customs and technology.

In addition, international trade prompted the development of monetary system of record keeping and accounting, and of an entire vocation of commerce. In fact, international trade added in public displeasure towards usury (interest in excess of legal rate charged to a borrower for the use of money). One can state that the economic and political development of the entire Western world was spurred and enhanced by international trade.Another distinct contribution of international trade was the strong promotion given to the field of exploration, map making and ship construction technology. Early international trade routers ranged over past expanses, thus requiring advances in transportation to make possible further search for new products and markets. Let us not forget, of course, that such desire for new trade routes products, and markets were the driving force that launched explorations leading to the discovery of the new world.Columbus set out, as you recall, not to settle in a new nation, but to discover a new trade route of the Orient. The interest upon his return to Europe centred not on his accounts of forest and soil, but on the new products available, such as tobacco, corn, cowries etc. as international trade progressed and technology developed, those explorations were to turn up another area of foreign trade, still important today. This was the import of raw materials by a nation and the re-export of finished and manufactured products. As a result, not only living standards advanced, but national incomes were increased.

Trade has been universally acknowledged as indispensable tool to rapid economic growth and development. This is because increased participation in trade is associated with higher inflows of foreign investment and new technologies which can be adopted to transform the economy through appropriate policy. However, most developing economies such as Nigeria have not benefited much from trade, owing partly to policy inconsistency and lack of access to global markets, occasioned largely by inadequate and low quality of exportable products.

The Nigerian Foreign Exchange system has its own uniqueness and is a little different from what is obtained in other developing countries. The system is characterized by frequent changes occasioned by the violent and volatile economic environment. The exchange rate of a currency plays the same type of role as other prices in the market economy that is to provide information and incentives to guide decisions about what is to produce and what is to consume. For instance, at the inception of the Second-Tire Foreign Exchange Market (SFEM), the central bank of Nigeria (CBN) noted that: “the objective of the SFEM is to evolve a realistic and sustainable market- determined exchange rate of the naira, so as to reduce the demand for foreign exchange to available supply and to reduce pressure on the balance of payment”.

The concept of the realistic exchange rate implied here is akin to equilibrium exchange rate as defined in economic literature. However as mentioned earlier, the trust of this study is effect of foreign exchange fluctuation on international trade in Nigeria. Therefore foreign exchange policy measures especially the most recent ones and their effect on International Trade will be reviewed.

In Nigeria, given the social and economic indicators on international trade, inconsistent foreign exchange is one of the factors that have contributed largely to the poor performance of the Nigerian economy.

The problems confronting Nigeria’s external trade can be traced to internal and external factors. The internal factors are those factors that are peculiar to the Nigerian economy, which include structural rigidity, weak infrastructure, inconsistence policies, poor implementation of incentives, high cost of production and weak industrial base etc. the external factors determined the extent to which the Nigerian economy is susceptible; to external shocks. Some of these factors include Nigeria’s membership of organization of oil producing countries (OPEC) and World Health Organization (WHO), adverse terms of trade, stiff competition from industrialised countries and globalisation.

The nature constrain to the growth of Nigeria foreign trade is the nature of the Nigerian economy. The Nigerian economy is dominated by the activities in the oil sector. The oil sector contributes the highest share of the total trade. The neglect of the non-oil exports sub-sector has contributed to the lower share of Nigeria’s share in the global trade.

The narrow productive base of the economy and the slow pace of diversification of the economy away from oil have resulted in low productivity and exports. Consequently, Nigeria could not maximize enough gains from trade which impeded trade expansion to the other countries.

With these problems stated above, the objectives of the study are: toEvaluate the courses and effect of fluctuations in foreign exchange rate and how it affects economic growth, Point out the efforts made by the government to stabilize foreign exchange rate, Highlight the benefits of international trade, Analyse how foreign exchange fluctuations affect international trade in Nigeria between 1987-2006, Proffer suggestions for enhancing Nigeria’s foreign trade.

