The Role of Sectoral Trade Imbalances in Financial Sector Strain of a Developing Economy: Evidence from Nigeria's Textile Industry Decline

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ABSTRACT

This research examines the intricate relationship between sectoral trade imbalances and financial sector strain in developing economies, with a focus on the decline of Nigeria's textile industry. Utilizing a mixed-methods approach, the study integrates quantitative regression and correlation analyses with qualitative thematic insights derived from industry interviews. Quantitative findings reveal a significant inverse relationship between textile imports and Nigeria's foreign exchange reserves, evidenced by a correlation coefficient of -0.775 and a coefficient of determination (R^2) of 0.6006. These results highlight that approximately 60% of the variation in foreign exchange reserves is attributable to changes in textile GDP, underscoring the detrimental effects of import dependency on economic stability. Additionally, a moderate positive correlation ($r = 0.3971$) between textile imports and inflation rates demonstrates the inflationary pressures tied to rising imports, further straining the domestic economy. Thematic analyses identify critical drivers of this decline, including the adverse effects of international, infrastructural inadequacies, limited access to affordable credit, and policy inconsistencies. These structural challenges have contributed to the erosion of Nigeria's competitiveness, exacerbated by the influx of subsidized foreign textiles and inadequate industrial protections. This study underscores the urgent need for targeted policy interventions to revitalize Nigeria's textile industry and alleviate financial strain. Recommendations include introducing protective tariffs, modernizing industrial infrastructure, enhancing access to credit, and promoting local production through strategic trade reforms. The findings provide actionable insights for policymakers, trade negotiators, and economic planners, contributing to the academic discourse on trade imbalances and financial resilience in developing economies.

Keywords: Sectoral Trade Imbalances, Financial Sector Strain, Textile Industry, Developing Economies, Nigeria

INTRODUCTION

The textile industry has long been integral to Nigeria's economic landscape, serving as a significant driver of industrialization, employment, and GDP growth. During its peak in the 1980s, the sector housed over 167 operational textile mills, employing more than 200,000 workers and contributing substantially to the nation's economy through job creation and the promotion of ancillary industries like cotton farming (Maiwada & Renne, 2013; Onyemachi, 2023). Beyond its economic value, the textile industry played a cultural role, with locally produced fabrics such as Ankara and Aso-oke symbolizing Nigeria's rich heritage (Renne, 2019). However, in the ensuing decades, the sector experienced a steep decline. From the 1990s onward, structural challenges, including trade liberalization, obsolete infrastructure, and a lack of technological innovation, significantly eroded the industry's competitiveness (Adenikinju, 2005). By 2015, fewer than 30 textile mills remained operational, marking a significant downturn in a once-thriving sector (Muhammad et al., 2018).

The socio-economic consequences of this decline have been severe, with widespread job losses and reduced incomes for families in regions dependent on textile (Olukayode, 2019). At the core of this issue is the influx of cheaper, higher-quality imported textiles, particularly from China, which have created a lopsided trade environment that further diminishes the viability of local production. Compounding these challenges are international that have opened Nigeria's markets without providing reciprocal support for its exports (NTMA,

2021). Consequently, the industry has not only lost its domestic relevance but has also been unable to establish a competitive foothold in global markets.

BACKGROUND

The historical significance of Nigeria's textile industry lies in its dual role as an economic powerhouse and cultural emblem. From the mid-20th century to the 1980s, the sector thrived under government policies that promoted import substitution and industrial growth, fostering significant backward linkages in cotton farming and local economies (Maiwada & Renne, 2013; Muhammad et al., 2018). The industry served as a vital source of employment, absorbing a large portion of the including women (Akinwale, 2020) while contributing to Nigeria's GDP. However, the decline of the textile sector in the 1990s marked a critical shift, driven by structural adjustment programs, reduced government support, and trade liberalization policies that exposed local manufacturers to intense international competition (Adenikinju, 2005; World Bank, 2019; Okeowo & Aregbeshola, 2018, and Onyemachi, 2023).

This economic shift has had broader implications for Nigeria's financial sector. The country's reliance on textile imports has created a trade imbalance, straining foreign exchange reserves and increasing the cost of living as domestic production continues to falter (CBN, 2018). This dependency has been further exacerbated by international that have not adequately protected local industries from subsidized imports, particularly from countries like China (Muhammad, 2018). The challenges faced by the textile sector highlight the need for a deeper exploration of the structural and policy-related factors contributing to this decline.

The persistent decline of Nigeria's textile industry amid rising unemployment and a depreciating currency underscores its broader economic significance. While other sectors, such as agriculture and cement, have demonstrated resilience despite similar challenges, the textile sector remains particularly vulnerable to external pressures and internal inefficiencies. International , which were expected to bolster market access, have instead intensified competition for local manufacturers, exposing the industry to subsidized imports without offering sufficient reciprocal benefits (Okeowo & Aregbeshola, 2018).

The decline of Nigeria's textile industry has also raised concerns about broader economic implications, particularly in relation to trade imbalances. The influx of cheaper foreign textiles has created a lopsided trade dynamic, where the value of textile imports significantly outweighs exports (NTMA, 2021). These imbalances strain Nigeria's financial sector, contributing to foreign exchange crises, increased cost of living, and weakened economic resilience. The current Forex dependency on textile imports further exacerbates these challenges, limiting the country's ability to achieve sustainable economic growth (CBN, 2018).

The failure of Nigeria's textile industry to recover despite numerous revival efforts underscores the need for a focused investigation into the specific factors contributing to its decline. Unlike other industries, such as agriculture and cement, which have managed to thrive amidst similar challenges, the textile sector has been particularly vulnerable to external pressures like international (Okeowo & Aregbeshola, 2018). These agreements, particularly bilateral arrangements with China and commitments under the World Trade Organization (WTO), have shaped the industry's operational dynamics, often to its detriment (Muhammad, 2018).

