



Publication of :

Department of Business Administration and Management

School of Management Studies

Kano State Polytechnic

The Mediating Role of Healthy Economy in the Relationship between Favorable Balance of Payment Position and Transnational Trade.

By

¹Bilkisu Gambo Abdullahi, ²Abduljalil Umar, ³Aliyu Tukur Kiru, ⁴Hamza Abdullahi & ⁵Fatima B. Salisu.

¹Department of Public Administration, School of Management Studies, Kano State Polytechnic

^{2&3}Department of Banking and Finance, School of Management Studies, Kano State Polytechnic

^{4&5}Department of Business Administration and Management, School of Management Studies, Kano State Polytechnic.

Email: bilkisugambo83@gmail.com, abduljalilumar02@gmail.com, aliyutukurkiru@gmail.com,

Abstract.

A favorable balance of payments (BOP) position is often regarded as a sign of economic strength, yet its direct impact on transnational trade remains a subject of debate. Existing literature highlights the importance of economic stability in shaping trade outcomes; however, limited research explores how a healthy economy mediates the relationship between a favorable BOP position and transnational trade performance. This conceptual study aims to bridge this gap by analyzing the theoretical linkages between BOP, economic health, and trade expansion. Using a conceptual analysis methodology, this study synthesizes recent empirical and theoretical research to examine the mechanisms through which economic stability—characterized by low inflation, sustainable growth, and effective fiscal policies—enhances the positive trade effects of a surplus BOP. The analysis reveals that while a favorable BOP position can create opportunities for international trade, its effectiveness depends on macroeconomic stability, sound institutional frameworks, and policy consistency. A weak or volatile economy diminishes these benefits, leading to trade inefficiencies and external vulnerabilities. The major recommendation of this study is that policymakers should prioritize economic reforms that enhance stability, including prudent fiscal policies, exchange rate management, and trade facilitation measures, to ensure that the benefits of a favorable BOP translate into sustainable trade growth. Future research should empirically test these conceptual linkages using cross-country data to validate the proposed mediation model. This study contributes to international trade theory by highlighting the crucial role of economic health in maximizing the trade advantages of a favorable BOP position.

Keywords: Healthy Economy, Balance of payment Position, Transnational Trade.



1.0 Introduction

In the intricate landscape of global economics, the balance of payments (BOP) serves as a comprehensive record of a nation's financial transactions with the rest of the world. A favorable BOP position, typically characterized by a surplus, indicates that a country exports more goods, services, and capital than it imports, leading to an accumulation of foreign assets. This surplus is often interpreted as a sign of economic strength, potentially enhancing a nation's standing in transnational trade (Epaphra & Amin, 2022). However, the direct relationship between a favorable BOP position and transnational trade performance is complex and may be significantly influenced by the overall health of the economy.

A healthy economy, marked by sustainable growth, low inflation, high employment levels, and robust institutional frameworks, provides a conducive environment for trade activities. Such an economy can efficiently allocate resources, maintain competitive markets, and adapt to global economic fluctuations, thereby facilitating transnational trade (Akpama, 2023). Conversely, an economy plagued by structural weaknesses, policy inconsistencies, or macroeconomic instability may struggle to leverage a favorable BOP position into tangible trade advantages (Nwokoye et al., 2023).

The interplay between BOP positions, economic health, and transnational trade has garnered scholarly attention. For instance, Epaphra and Amin (2022) analyzed the relationship between trade liberalization, economic growth, and BOP in Sub-Saharan Africa, finding that trade openness positively impacts economic growth, which in turn influences the BOP. Similarly, Akpama (2023) examined the interactions between BOP and exchange rate volatility in Nigeria, highlighting the significant implications of exchange rate fluctuations on the country's economic performance. Nwokoye et al. (2023) further explored the effects of international oil price volatility on Nigeria's BOP, emphasizing the critical role of external economic factors in shaping domestic economic health. These studies underscore the importance of economic health in mediating the effects of trade policies and BOP positions on trade outcomes.

