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Rule of Law and Economic Progress in Nigeria

NURA SANI YAHAYA
KABIRU SUFI SA'ID
MARYAM RABI'U ZAKARIYYA
Kano State College of Education and Preliminary studies

Abstract

The study examines the influence of rule of law financial progress, trade, FDI on economic performance using ARDL technique from 1980 to 2019. The short-run analysis reveals that rule of law and financial progress decelerate the level of economic performance. Nonetheless, trade promotes economic activities in Nigeria. Long-run outcome shows that rule of law and financial sector performance adversely affect economic progress. However, trade increases the level of GDP. Hence, the study suggest that policymakers should design policies amid at promoting good governance, rule of law transparency at all level of government. This could done through establishing agencies that would take the charge and responsibilities for the application of rule of law in these institutions as well as the measures to discourage corruption for viable economic progress. It is also important for government to come up with sensitization and awareness programs to all government institutions on the application of rule of law. Due process and transparency should implemented on all public activities and also to ensure that are guided and control by external agencies. Agencies like EFCC and ICPC should be empowered and supported with finance, personnel and legal power to prosecute any person found wanting without fear or favor.

Keywords: Rule of law, economic progress, financial performance, ARDL, Nigeria

1. INTRODUCTION

Deceleration of the global economic progress in the recent years have been a worrisome issue. It is argued that the global growth reduced by

0.4 % from 2018 to 2020 (IMF, 2019). Hence, the growth performance of the world's economy is projected to continue in a slowing rate. This may negatively affect the global investment, production, employment generation and eventually lead to recession World Bank (2019). Currently, COVID-19 pandemic has accelerates and worsened the global recession in which long term economic progress is uncertain (World Bank, 2020). The worlds GDP growth is predicted to contract by 5.2 % in 2020 (World Bank, 2020). Therefore, necessary measures, policies and the application of good governance in the emerging and developing economies are essentially needed. Similarly, economic progress in developing economies remain low and may cause severe condition of poverty and backwardness of human welfare. In this, regard several studies have documented that poor governance, policies and rule of law were among the factors negating the economic progress (World Bank, 2019).

In Nigeria, deteriorating economic performance have been eroding economic prospects in the past decade. For instance, GDP performance decline by 3.6 % from 2010 to 2018 (WDI, 2019). Drop in oil prices coupled with the outbreak of the world's pandemic have worsen the level of economic performance in the country from early 2019 to 2020 (World Bank, 2019). Unemployment rate have raised by 23.1 %, crime activities like, banditry and kidnapping also increase by 43% (NBS, 2020). In the present time, it is expected that the nation's economy will reduce by 3.2%. It is argued that the level of rule of law and good governance practice in the nation have not reached a commended stage due their poor performance and applicability (Okoro et al. 2020). Transparency international have acknowledged that Nigeria has been placed at very low level in emulating rule of low, good governance and transparency in all level of government and also a worse country in corruption practices in the African nations. In a decade, over $300 billion have stolen from the government treasury (Matthew & Idowu 2013). Similarly, almost, 70% of corruption cases by the anti-corruption agencies such as EFCC and ICPC taken to court they end up with no prosecution (Yahaya, Mohd-jali & Raji 2020). Thus, this situation might have link with the continue dawn fall of economic performance in nation. Hence, the study examine the influence of rule of law on economic progress in Nigeria.

2. LITERATURE REVIEW

The linkage among rule of law, financial performance, trade, FDI and economic progress have discuss in the literature. For instance, Nawaz, Iqbal, and Khan (2014) used GMM technique to examine the influence of rule of law on economic performance in Pakistan. The outcome reveals that rule of law enhance economic progress. Ji, Magnus and Wang (2014) studied the effect of rule of law on economic progress in China. The study finds that rule of law increase economic performance. Gritli and Charfi (2016) emphasize that corruption and bad governance reduce economic performance in MENA nations. Nguyen, Su and Nguyen (2018) analyze the influence of institutional quality on economic performance in 29 nations, using GMM approach from 2002 to 2015. The findings reveals that poor institutional quality decelerate economic progress. Salman et al. (2019) documents that rule of law promotes economic progress in East Asian economies. Maruta, Banerjee and Cavoli (2020) investigate the influence of rule of law in 74 emerging nations from 1980 to 2016. The result shows that rule of law increases economic progress. Similarly, Erdoğan, Yıldırım and Gedikli (2020) stressed that financial sector performance influence GDP positively in 11 nations. Lenka and Sharma (2020) applies ARDL technique to study the impact of financial performance on GDP in India from 1980 to 2017. The outcome indicates that financial progress accelerates the level of economic performance. Okoro et al. (2020) argued that trade influence economic progress positively in African economies. Adedoyin et al. (2020) stressed that FDI promotes economic performance in USA from 1981 to 2017. The reviewed literature shows the existence on linkage among the institutional quality and economic performance. However, the effect of the rule of on economic performance has not been studied in Nigeria. Moreover, investigating the influence of rule of on GDP in emerging nation is limited. Therefore, this study examine the influence of rule of law on economic progress in Nigeria.

3. METHODOLOGY AND DATA

3. 1 Data

Yearly data for economic performance (current USD), rule of law, financial progress (credit percent of GDP), trade (sum export and imports) and foreign direct investment (FDI net inflow) from 1980 to 2019 are used for the study. The data was retrieved from WDI.