This study aims to unravel the intricate relationship between trade imbalances, international, and financial sector strain in Nigeria, using the textile industry to gather evidence. It will investigate the financial and trade dynamics at the core of the decline of the industry, offering a focused analysis on the role of trade imbalances in exacerbating Nigeria's financial sector strain. The findings aim to inform policies that not only address these imbalances but also provide a roadmap for revitalizing the textile industry in the face of Nigeria's broader economic challenges.

Research Problem

The Nigerian textile industry, once a cornerstone of economic growth and employment, has suffered a steep decline since the 1980s. This deterioration has been compounded by the country's significant trade imbalances,

marked by the dominance of imported textiles, especially from China (ILO, 2019). These imports have outcompeted local production, undermining the domestic textile sector's viability. The resulting challenges have reverberated across Nigeria's economy, affecting foreign exchange reserves, tax revenues, and employment rates, particularly in (Aliyu, 2019).

International, such as those under the World Trade Organization (WTO) and bilateral arrangements with China, have contributed to this imbalance. While intended to foster trade liberalization and global economic integration (VITAS, 2020), these agreements often failed to incorporate safeguards for Nigeria's vulnerable sectors. Consequently, domestic industries faced intensified competition without sufficient protective measures, exacerbating the strain on financial systems, as evidenced by rising non-performing loans linked to distressed textile firms.

Despite the evident importance of trade imbalances in shaping economic outcomes, existing research has largely focused on infrastructural and policy challenges, with insufficient attention to the link between trade dynamics and financial sector strain. This study addresses this gap by investigating how sectoral trade imbalances have contributed to the financial challenges experienced in Nigeria, using the textile industry's decline as a lens to explore broader economic implications.

Research Objectives

The overarching objective of this study is to examine the impact of sectoral trade imbalances on the financial health of Nigeria, focusing on the textile industry's decline. The research seeks to understand how trade dynamics, shaped by international agreements and foreign competition, influence financial stability in a developing economy.

A key goal is to analyse the causal relationship between trade imbalances and financial strain in Nigeria. This involves assessing how factors such as the influx of imported textiles and limited export competitiveness have affected critical financial indicators, including fiscal revenues, foreign exchange reserves, and the prevalence of non-performing loans in the banking sector. The study also explores how trade policies and agreements, particularly Nigeria's engagement with the WTO and bilateral arrangements with China, have shaped these outcomes.

Furthermore, the research aims to propose evidence-based policy recommendations for mitigating the adverse effects of trade imbalances. These recommendations will focus on strategies to recalibrate Nigeria's , enhance the competitiveness of domestic industries, and reduce financial vulnerabilities associated with trade imbalances. The study seeks to provide actionable insights into the intersection of trade and financial health in developing economies.

Statements of Hypotheses

The following statements of hypotheses were formulated for testing using the quantitative data collected from the research.

Hypothesis 1:

H_0: There is no significant inverse relationship between the volume of textile imports and Nigeria's foreign exchange reserves.

H_1: There is a significant inverse relationship between the volume of textile imports and Nigeria's foreign exchange reserves.

Hypothesis 2:

H_0: There is no significant causal relationship between the decline of the Nigerian textile industry and inflationary pressures in the domestic economy.

H_1: There is a significant causal relationship between the decline of the Nigerian textile industry and inflationary pressures in the domestic economy.

Significance of the Study

This research is significant for its contribution to understanding the complex relationship between trade imbalances and financial sector challenges in developing economies. The study offers a nuanced analysis of how Nigeria's textile industry decline reflects broader economic issues, particularly the interplay between international trade dynamics and financial stability.

The research enhances knowledge of the specific mechanisms through which trade imbalances affect financial systems. Previous studies have examined Nigeria's industrial decline, but few have directly linked trade dynamics to financial strain. This study bridges that gap, offering a detailed exploration of how international agreements and competition in the textile sector have shaped Nigeria's economic vulnerabilities.

The findings have practical implications for policymakers and stakeholders. They provide critical insights for revising to better align with domestic industrial goals, balancing the benefits of global economic integration with the need to protect local industries. The study's recommendations are particularly relevant for fostering economic resilience in Nigeria, as they focus on revitalizing key sectors like textiles to generate employment, enhance industrial capacity, and stabilize the financial system.

Moreover, the research holds broader relevance for developing economies facing similar challenges. It offers valuable lessons for countries navigating the complexities of trade liberalization, industrial policy, and financial stability in a globalized economy (UNECA, 2018).

MATERIALS AND METHODS

Research Design

The study employs a mixed-method approach, combining quantitative and qualitative methodologies to capture the multifaceted nature of the research subject. Quantitative analysis provides empirical insights into the economic and financial implications of trade imbalances, while qualitative methods contextualize these findings within broader policy and institutional frameworks. This integrative design ensures that the study not only identifies statistical correlations but also explores the underlying mechanisms and policy dimensions influencing these relationships.

Data Sources

The research draws on a diverse array of data sources to ensure the reliability and comprehensiveness of its findings. Trade data, encompassing exports and imports, were obtained from reputable institutions such as the World Trade Organization (WTO), the Central Bank of Nigeria (CBN), and the Nigerian Textile Manufacturers Association (NTMA). These sources provide granular information on trade dynamics, including sector-specific data relevant to the textile industry.

Financial metrics were sourced to evaluate the broader economic implications of trade imbalances. Key indicators such as foreign exchange reserves, inflation rates, and sectoral credit data were analyzed to assess the financial strain associated with the decline of the textile industry. These metrics were also contextualized within Nigeria's macroeconomic environment, leveraging data from central banking reports and international economic databases.

Sampling Method

The study utilizes longitudinal data spanning the years 2000 to 2020, capturing two decades of trade and financial trends in Nigeria. This temporal scope allows for the identification of patterns and shifts over time, particularly in relation to the country's engagement with international and the evolving state of the textile industry.