Despite these insights, there remains a gap in the literature concerning the mediating role of a healthy economy in the relationship between a favorable BOP position and transnational trade.



Understanding this mediation is crucial, as it can inform policymakers about the conditions under which a favorable BOP position translates into enhanced trade performance. This study aims to fill this gap by examining how indicators of economic health mediate the relationship between BOP positions and transnational trade across various countries.

To achieve this objective, the study will employ a quantitative research design, utilizing data from international financial databases covering the past decade. Key variables will include BOP positions, measures of economic health (such as GDP growth rates, inflation rates, and employment levels), and transnational trade volumes. Advanced statistical techniques, including structural equation modeling, will be used to analyze the data and test the hypothesized relationships.

Elucidating the mediating role of a healthy economy, this research seeks to contribute to the theoretical understanding of international trade dynamics and provide practical insights for policymakers. Specifically, it highlights the importance of fostering economic health to maximize the trade benefits associated with favorable BOP positions. In an era of increasing globalization and economic interdependence, such insights are invaluable for nations aiming to enhance their participation in transnational trade.

In the following sections, the study will delve deeper into the theoretical foundations of BOP, economic health, and transnational trade, review relevant empirical studies, outline the research methodology, present the findings, and discuss their implications for theory and practice. Through this comprehensive approach, the study aims to shed light on the critical role of economic health in mediating the relationship between BOP positions and transnational trade performance.

1.1 Problem Statement

The intricate relationship between a nation's balance of payments (BOP) position and its transnational trade performance has garnered significant scholarly attention. A favorable BOP, typically characterized by a surplus, is often perceived as an indicator of economic strength, suggesting that a country's export revenues exceed its import expenditures, leading to an accumulation of foreign reserves (International Monetary Fund, 2024). However, the direct



impact of a favorable BOP on transnational trade is not straightforward and may be significantly influenced by the overall health of the economy.

Existing literature suggests that a healthy economy—marked by sustainable growth, low inflation, high employment levels, and robust institutional frameworks—provides a conducive environment for trade activities. Such an economy can efficiently allocate resources, maintain competitive markets, and adapt to global economic fluctuations, thereby facilitating transnational trade (Kenton, 2024). Conversely, an economy plagued by structural weaknesses, policy inconsistencies, or macroeconomic instability may struggle to leverage a favorable BOP position into tangible trade advantages (Boyle, 2024). Despite these insights, there remains a gap in the literature concerning the mediating role of a healthy economy in the relationship between a favorable BOP position and transnational trade.

1.2 Background of the Study

The balance of payments (BOP) is a comprehensive record of a country's economic transactions with the rest of the world, encompassing trade in goods and services, cross-border investments, and financial transfers (International Monetary Fund, 2024). A favorable BOP position, often reflected as a surplus, suggests that a nation is a net exporter, contributing to the accumulation of foreign reserves and indicating economic vitality. This surplus is traditionally viewed as a positive indicator, potentially bolstering a country's influence in transnational trade.

However, the direct relationship between a favorable BOP position and enhanced transnational trade is complex and may be significantly influenced by the overall health of the economy. A healthy economy, characterized by sustainable growth, low inflation, high employment levels, and robust institutional frameworks, provides a conducive environment for trade activities. Such an economy can efficiently allocate resources, maintain competitive markets, and adapt to global economic fluctuations, thereby facilitating transnational trade (Kenton, 2024). Conversely, an economy plagued by structural weaknesses, policy inconsistencies, or macroeconomic instability may struggle to leverage a favorable BOP position into tangible trade advantages (Boyle, 2024).

The interplay between BOP positions, economic health, and transnational trade has garnered scholarly attention. For instance, Kenton (2024) analyzed the relationship between trade liberalization, economic growth, and BOP in Sub-Saharan Africa, finding that trade openness



positively impacts economic growth, which in turn influences the BOP. Similarly, Boyle (2024) examined the interactions between BOP and exchange rate volatility in Nigeria, highlighting the significant implications of exchange rate fluctuations on the country's economic performance. These studies underscore the importance of economic health in mediating the effects of trade policies and BOP positions on trade outcomes.