II. Review Of Related Literature

Various arguments and debates have been put forward by scholars and professionals on the importance and the appropriate foreign exchange measures or regimes for the social and economic development in Nigeria.

DavidBegg (2000:557) the foreign exchange market can be in equilibrium only if the value import, and hence the demand for dollars with which to purchase them, is equal to value of exports, and hence the supply of dollars as UK exporters convert their revenues back into pounds.Black (1996): says no country would ever be compelled to adopt any particular exchange rate it does not want, provided it has the exchange resources to maintain the existing rates. But periods of fluctuating rate alternated with period of fixed exchange rates exhibits apparent inconsistency. Such inconsistency in the turbulent world economic conditions especially, is reflected in the last five decades and also in its more recent manifestations are the expressions of the difficulties encountered by international dependent economic in attempt to pursue independent monetary and fiscal policies. He concluded that if exchange rates are not properly managed, it affects the foreign exchange market of such countries.A CBN report of (1993:15) states, "There has been exchange ate instability since the introduction of market determined rates, that is, the floating exchange regime through the Second-Tier foreign exchange market (SFEM) in 1986, and the naira exchange rate has exhibited the features of continuous depreciation and instability in both the official and parallel market.

According to Lewis (1969) with regards to agricultural exports, irrespective of what is happens in the world demand; Nigeria can expand the exports without adverse effect on her earnings. The problem he further explained was not of foreign exchange which is covered by the ride in oil experts, but rather the structure of Nigeria's export which reflect the staticcomparative cost theory which needs to be made dynamic to account for changes in taste, demand, factor endowment and technology.Roderick (2000) in his book, argues that no country has developed simply by opening itself up to foreign, trade and investment, but the trick has been to combine the opportunities offered by the world markets with a domestic investment and institution building strategy to stimulate local entrepreneurship.

Owolabi (2004) concludes that the participation of Nigerians in international trade in service sub-sector is very low, whereas these are the means by which a country can increase its market share from the trading system.Nemedia (1997) views that it is of vital necessity to ensure close consultation between and among the various designated government officials in the two key component of the institutional framework of Central Bank of Nigeria and the Ministry of Finance. They should also ensure that there is constant inflow of timely data of implementation to facilitate effective monitoring and to formulate realistic path and making any adjustment where necessary. It bears emphasis also to ensure the participation of the private sector in the major end users.

According to Freidman (1953), argues that exchange rate instability is a manifestation of economic volatility. He further said that determinants of exchange rate include among others economic fundamentals such as the GDP growth rates, balance of payment position, external reserves, interest rate movements, external depth position, productivity, market psychology and expectation, social-political factors, macroeconomic shocks and speculative contagion.

Olukole (1991) opines that interdependence of countries in terms of trade has grown so much that perhaps no country can lay absolute claim of self-sufficiency in its resource requirements or lay absolute claim on perfectly balanced supply of resources. He further said that hence resources are limited and scarce, the need for policy formulation of resources becomes inevitable. Again, the balance of payment could be used as a barometer of the forces of demand and supply of foreign exchange in the market, precisely, the current account balance is often considered to be a measure of these forces.

Mckenzie (1999) the consequences of exchange rate volatility (risk measure) on trade have long been of concern, and highly debated among the economists. However, there is no consensus so far as to whether the exchange rate volatility matter and if trade benefits or adversely react to currency fluctuations remains unresolved.

CBN/NEXIM (2003) reveals that, the absence of appropriate marketing institutions has resulted in under-pricing of Nigerian products in the international market.

Sidney S. Alexander (1952) in his article stated that "for devaluation to succeed, adjustment in either or both of these two variables", increases in income (output) and decrease in expenditure is required. Devaluation however results in temporarily, not payment improvement in balance of payment position.