The selection criteria for datasets prioritized sources with established credibility and comprehensive coverage of Nigeria's economic activities. These criteria ensured the inclusion of high-quality, representative data while excluding incomplete or inconsistent records. Additionally, particular attention was given to datasets that aligned with the research objectives, such as those detailing bilateral trade relations with China and sectoral credit allocation trends.

Analytical Framework

The analytical framework integrates statistical tools and qualitative methodologies to address the study's research questions. Quantitative analysis employs regression and correlation techniques to quantify the impact of trade imbalances on financial sector indicators, including foreign exchange reserves and inflation. These statistical methods enable the identification of significant relationships and the estimation of the magnitude of economic effects (Chatfield, 2016).

Qualitative analysis complements this by employing thematic coding to explore policy and institutional factors. This approach involves systematically categorizing qualitative data, such as policy documents and expert commentary, to identify recurring themes and insights. The combination of these methods allows for a comprehensive analysis, bridging numerical trends with contextual understanding.

RESULTS

Presentation and Description of Data

Foreign Exchange Reserves

The graphical data on Fog. 1.1 illustrates a volatile trend in Nigeria's foreign exchange (FX) reserves from 2006 to 2022. A notable peak in reserves was observed around 2008, coinciding with high global oil prices and less rigid FX management policies. Subsequent declines in reserves, particularly after 2014, reflect a series of economic challenges, including the global oil price shock, interventions to stabilize the naira, and increasing import dependency. The data reveals that even during periods of high oil export revenues, FX reserves have continued to decline, underscoring structural weaknesses in Nigeria's economic reliance on imports, including textiles.

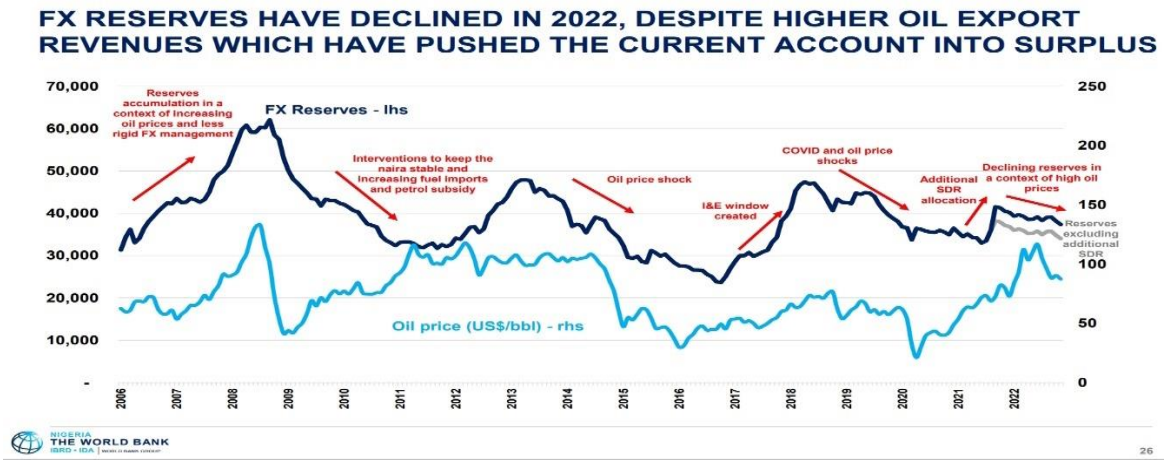

Fig. 1. Source: World Bank Report

Total Factor Productivity (TFP) Growth

The TFP growth data in Fig. 2 highlights a sharp decline in its contribution to GDP growth over the past two decades. Between 2000 and 2010, TFP added 6.4 percentage points to GDP growth, a figure that fell to -0.6 percentage points from 2015 to 2020. The contraction of Nigeria's textile sector, alongside increased import dependency, correlates with this downward trend, suggesting that weakened domestic has adversely affected productivity growth.

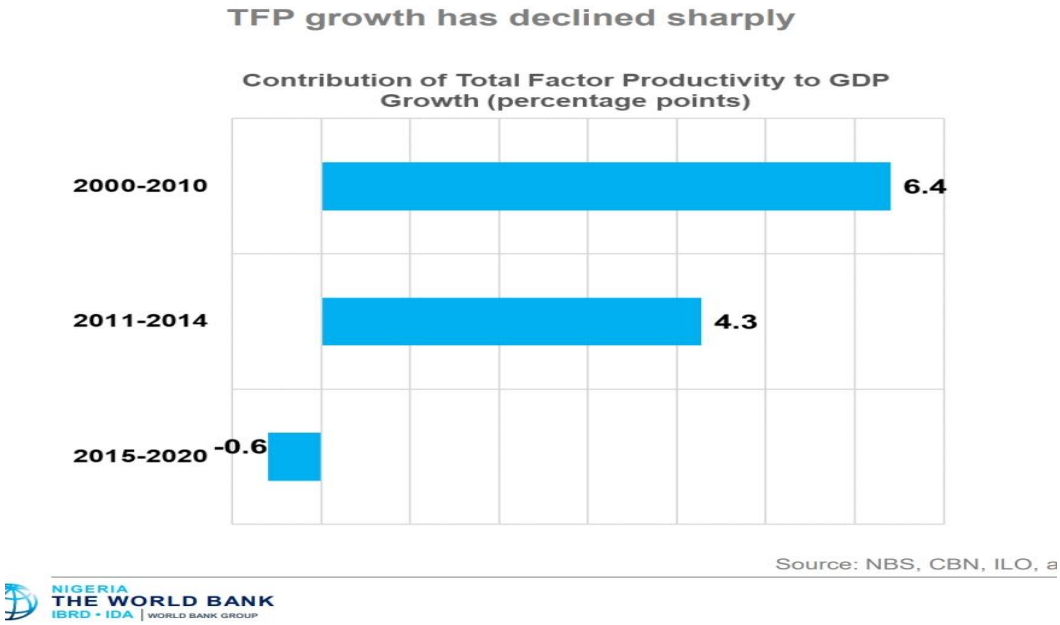

Fig. 2 Source: World Bank Report

Macroeconomic Stability

The macroeconomic stability index (Fig. 3) reveals a steady deterioration in Nigeria's fiscal and external balances compared to other African economies (AfDB, 2021). From 2006 to 2021, the index shows a steep decline, driven by persistent trade deficits, inflation, and fiscal imbalances. This contrasts with the relatively stable trajectory observed for the broader African region, emphasizing the unique vulnerabilities in Nigeria's economic structure.