3.2 Model specification

The study utilized amended model by Sulaiman and Abdul-Rahman (2017) to analyze the link among the variables and shown in the following equation

$$GDP_t = \propto + \beta_1 RL_{it} + \beta_2 FD_{it} + \beta_3 TO_{it} + \beta_4 FDI_{it} + \varepsilon_t \qquad (1)$$

In equation 1, GDP illustrate economic progress, RL represents rule of law, FD is financial performance, TO indicate trade and FDI is foreign direct investment, α ß stand as the coefficients, t is the time and ε illustrates the disturbance term. Therefore ARDL technique is applied to estimate the long run link of the model variables. The technique has greater advantages over others approaches like OLS. It also has ability to estimate mix stationarity variables (Pesaran, Shin, and Smith 2001). This model is presented in equation 2

$$\Delta LGDP = \beta_0 + \sum_{j=1}^{n} \beta_1 LGDP_{t-j} + \sum_{j=0}^{n} \beta_2 LRL_{t-j} + \sum_{j=0}^{n} \beta_3 LFD_{t-j} + \sum_{j=0}^{n} \beta_4 LTO_{t-j} + \sum_{j=0}^{n} \beta_5 LFDI_{t-j} + \alpha_1 LGDP + \alpha_2 LRL_t + \alpha_3 LFD_t + \alpha_4 LTO_t + \alpha_5 LFDI_t + \varepsilon_t \qquad (2)$$

Where ε indicate the error term, t is the time and Δ denotes the change indicator. The decision for the long run association for model relied on the F statistic. The statistical nature of the variables is is illustrated in Tables 1. The utmost mean value of the variables is RL with about 71.5units and about 79.8, 67.1. Maximum and minimum values. While Variable FDI obtained the lowermost mean value with about 0.18, 0.43 units of maximum and minimum values.

Table 1 Description of the model's variables

Variables	Mean	SD	Min	Max
LGDP	6.3	0.87	5.035	8.08
LRL	71.5	35.6	67.1.	79.3
LFD	15.1	6.26	8.71	38.4
LTO	51.1	15.1	23.6	81.8
LFDI	0.18	0.11	0.03	0.43

4. RESULT

This part explain the result of the estimated model and the stationarity check. Table 2 indicates that the variables are found stationary at mix nature. Hence, ARDL method is most suitable for the model's estimation.

Table 2 Stationarity outcome

-	ADF	ADF
Variables	Level	1st Difference
LGDP	-2.351 (0.393)	-6.664* (0.000)
LRL	-1.134 (0.690)	-5.178* (0.000)
LFD	-2.637 (0.095)	-5.159* (0.002)
LTO	-4.772* (0.005)	-
LFDI	-3.342 (0.561)	-4.632* (0.005)

Note * illustrates significant at 1 percent level

The outcome for the cointegration in table 3 shows that the variables have long run association and it is proved by the higher value of F-statistics with the critical values.

The estimated models result is presented in table 3. The outcome for the short run analysis shows rule of law and financial progress reduce the level of GDP in Nigeria. However, trade accelerated economic performance. The value of error correction term reveals a long run adjustment for the variables. Moreover, the long run estimates that rule of law and financial sector performance have adverse effect on economic progress in Nigeria. This means that a 1 percent increase in rule of law reduce economic performance by 0.005 percent and it indicated poor or ineffective rule of law in governance for the nation. In another way, it implies 0.005 deceleration in economic progress due poor governance. This outcome is similar with the findings of earlier studies (Kacho, 2017). Similarly, the outcome reveals that 1 percent rise in financial progress cause GDP to reduce by 0.006. The table also trade promote economic growth in Nigeria, it shows that 1 percent rise in trade results economic performance to upsurge by 0.054 percent. Nevertheless, FDI does not determine economic performance in the nation.

Table 3 Estimated outcome

S.R Regressors	Coefficients	SD Errors	t-Statistics	Prob
ΔLRL	0.003*	0.023	2.533	0.000
ΔLFD	-0.014*	0.049	-2.054	0.006
ΔLTO	0.004*	0.788	-0.394	0.001
ΔLFDI	-1.2582	0.349	3.567	0.340
ECT(-1)	-0.5866	0.210	-2.774	0.013
L.R Regressors				
LRL	0.005*	0.037	9.586	0.000
LFD	0.006**	0.015	-0.137	0.043
LTO	0.054**	0.082	-1.468	0.037
LFDI	-3.206	0.082	-1.919	0.078
C				

Notes: * and ** illustrate significant at 1 and 5 percent levels

Table 4 illustrates the soundness of the estimated model. The result indicates that the errors are distributed normally and there are no problems of Heteroskedasticity and serial correlation.

Table 4 Model's validity tests

Test	F-statistics	Prob.	Outcome
Breusch-Pagan	0.843	0.875	Absence of Heteroskedasticity
Breusch-Godfrey	0.734	0.156	Absence of Serial Correlation
Jarque-Bera	1.658	0.389	Normally Distributed

5. CONCLUSION

The study examines the impact of rule of law financial progress, trade, FDI on economic performance using ARDL technique. The short-run analysis reveals that rule of law and financial progress decelerate the level of economic performance. Nonetheless, trade promotes economic activities in Nigeria. Long-run outcome shows that rule of law and financial sector performance adversely affect economic progress. However, trade increases the level of GDP. Hence, the study suggest that policymakers should design policies amid at promoting good governance, rule of law transparency at all level of government. This could done through establishing agencies that would take the charge and responsibilities for the application of rule of law in these institutions as well as the measures to discourage corruption for viable economic progress. The study is limited by the fact that is single country analysis. Therefore, it is essential for future studies to adopt cross country analysis for regional and global recommendations.

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