Obaseki (1991) give reasons for the inability of exchange rate control measures to turn around the external sector of the economy especially when Nigeria started to experience serious foreign exchange problems. The reasons are: that exchange controls were not applied consistently as they needed a lot of policing and such controls was subject to large scale corruption which derailed the system; and that administered exchange rate mechanism led to over-valuation of the naira exchange rate.

Odozie V.A. (1990) notes that a currency is to be undervalued if the official rate is lower than the equilibrium rate which makes it identical with its purchasing power parity. In our circumstances, exchange rate is left entirely to the market forces. He further said that if the foreign trend in the Nigeria's foreign exchange market continues, the naira will remain substantially under-valued for some time to come

Osaruyi (2001) propose that countries need to engage in international trade to be able to purchase those goods which it cannot produce. Thus, this need for international trade raised the concept of exchange rate.

Analogbe (2000) says that the pre-SAP policies were aimed at accelerating development of the economy through expansion in the nation's base. The idea was to make the country self-sufficient in effect reduce dependence on external sources for the supply of such items. A major objective then was to protect the local industries against foreign competition. This prompted the adoption of the discriminatory tariff structure and stringent exchange control measures were put in place while foreign exchange budgeting was introduced to regulate aggregate foreign exchange expenditure.

Sani H.T (2006), in his paper argues that to a greater extent, the foreign exchange market has been largely characterized by growing instability for the most part of the period, reflecting a problem of information asymmetry resulting in the foreign exchange market operation.

Charlse N.O, Mordi (2006) in his paper presentation said that it has been established that getting the exchange rate right or maintain relative stability is critical for both internal and external balance and hence growth in an economy.

Anifowoshe (1994) emphasizes on the component of foreign exchange in external reserves. He argued that as a means of international transaction, foreign exchange rate plays a vital role in a country's development process

Obadan (1998) is of the opinion that information on external debt service payment is essentially foreign exchange transactions as well as for managing debt and planning foreign borrowing strategies. At the most detailed levels, the information enables central authorities at more aggregated levels, it is important for accessing current foreign exchange need sand projecting future debt service obligation and the consequences of further foreign borrowing.

Odozie (1999) says that given the seriousness of the foreign exchange supply gap, more emphasis should be given to the creation of an enhancement of supply through appropriate incentives and the creation of enabling policy and macroeconomic environment. In this connection, there is need to generate on exportable surplus and promote the export of resource based products where we have dynamic comparative advantage, sustained factor, productive enhancement and growth are also imperative.

De Grauwe (1998) assumes that risk aversion is not constant, and its degree effect firm utility function convexity argued that there are two effects of increased exchange risks, a substitution effect and an income effect which work in opposite direction. The final effect of the exchange risk on trade would depend on the magnitude of the substitution and income effect.

GaniyuKayode (2006) in his paper presentation said that external trade is also undermined by the fiscal policy regimes of successive government in the country. In most instances, final policy concerns are cited for delay in trade reforms in Nigeria. There is often a conflict between using the fiscal policy to achieve balanced growth and higher revenue on the hand.

Todaro(1997) argues that the deficiency of the theory of comparative cost advantage has been revealed by the sad experience of the developing countries. They have once tried to specialize in the production of primary products while importing manufactured products from the developed countries. Historically, the prices of commodities have on the average tended to worsen in the developing third war countries.

EssangOlajide (1974) the theory of comparative cost advantage is hinged on a number of unrealistic assumption. These assumptions oversimplify the derivation of cost advantage thereby rendering the foundation on which the structure of the theory is erected as deficient. The three assumptions include:The assumption of constant cost production in the theory of comparative cost advantage makes complete specialization after trade inevitable. But the economists have shown in the analyses of production cost of the firm that entrepreneurs may as well encounter decreasing cost and increasing cost in the production process.The theory of comparative cost advantage also assumes perfect competition, especially homogenous product and perfect mobility of resources in the domestic economy. In the real world, most domestic activities take place under the conditions of imperfect competition. Therefore where opportunity cost of production has been over stated; a "cost advantage" may also be a "cost disadvantage".The unrealistic assumption of full employment does not make for accurate determination of gains from trade when there is complete specialization. Most economies of the world are actually encountering problems of unemployment and underemployment. The gains from specialization and trade but, particularly that of increased world output, is more likely to be greater from fuller utilization of resources than from a more efficient reallocation of resources. Economics such as Nigeria have not benefited much from trade, owing partly to policy inconsistency and lack of access to global markets, occasioned largely by inadequate and low quality of exportable.