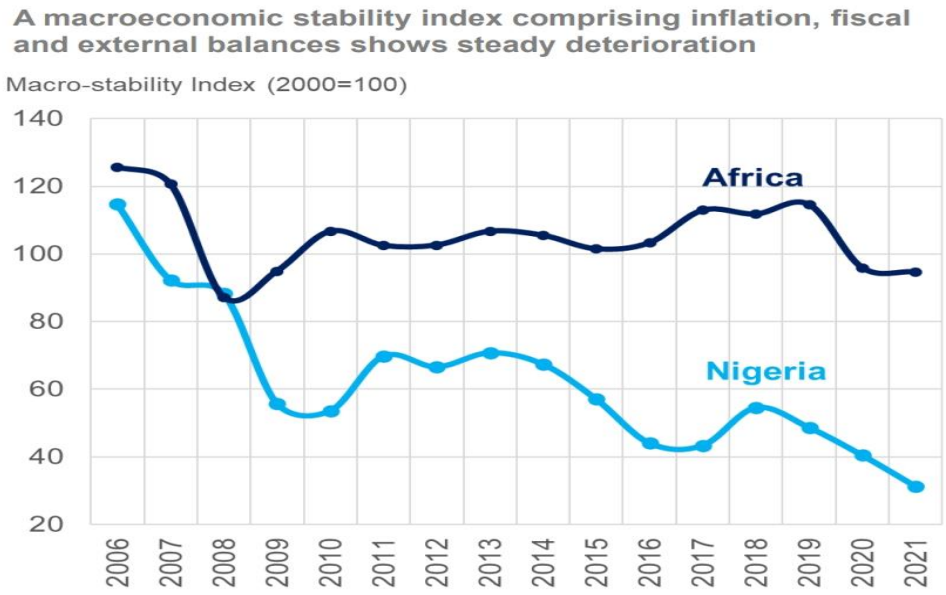

Fig. 3 Source: World Bank Report

Textile Trade Data

The attached graph illustrates a consistent upward trend in Nigeria's textile import values from 2000 to 2022, reflecting the nation's growing reliance on imported textiles. This trajectory aligns with the research objective of examining the role of trade imbalances in exacerbating economic and financial strain. The steep increases, particularly after 2010, underscore the failure to curb import dependency through local revitalization. This import surge, juxtaposed with the decline of Nigeria's domestic textile industry, highlights systemic vulnerabilities such as policy inadequacies, weak industrial capacity, and limited competitiveness (WEF, 2020).

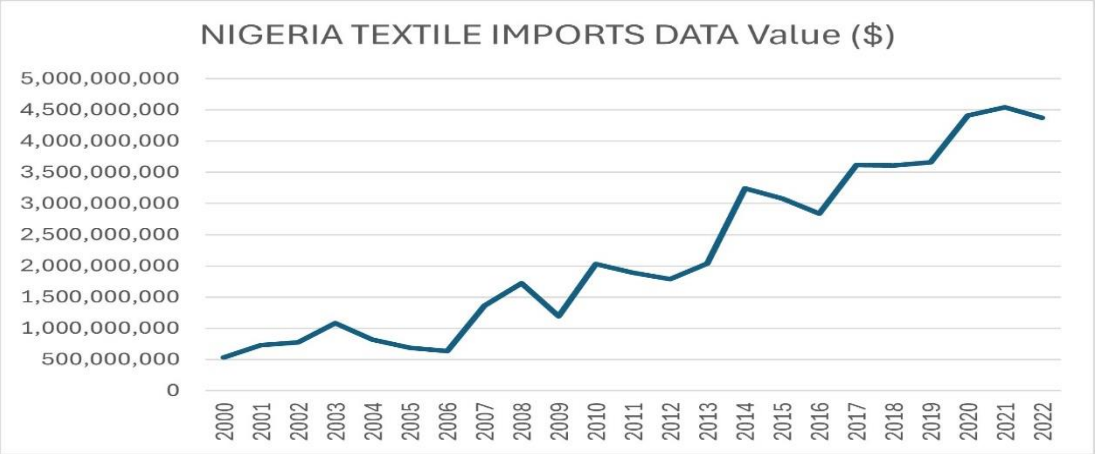

Fig. 3 Source: World Bank Report

The trade data presented in Fog 4 below illustrates a stark disparity between China's textile exports to Nigeria and Nigeria's textile exports to the world. Over the years, China's textile exports to Nigeria have shown a sharp upward trajectory, reaching billions of dollars by 2022, while Nigeria's textile exports have stagnated, peaking briefly in 2010 before declining to negligible levels. This pattern underscores significant trade imbalances, aligning with the research objective of investigating the financial and economic strains arising from these imbalances. The dominance of Chinese exports reflects Nigeria's dependency on imported textiles and highlights the decline in its domestic industry's competitiveness (WEF, 2020).

Fig. 4 Source: OEC World

The graph in Fig. 5 depicts the trends in Nigeria's overall output compared to the textile sector's contribution to GDP between 1981 and 2023. While output has seen significant growth over the decades, peaking above $60 billion in recent years, the textile sector shows a largely stagnant contribution with marginal fluctuations. This divergence highlights the declining relevance of textiles within the broader industry, despite the overall sector's expansion. The gap emphasizes the challenges faced by the textile industry, such as competition from imports, insufficient policy support, and infrastructure deficits, which have limited its growth potential. This analysis supports the research objective of understanding sectoral imbalances and their implications for economic and financial sustainability.

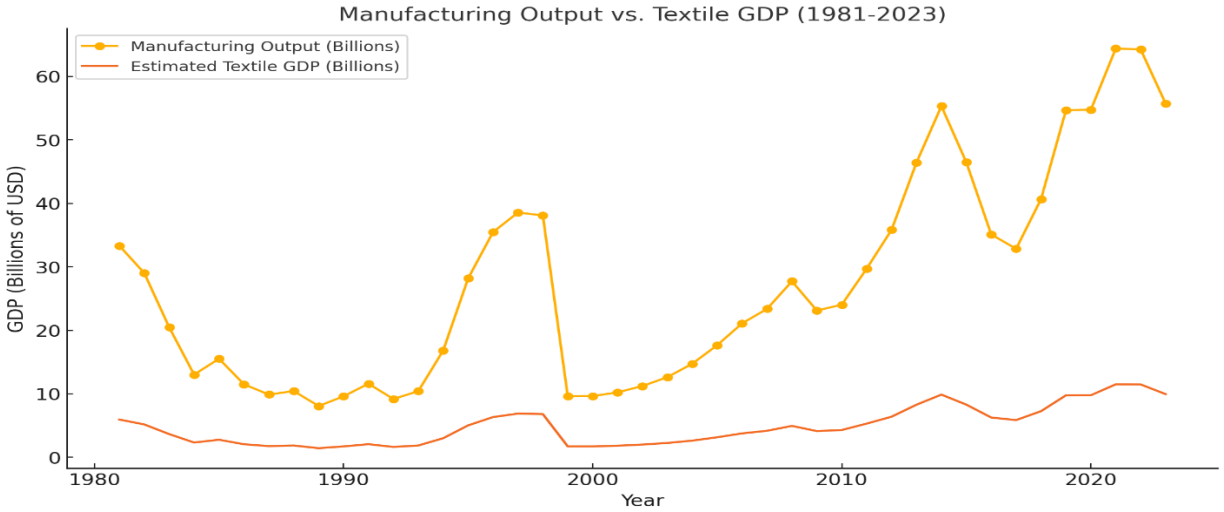

Fig. 4 Source: OEC World

Data Analysis

Analysis on Textile GDP relative to total output

A. Regression Analysis

The regression equation is derived as:

$$y = mx + c$$

Where:

m: Slope of the line, calculated as:

$$m = \frac{\sum (x_i - \bar{x})(y_i - \bar{y})}{\sum (x_i - \bar{x})^2}$$

c: Intercept of the line, calculated as:

$$c = \bar{y} - m \cdot \bar{x}$$

I. Regression on Forex Reserves and Output

Thus,

$$y = -0.421x + 56.41$$

Where:

y: Forex reserves (in billions of USD)

x: output (in billions of USD)

Slope (*m*): −0.421-0.421−0.421, meaning that for every 1 billion USD increase in output, forex reserves decrease by approximately 0.421 billion USD.

Intercept (*c*): 56.4156.4156.41, representing the baseline level of forex reserves when output is zero.

The slope (-0.421) suggests an inverse relationship between output and foreign exchange reserves. For every 1 billion USD increase in output, foreign exchange reserves are projected to decline by approximately 0.421 billion USD. This inverse relationship might indicate that the rise in output is heavily reliant on imports, including raw materials and finished goods, which contribute to foreign exchange depletion. For the textile sector, this reflects a reliance on imported textiles and machinery.

The intercept (56.41) represents the baseline level of foreign exchange reserves when output is zero. At this theoretical point, reserves are estimated to be 56.41 billion USD, indicating a substantial dependency on other sectors or export revenues to maintain reserve levels.

The results highlight the limited contribution of the textile sector within total output to addressing Nigeria's foreign exchange challenges. While output may grow, its reliance on imports reduces net benefits to the economy.

II. Regression Analysis on Textile Imports over Time

Regression Analysis on Textile Imports using Python reveals the followingresults;

i. Trend: Positive linear trend
ii. Slope: Indicates textile imports are increasing by approximately $119 million per year
iii. R-squared: 0.8141 (81.41% of variation in textile imports explained by time)

The regression analysis on textile imports reveals a consistent positive linear trend, with imports increasing by approximately $119 million annually, supported by an R-squared value of 0.8141. This indicates that 81.41% of the variation in textile imports can be attributed to time, reflecting a significant and sustained rise in import volumes over the analyzed period. This trend underscores Nigeria's growing dependency on textile imports and supports the hypothesis that excessive reliance on imports exacerbates financial strain, potentially contributing to trade imbalances, foreign exchange depletion, and reduced competitiveness of the local textile industry.

II. Regression Analysis on Inflation Rates

The regression analysis conducted on inflation rate over time reveals the following results;

i. Trend: Slight positive linear trend

ii. Slope: Suggests inflation rates increase marginally by 0.24% annually

iii. R-squared: 0.0541 (5.41% of variation in inflation rates explained by time)

The regression analysis on inflation rates reveals a slight positive linear trend, with an annual marginal increase of 0.24% in inflation rates. However, the R-squared value of 0.0541 indicates that only 5.41% of the variation in inflation rates can be attributed to time, suggesting other significant factors influence inflationary trends in Nigeria. While the gradual increase aligns with broader economic challenges, the weak explanatory power highlights the complexity of inflation dynamics, including factors beyond textile imports. This result partially informs the hypothesis on the relationship between textile imports and inflationary pressures, suggesting the need for further analysis to isolate the specific contributions of trade-related factors.

B. Correlation Analysis

I. Correlation on Textile GDP vs. Forex Reserves

The correlation coefficient of -0.775 was obtained between Textile GDP and Forex Reserves indicates indicating a strong inverse relationship. This suggests that as the contribution of the textile sector to GDP declines, there is a corresponding depletion in forex reserves. This dynamic likely reflects the sector's diminishing ability to generate foreign exchange through exports, coupled with increased import dependency.