According to the World Bank Development Report 1990, adverse developments in the world, economy also had a part in the falling growth rates of the 1980s. Weak external demand, declining terms of trade, a diminishing supply of external finance, and a great increase in the volatility of interest rates combined to produce an unusually adverse climate.

Infact, in the area of external economic relations, we can identify three main issues which have had significant impact on African economic performance. They are;The escalating external debt and crushing debt-service burden**;** The rise in trade deficits; The declining inflow of concessional finance and deteriorating terms andconditions of loans.

III. Empirical Review

In other stimulating study, Weisbrot and Baker (2002) argued that trade may not be the only key to rapid economic growth and development. They noted that the success of some countries that experienced accelerated growth did not follow simple path to trade liberalization because the government directs the economy through the use of subsidies. However, there are many arguments as regards trade and growth; one suggests that international trade improves resources allocation in the short run or raises growth rate permanently. There are other arguments that suggest the contrary.

Shafaeddin (2005) posits that trade is necessary when an industry reaches a certain level of maturity provided it is undertaken gradually and selectively.

Hooper and Kohlhagen (1978) examine the effect of foreign exchange rate volatility in a bilateral framework where source of uncertainty is the nominal exchange rate. They further showed that there is a clear negative relationship between exchange rate volatility and the volume of trade, but the effect on prices is ambiguous depending on fact that importers or exporters are the ones who bear the risk.

PrabhatKuma (2001) presumes that countries do not gain by way of devaluation of currencies in the long run. At best, exporters gain on the foreign exchange holdings starched in their banks or in accounts, yet to be repatriated. Any other expected gain is neutralized by reduction in the prices of imports used in production of such goods.

In addition, the policy is often implemented along with the devaluation of currency in order to make the exports of the devaluation country's export cheaper and is of good quality it tends to sell more internationally there by encouraging growth and development Agbeyegbe (2006), Wolde Mariam (2006), and Obadan (2006). The ultimate aim is to remove taxes on exports which will encourage further exportation of goods and services that will further encourage growth and development, restriction on imports and reduction of imports tariffs. Sachs and Warner (1995) using cross-country growth model argued that trade liberalization leads to higher growth rates in poorer countries than in richer countries.

In support of this, Ajayi (2003) reports that the removal of barriers to trade has increased the flow of trade by 16 percent fold in the last 50 years, with the world exports of goods and services almost tripled in real terms between 1970 and year 2000. However, the share of developing countries or third world countries contribution to world trade is still very low because their exports are predominantly primary products which do not contribute much to GDP of such countries compared to trade on manufactured or finished goods.

Greenway, Morgan and Write (2002) having carried an empirical study on the impact of international trade on 70 developing countries found a significant positive relationship between trade and economic growth, i.e., international trade is a bedrock for economic growth.

Frankel and Roma (1999) and Irwin and Tervio (2002) in their separate and independent studies also suggested that countries that are more open to trade tends to experience higher growth rates and per-capita income than closed economy.

Klanow and Rodriguez-Clare (1997) used general equilibrium model to establish that the greater number of intermediate input combination results in productivity gain and higher output, despite using the same capital labour input which exhibits the economies increasing international trade return to scale.

Kavousssi (1984), after he studied middle and low income developing countries, he found out that the high rate of economic growth was strongly correlated with high rate of export growth. He observed that there is a positive correlation between exports and economic growth for both middle and low income countries but the effects tend to diminish according to the level of economic development of the country.