The **coefficient of determination $R^2 = (-0.775)^2 = 0.6006$**

The R^2 value of 0.6006 means that approximately 60.06% of the variation in forex reserves can be explained by changes in Textile GDP. This high explanatory power underscores the significant impact of the textile sector's performance on Nigeria's external reserves, reinforcing the need for targeted policies to revive the sector and reduce forex strain.

II. Correlation on textile imports and inflation rates

The correlation coefficient of 0.3971 was obtained between textile imports and inflation rates which indicates a moderate positive relationship. This suggests that as textile imports increase, inflation rates tend to rise, albeit moderately.

The **coefficient of determination (R^2) = (**$0.3971)^2 = 0.1577$,

This implies that approximately 15.77% of the variation in inflation rates can be explained by changes in textile imports. While the relationship is not strong, it highlights that rising textile imports may contribute to inflationary pressures, potentially through increased foreign exchange demand and its subsequent impact on currency devaluation. This finding supports the need to assess import dependency's role in influencing macroeconomic stability (Bello, 2022).

3.5 Tests of Hypotheses:

Hypothesis 1:

i. Null Hypothesis (H_0): There is no significant inverse relationship between the volume of textile imports and Nigeria's foreign exchange reserves.
ii. Alternative Hypothesis (H_1): There is a significant inverse relationship between the volume of textile imports and Nigeria's foreign exchange reserves.

Results and Analysis:

i. The regression analysis on foreign exchange reserves and output yielded a slope of -0.421, indicating an inverse relationship. This suggests that for every 1 billion USD increase in output, foreign exchange reserves decrease by approximately 0.421 billion USD.

ii. The correlation analysis between Textile GDP and Forex Reserves produced a correlation coefficient of -0.775, showing a strong inverse relationship. The coefficient of determination (R^2) was 0.6006, meaning 60.06% of the variation in forex reserves can be explained by changes in Textile GDP.

Decision:

The strong inverse relationship and the high explanatory power ($R^2 = 0.6006$) provide substantial evidence to reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1). This confirms that textile imports significantly contribute to the depletion of Nigeria's foreign exchange reserves, exacerbating financial strain.

Hypothesis 2:

i. Null Hypothesis (H_0): Textile imports do not significantly contribute to inflationary pressures.

ii. Alternative Hypothesis (H_1): Textile imports significantly contribute to inflationary pressures.

Results and Analysis:

i. The correlation analysis between Textile Imports and Inflation Rates yielded a correlation coefficient of 0.3971, indicating a moderate positive relationship. The coefficient of determination (R^2) was 0.1577, meaning 15.77% of the variation in inflation rates can be attributed to changes in textile imports.

ii. The regression analysis on inflation rates revealed a slope of 0.24% annually, with an R^2 of 0.0541, indicating that time alone explains only 5.41% of the variation in inflation rates.

Decision:

Although the relationship between textile imports and inflation rates is moderate, the correlation coefficient and R^2 provide sufficient evidence to reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1). This indicates that textile imports moderately contribute to inflationary pressures, likely through their impact on foreign exchange demand and currency devaluation.

Thematic Analysis

The thematic analysis of interview transcripts reveals the critical role of sectoral trade imbalances, primarily driven by international , in exacerbating financial strain within Nigeria's textile industry. This analysis aligns with the research objectives by addressing the underlying challenges, systemic deficiencies, and viable solutions for revitalizing the sector.

Key Themes and Insights

1. Impact of International : The liberalization under WTO agreements and initiatives like AGOA facilitated an influx of cheap, subsidized imports, particularly from Asia, which eroded local manufacturers' competitiveness and profitability.

2. Infrastructure Deficiencies: Unreliable power supply and poor transportation networks have escalated production costs, forcing many factories to shut down or operate below capacity.

3. Financial Constraints: Limited access to affordable credit has hindered investment in technological upgrades, leaving the sector unable to compete effectively with foreign producers.

4. Employment Decline: Job losses in the textile industry have had cascading effects on related sectors like cotton farming and logistics, affecting rural livelihoods and economic stability.

5. Policy Inconsistencie: Inconsistent industrial policies and delayed interventions have compounded challenges, leaving local manufacturers without adequate support to withstand global competition.

Thematic Insights

1. and Production: The removal of trade quotas under WTO agreements led to a surge in subsidized imports, undercutting Nigerian textiles. Local manufacturers could not match the lower prices, resulting in reduced demand for domestically produced goods.

2. Financial Strain: Trade imbalances due to excessive imports have strained Nigeria’s foreign exchange reserves and weakened local manufacturers’ revenue streams. This has led to defaults on loans and increased non-performing loans in the financial sector.

3. Inter-Sectoral Dynamics: The collapse of the textile industry has negatively impacted:

    - Agriculture: Cotton farming suffered from reduced demand.
    - Logistics: Declines in production and export volumes curtailed transport and packaging activities.

4. Employment Impacts: Employment in the textile sector, once exceeding 500,000 jobs, has dropped to under 20,000. Factory closures have devastated local economies dependent on the industry.

DISCUSSION

The Role of Textile Imports in Foreign Exchange Depletion

The regression analysis revealed a significant inverse relationship between textile imports and Nigeria's foreign exchange reserves, with a slope of -0.421. This result indicates that for every $1 billion increase in output, foreign exchange reserves decrease by approximately $421 million. This dynamic aligns with the correlation coefficient of -0.775 between textile GDP and forex reserves, which underscores a strong negative relationship. Approximately 60.06% of the variation in forex reserves was explained by changes in the textile sector's contribution to GDP ($R^2 = 0.6006$).