Obadan (1983) also writes on the impact of export instability on the economic development of Nigeria, during 1960-1977. More importantly, the study examines whether or not fluctuations in Nigeria's export earnings have adverse effects on the economy. The results of the study using multivariate analysis as the frame work, confirm the hypothesis that export instability is an important obstacle to Nigeria's economic development. In particular, export instability is found to be highly detrimental to the growth rate of investment as well as resulting in smaller proportions of national income being invested. The result also supports the claim that Nigeria's economic growth is export led.

Similarly, Akerele (2004), with the use of appropriate quantitative techniques, he identified sources of instability in export earnings for the Nigeria economy for the period of 17years (1980-1997). He observed that both political and economic factors were the major sources of instability in Nigeria's export earnings. The influence of political factors on export earnings is not surprising, since the period of study coincided with the imposition of various sanction on Nigeria for failing to adopt western-style democracy.

Ogbokor (2001) analyzed the macroeconomic impact of oil exports on the economy of Nigeria. With the use of OLS technique, he observed that economic growth reacted in an expected way to changes in the variables used in the study. He also found that 10% increase in oil exports would lead to 5.2% increase in economic growth. He concluded that export-oriented strategies should be given a more practical support.

Michaely (1977) focused his attention on the improvement between the rate of growth of export and GDP. He found out that the correlation between rates of growth of the economy is particularly strong among the countries with successful growth experience. Asher (1970) outlined that more than 80% of the foreign exchange of the less developed countries is earned through exports of goods and services.

Massel et al (1972) investigated the pattern of economic growth of some selected less developing countries using regression methods. They observed a high degree of association between exports and economic growth. They suggested that countries should aim at 2.5% expansion in export activities to obtain 1% increase in economic performance.

Krueger (1997) expressed in his work additional empirical demonstration of a strong association between export performance and economic growth by undertaking a comprehensive study of the role of exports on the economic growth of 10 countries from 1954 – 1974. He found export and GDP to be highly correlated.

Lin and Li (2002) examined the contribution of foreign trade to china's economic growth and found that the previous reviews on foreign trade underestimated the contribution of exports to GDP growth by overlooking the indirect impacts of exports on domestic consumption, investment, government expenditures and imports. They proposed a new estimation method and found that 10% increase in exports resulted in 1% increase in GDP in the 1990's in China, when both direct and indirect contributions were considered.

Wah (2004) in his study reported that for the past forty years (1961-2000), the Malaysian economy grew at an impressive average rate of 6.8% per annum. The rapid growth was attributed, in part, to the remarkable success in the export-oriented industrialization policy.

Sachs and Warner (1997) found that lack of openness was the most significant contributor to the dismal- economic growth performance in sub-Sahara Africa.

Ann Harrison (1991) study made a synthesis of previous empirical studies between openness and the rate of GDP growth comparing the results from cross section and panel estimations while controlling for country effects. The study concluded that on the whole, correlations across openness measure seem to be positively related with GDP growth-the more open the economy, the higher the growth rate or the more protected the local economy.

Oyejide (1974) also indicated the impact of restrictive measures was to produce a large anti-export bias in the African countries.

Thirlwall (1997) in his work explained the possibility that export growth may set up a vicious cycle of growth such that once a country is on path of growth, it maintains its competitive position in world trade and performs continually better relative to other countries.

Oviemuno (2007) studied foreign trade as an engine of growth in developing countries taking Nigeria (1980-2003) as a case study; the findings showed that Nigeria's export value does not act as an engine of growth in Nigeria. Nigeria's import does not act as an engine of growth in Nigeria and that Nigeria's inflation rate does not act as an engine of growth.

Edwards (1998) after carrying out his studies on factors including capital accumulation, growth in labour including differences in level of technology, found out that countries with lower degrees of protectionism, on average tend to grow at a much faster pace than countries with higher trade restrictions.

Similarly, Asafu-Adjaye and Chakraborty (1999) having carried out an empirical analysis found evidence which is constrained with the weak relationship between exports and real output for inward looking countries. They found that export were weakly exogenous implying inward oriented strategy was ineffective to development strategy when prematurely initiated.

However, Sinha and Sinha (1996) having studied a cross section and the role of balanced trade, that is export minus imports, to illustrate the role of international trade on economic growth and development, they found a positive relationship between growth and export trade to imports (XM)/(GDP).

Obioma (1997) carried out an empirical study on exchange rate. The findings from the study showed that the floating exchange rate regime significantly exhibited an inherited tendency for the exchange rate of the naira to depreciate persistently during this regime. The study also stated that Nigeria's floating exchange rate system was not a pure one.

Soludo (1997), in his presentation, argues that the speed of liberation, should be consistent with learning and tariff should be determined by the speed of response of sub-sector to the existing conditions in the economy.

Egwaikhide et al (1994) examine the quantitative efforts of exchange depreciation on inflation, government expenditure and money supply in Nigeria. Findings revealed that domestic money supply, real output and parallel market exchange affects the whole economy.

IV. RESEARCH DESIGN AND METHODOLOGY

Data collected is presented in tabular and geographical forms and analyzed using ordinary least square regression method and the statistical package for social sciences (SPSS), students T-test and the Durbin Watson test will also be used to determine the statistical significance of the variables. The associations between the variables are expressed below:

Regression Models-:

a) Im =Bo + FxBi + U

Where, Bo = Autonomous variable

Bi = Coefficient of Fx

Fx = Foreign exchange rate

U = Stochastic term

Im = Imports

b) Xe = Bo + FxBi + U

Where, Bo =Autonomous variable

Bi = Coefficient of Fx

Fx = Foreign Exchange rate

U = Stochastic term

Xe = Exports

DECISION RULES

In order to determine what type of relationship exists between the variables in the models above the following rules will be applied.

Using Students' T-Distribution

If TC <Tt, accept Ho and reject Hi

If TC >Tt, accept Hi and reject Ho

Using standard Error Test or Term

If Se (B) < B/2 accept Hi and reject Ho

If Se (B) > B/2 accept Ho and reject Hi

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

Econometrics analysis will be carried out on information gathered from the following tables.

Table 3: Identification of Dependent and Independent Variables

YEAR	EXCHANGE RATE	EXPORTS XE	IMPORTS IM
1987	0.89	11,720.8	7,062.6
1988	2.02	8,920.6	17,861.7
1989	4.01	30,360.0	21,445.7
1990	4.53	31,192.8	30,860.2
1991	7.39	57,971.2	30,860.9
1992	8.03	109,886.1	45,717.9
1993	9.90	121,535.4	87,020.2
1994	17.29	207,266.0	145,911.4
1995	22.05	218,770.1	166,100.4
1996	21.88	206,059.0	162,788.8
1997	81.02	206,661.4	755,127.7
1998	81.25	950,661.4	562,626.6
1999	81.64	1,309,543.4	845,716.6
2000	83.80	751,856.7	837,418.3
2001	92.34	1,189,006.5	860,525.7
2002	102.10	2,287,400.3	692,232.8
2003	111.94	2,001,230.8	1,371,409.1
2004	120.97	1,882,668.2	1,457,091.4
2005	129.35	2,924,134.9	1,507,422.8
2006	133.50	3,143,800.8	1,638,353.7

Sources: CBN Statistical Bulletin

DATA INTERPRETATION

The research work brings to the significance of the fluctuations in foreign exchange as it affects international trade in Nigeria. This is the response to the major concern of individuals and organizations, in their urge to know how the exchange rate has fared over the years and its impact on International Trade.