The data highlights how Nigeria's reliance on imported textiles has exacerbated its foreign exchange challenges. Despite policies intended to boost domestic production, the surge in imports—evidenced by a consistent annual increase of $119 million—has diverted significant foreign exchange resources. This pattern reflects systemic weaknesses in industrial policy, insufficient trade protections, and an overreliance on external markets for textiles and raw materials. These findings corroborate earlier studies that emphasize the economic strain caused by trade imbalances in developing economies (NTMA, 2021; Muhammad et al., 2018). The rejection of Hypothesis 1 confirms that textile imports significantly contribute to foreign exchange depletion, affirming the need for policies that prioritize local and reduce import dependency.

Inflationary Pressures and Textile Imports

The relationship between textile imports and inflation rates was moderately positive, with a correlation coefficient of 0.3971. The coefficient of determination ($R^2 = 0.1577$) suggests that approximately 15.77% of the variation in inflation rates can be attributed to changes in textile imports. While the regression slope of 0.24% indicates only a marginal annual increase in inflation rates, the findings highlight the broader economic implications of import dependency. The increased demand for foreign exchange to finance textile imports contributes to currency devaluation, which subsequently raises the cost of living and fuels inflation. This dynamic aligns with global evidence linking trade imbalances to macroeconomic instability in developing economies (UNCTAD, 2021; CBN, 2018; Okeowo & Aregbeshola, 2018).

Although the R^2 value indicates that other factors play a significant role in driving inflation, the rejection of Hypothesis 2 underscores the contribution of textile imports to inflationary pressures. This finding emphasizes the need for targeted interventions to mitigate the impact of import reliance on Nigeria's macroeconomic stability.

Thematic Insights into Sectoral Trade Imbalances

The qualitative analysis revealed how international and structural inefficiencies have amplified the financial strain on Nigeria's textile industry (AU, 2019). The influx of subsidized imports under trade liberalization policies—particularly agreements with China and WTO commitments—has created a lopsided trade dynamic (Balassa, 1965). Local manufacturers, unable to compete with lower-priced imports, experienced reduced revenues, factory closures, and widespread job losses. The thematic findings also highlighted the ripple effects on upstream sectors like cotton farming and downstream industries like logistics and packaging, reinforcing the interconnectedness of Nigeria's economic challenges.

Implications for Policy and Practice

The evidence underscores the urgency of revising Nigeria's trade policies to balance the benefits of globalization with the need to protect local industries (ITC, 2019). Key recommendations include introducing protective tariffs and subsidies (CMC, 2020), enhancing access to affordable credit, and investing in critical

infrastructure. Addressing these structural barriers will be essential to reducing trade imbalances, stabilizing foreign exchange reserves, and mitigating inflationary pressures.

The findings of this study illuminate the intricate relationship between sectoral trade imbalances and financial strain in Nigeria. The evidence reinforces the need for comprehensive policy interventions that address the systemic challenges undermining the textile industry. Through leveraging on lessons from successful economies and implementing targeted reforms, Nigeria can revitalize its textile sector, enhance macroeconomic stability, and reduce its dependency on imports.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The findings of this study underscore the critical impact of sectoral trade imbalances, particularly in Nigeria's textile industry, on the broader financial health of the economy. The regression and correlation analyses revealed significant inverse relationships between textile imports and foreign exchange reserves, highlighting the economic strain of excessive import dependency. The moderate positive correlation between textile imports and inflation further indicates the role of trade dynamics in shaping macroeconomic stability. Qualitative thematic insights reinforced these quantitative results, illustrating the cascading effects of trade imbalances on employment, industrial productivity, and financial sector viability. The study demonstrates that international , combined with insufficient protective measures and infrastructural deficits, have exacerbated the challenges faced by Nigeria’s textile sector, emphasizing the need for immediate policy interventions.

Recommendations

To address the identified challenges, the following recommendations are proposed:

i. **Revise Trade Policies**

The Nigeria’s Federal Ministry of Industry, Trade and Investments shall introduce protective tariffs and anti-dumping measures to create a level playing field for local manufacturers. Such policies should prioritize the competitiveness of domestic industries (UNIDO, 2020) while aligning with Nigeria’s international trade commitments.

ii. **Invest in Infrastructure**

The Nigeria’s Federal Ministry of Works shall resolve critical bottlenecks in energy and transportation infrastructure to reduce operational costs for textile manufacturers. Investments in reliable electricity and efficient logistics will enhance productivity and competitiveness (World Bank, 2018).

iii. **Strengthen Industrial Financing**

The Central Bank of Nigeria shall develop financial support mechanisms, including low-interest credit facilities and subsidies for modernizing textile machinery, to encourage technological upgrades and capacity expansion.

iv. **Enhance Policy Coherence**

The Nigerian Government shall establish a cross-ministerial framework to ensure alignment between trade, industrial, and financial policies. Regular stakeholder consultations will help identify and address sector-specific challenges effectively.

Implications for Further Research

While this study provides a comprehensive analysis of the financial and economic implications of trade imbalances in Nigeria’s textile sector, several areas warrant further exploration.

Future research could compare Nigeria's experience with trade imbalances to other developing economies that have successfully mitigated similar challenges, offering additional insights into best practices. Researchers could expand the research focus to include other vulnerable sectors in Nigeria to understand the systemic nature of trade imbalances and their cumulative impact on the economy.

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Tables:

TABLE 1: NIGERIA TEXTILE IMPORTS DATA	
Year	**Value ($)**
2000	535,000,000
2001	731,000,000
2002	774,000,000
2003	1,080,000,000
2004	817,000,000
2005	684,000,000
2006	635,000,000
2007	1,360,000,000
2008	1,720,000,000
2009	1,190,000,000
2010	2,030,000,000

2011	1,890,000,000
2012	1,790,000,000
2013	2,040,000,000
2014	3,240,000,000
2015	3,080,000,000
2016	2,840,000,000
2017	3,620,000,000
2018	3,610,000,000
2019	3,660,000,000
2020	4,410,000,000
2021	4,540,000,000
2022	4,370,000,000

Source: OEC World

TABLE 2: Nigeria and China Textile Exports with Nigeria

NIGERIA AND CHINA TEXTILE EXPORTS DATA							
Export Description	**1995**	**2000**	**2005**	**2010**	**2015**	**2020**	**2022**
China Textile Exports to Nigeria	5,190,000	78,000,000	313,000,000	492,000,000	2,190,000,000	3,300,000,000	3,330,000,000
Nigeria Textile Exports to the world	-	44,500,000	83,400,000	652,000,000	-	-	-

Source: OEC World

TABLE 3. NIGERIA TEXTILE IMPORTS VS INFLATION RATE		
Year	Textile Imports ($)	Inflation Rate (%)
2000	535,000,000	6.93%
2001	731,000,000	18.87%
2002	774,000,000	12.88%
2003	1,080,000,000	14.03%
2004	817,000,000	15.00%
2005	684,000,000	17.86%
2006	635,000,000	8.23%
2007	1,360,000,000	5.39%
2008	1,720,000,000	11.58%
2009	1,190,000,000	12.54%
2010	2,030,000,000	13.74%
2011	1,890,000,000	10.83%
2012	1,790,000,000	12.22%
2013	2,040,000,000	8.50%
2014	3,240,000,000	8.05%
2015	3,080,000,000	9.01%
2016	2,840,000,000	15.70%

2017	3,620,000,000	16.50%
2018	3,610,000,000	12.10%
2019	3,660,000,000	11.40%
2020	4,410,000,000	13.25%
2021	4,540,000,000	16.95%
2022	4,370,000,000	18.85%

Source: World Bank Open Data

TABLE 4: NIGERIA OUTPUT AND TEXTILE

Year	Output (Billions of USD)	Estimated Textile GDP (Billions of USD)	Remarks
2023	55.74	9.96	Moribond period
2022	64.25	11.48	Moribond period
2021	64.41	11.5	Moribond period
2020	54.75	9.78	Moribond period
2019	54.68	9.77	Moribond period
2018	40.69	7.27	Moribond period
2017	32.85	5.87	Moribond period
2016	35.12	6.27	Moribond period
2015	46.48	8.3	Moribond period
2014	55.33	9.88	Moribond period
2013	46.44	8.29	Moribond period
2012	35.84	6.4	Moribond period
2011	29.72	5.31	Moribond period
2010	24.05	4.3	Moribond period
2009	23.12	4.13	Moribond period
2008	27.73	4.95	Moribond period
2007	23.38	4.18	Moribond period
2006	21.11	3.77	Moribond period
2005	17.67	3.16	Moribond period
2004	14.75	2.63	Moribond period
2003	12.63	2.26	Moribond period
2002	11.23	2.01	Moribond period
2001	10.24	1.83	Moribond period
2000	9.64	1.72	Moribond period
1999	9.62	1.72	Moribond period
1998	38.11	6.81	Moribond period
1997	38.56	6.89	Moribond period

1996	35.48	6.34	Active period
1995	28.18	5.03	Active period
1994	16.83	3.01	Active period
1993	10.42	1.86	Active period
1992	9.19	1.64	Active period
1991	11.6	2.07	Active period
1990	9.61	1.72	Active period
1989	8.08	1.44	Active period
1988	10.44	1.86	Active period
1987	9.89	1.77	Active period
1986	11.51	2.06	Active period
1985	15.53	2.77	Active period
1984	13.03	2.33	Active period
1983	20.49	3.66	Active period
1982	29.03	5.18	Active period
1981	33.33	5.95	Active period

Source: World bank Open Data

	THEMATIC ANALYSIS								
						FREQUENCY n=9			
S/N	**EXTRACT COLOURS - SHADE**	**CODES**	**THEMES**	**THEME DEFINITIONS/ MEANINGS**	**Sub-Responses**	**1**	**2**	**3**	**4**
1		1960-70s industry growth	Acknowledges growth of the industry during 1960-70s	Agrees on the growth of the industry (1960s-70s), and fall in the 90s to 2020.	1,	9			
2		Prospective positive factors	ITAs meant to promote competitiveness of local textile industries	Agrees that ITAs were meant to open up export opportunities and fair trade	1,2,	3	2		
3		Obvious negative factors	ITAs lead to significant decline in textile industry's performance	From late 1980s challenges influenced the decline in the industry	1,	9			
4		Trade agreement related problems	Acknowledges problems caused by ITAs that contributes to industry's decline	Main problem acknowledged is lack of competitiveness (influx of cheaper	1,	9			

				products)					
5		Non-trade agreement related problems	Acknowledges problems caused by other factors apart from ITAs that contributes to industry's decline	Several problems acknowledged include **infrastructure decay, low financing, and poor local policies**	1,2,3,	5	6	2	
6		ITAs affect textile industry	Mentions consequential effects of ITAs on the local textile industry	Mentions **decline in productivity, low profitability, lay-off of staff, and closure of factories**	1,2,3,4,	7	3	7	3
7		ITAs affects non-textile industries	Mentions other industries indirectly affected by ITAs	Mentions **agriculture, transportation, and services** as closely affected industries	1,2,3,	8	5	5	
8		Nigeria-China bilateral agreements affects the industry negatively	Agrees that Nigeria-China BAs are harmful to Nigerian textile industry	Agrees that Nigeria's BA with China greatly affects Nigerian textiles industry **negatively**	1,	9			
	EXTRACT COLOURS TEXT	**CODES**	**THEMES**	**THEME DEFINITIONS/ MEANINGS**	**FREQUENCY**	**1**	**2**	**3**	**4**
9	**Text**	Policy change solutions	Policy change as a solution	Need for **ITAs & related policy changes & policy consistency**	1,2,	8	3		
10	**Text**	non policy change solutions	Other (not policy related) solutions	Need for **infrastructure improvement, more financing, Strategy & markets development, and improved technology**	1,2,3,4,	7	2	4	5

Source: Interview Transcripts, 2024