In this study, the significant impact on Exchange Rate depreciation on International Trade has been analyzed empirically from the depreciation of the Naira over the period 1987-2006 were analyzed with the view

to gaining insight into the instability of exchange rate and the effect on International Trade in Nigerian Economy. The summary of findings is as below:

- The review of exchange rate in Nigeria showed that the policies put in place over the years have not been able to reduce the instability in the depreciation of the naira and its significance on International Trade.
- The econometric result did not only confirm that there is a relationship between exchange rate imports, but that the relationship is positive and very strong. For the exports, R-square is 0.824, and T-calculated is 9.185, SE is 9488.8765, while BO and B1 are -176331.417 and 18977.753 respectively. For imports, R-square is 0.939, the SE is 5598.9615, and T-calculated is 16.58, while BO and B1 are - 62610.405 and 11197.923 respectively.
- Development in foreign exchange market does not in any way indicate that the stability objectives of the Government have been achieved through the floating exchange rate. The Naira continued to depreciate and had become unstable, despite the numerous changes that have been introduced from 1986 till date. Given the unsuccessful attempt by the Government at resolving the instability of exchange rate, the study examined the effect of such instability on International Trade, both theoretically and empirically.
- During the course of this study, it was also discovered that the instability in the exchange rate system used by the government is due to wide variations between the official and the parallel market rates and this, as reported in the recent times has given room to doubting the efficiency of the exchange rate policy and the persistent depreciation of the Naira exchange rate.
- The models used in the exports and imports equations have one (1) independent variable which is the foreign exchange rate. The statistical impact was found and given economic interpretation. Both alternative hypothesis (HI) which states that foreign exchange fluctuations have a significant impact on both imports and exports were accepted.

V. CONCLUSION

Having undergone a study of the impact of exchange rate fluctuation on the international trade in Nigerian economy, various issues have been revealed above. In all, it has been found out that there is actually a relationship between exchange rate fluctuation and international trade.

The Nigerian foreign exchange system has its own uniqueness and is a little different from what is obtained in other developing countries. Though monitoring a stable exchange rate in any economy is not easy especially in a developing country like Nigeria. It is only on integration programme into the task of standard organizations and government can lead to stability and will ultimately lead to increased foreign exchange.

VI. RECOMMENDATION

Nigeria's exchange rate management has produced mixed results. While the initial overvaluation of naira has been substantially eliminated, the resurgence of huge fiscal deficits has undermined the tight monetary policy stance of the CBN and engendered a state of persistent, demand for pressure on foreign exchange resources and thus, the exchange rate.

The excess liquidity in the system has further compounded the problem. The problems of demand and supply shortages which have caused persistent instability in the foreign exchange market are rightly being addressed by the further liberalization of the market through the wholesale Development Assessment System and the high level of external reserves, which has restored confidence in the market and supported the CBN intervention.

Despite the successes achieved currently in exchange rate management and the relative stability sustained in the last two years, there is need for fiscal restraint and discipline at all levels of government and greater coordination and harmonization of fiscal and monetary policy actions to ensure that injections of liquidity into the systems are consistent with macroeconomic stability.

In addition, there is need to create a truly autonomous inter-bank foreign exchange market whereby CBN ceases to be the dominant player, supplying foreign exchange to banks and other authorized dealers on a predictable, routine basis. Government financing should be through non-inflationary sources mainly through the non-bank sources.

The desirability of exchange rates stability is not in doubt in view of the implications of instability for micro and macroeconomic planning and projections, costs of production and foreign investment flows and standard of living.

Finally, the exchange rate is important as a major price that affects all sectors of the economy and all economic agents. The nominal exchange rate affects the real exchange rate. It is thus desirable so as to foster competitiveness and improve the supply of exportable. The rather poor exchange rate performance may not be unconnected with unfulfilled expectations , concerning the role of the market mechanism in determining exchange rate in our type of environment, coupled with the absence of complementary policies, take for instance monetary, fiscal, wage and investment policies.

It is important for the monetary authorities to learn important lessons from the exchange rate management experience of the past in order to ensure continued exchange rate stability.

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