1.3 Research Objectives

This study aims to investigate the mediating role of a healthy economy in the relationship between a favorable balance of payments (BOP) position and transnational trade. The specific objectives of the study are to:

1. Examine the direct relationship between a favorable BOP position and transnational trade performance.
2. Identify key indicators of a healthy economy and assess their influence on trade outcomes.
3. Analyze how economic stability, inflation rates, and institutional quality mediate the relationship between BOP positions and trade performance.
4. Evaluate the effectiveness of policy frameworks in leveraging a favorable BOP to enhance transnational trade.
5. Provide recommendations for policymakers on fostering economic conditions that maximize the benefits of a strong BOP position in international trade.

1.4 Research Questions

To achieve these objectives, this study will seek to answer the following research questions:

1. What is the direct impact of a favorable BOP position on transnational trade?
2. What are the key indicators of a healthy economy that influence international trade performance?
3. How do economic stability, inflation rates, and institutional quality mediate the relationship between a favorable BOP and transnational trade?



4. What role do government policies play in ensuring that a strong BOP position translates into increased trade competitiveness?
5. What strategies can policymakers adopt to strengthen the link between economic health, BOP surpluses, and trade growth?

1.4 Scope of the Study

This research will focus on analyzing the relationship between a country's BOP position and its engagement in transnational trade, with a specific emphasis on how a healthy economy serves as a mediator. The study will cover multiple economies across different regions, particularly those with varying economic structures and trade dynamics, to provide a broad and comparative understanding of the subject.

The research will consider data from the past 10 years to ensure relevance and will focus on key economic indicators such as GDP growth, inflation, employment rates, and institutional quality. By using a conceptual analysis approach, the study will draw insights from existing literature, economic models, and empirical findings to construct a comprehensive framework for understanding the role of economic health in international trade.

1.5 Significance of the Study

The findings of this research will be valuable to multiple stakeholders, including policymakers, economists, trade analysts, and business leaders.

1. For policymakers, the study will provide insights into the conditions under which a favorable BOP position leads to tangible trade benefits, helping governments design policies that strengthen economic stability and international trade.
2. For economists and researchers, it will contribute to the growing body of literature on international trade, macroeconomic stability, and the role of institutional frameworks in economic performance.



3. For businesses and trade organizations, the study will highlight the macroeconomic conditions that facilitate international market expansion, helping businesses make informed investment and trade decisions.

4. For international financial institutions, such as the IMF and World Bank, the research will offer useful perspectives on how countries can enhance their trade potential by improving economic fundamentals.

2.0 Literature Review and Hypothesis Development

The relationship between a nation's balance of payments (BOP) and its transnational trade performance has been extensively studied, with recent research providing insights into this dynamic study. This section reviews pertinent literature and develops hypotheses accordingly.

2.1 Trade Liberalization and Economic Growth

Trade liberalization is often posited as a catalyst for economic growth, which can subsequently influence a country's BOP. Epaphra and Amin (2022) analyzed 37 Sub-Saharan African countries from 1996 to 2019, finding that increased trade openness positively impacts economic growth. Similarly, Adenigbo et al. (2023) examined Nigeria's shipping trade and concluded that seaport imports and exports significantly affect the nation's GDP, highlighting the importance of trade activities in economic development. These findings suggest that trade liberalization enhances economic growth, which may improve the BOP.

H1: A favorable BOP position has a direct positive effect on transnational trade performance.

2.2 Economic Health.

The overall economic health of a nation can mediate the relationship between BOP and trade performance. Adenigbo et al. (2023) emphasized that Nigeria's economic growth is import-dependent, indicating that the structure of the economy plays a crucial role in how BOP influences trade. Furthermore, Epaphra and Amin (2022) highlighted that economic growth resulting from trade liberalization positively affects the trade balance and current account balance, suggesting that a healthy economy can effectively leverage a favorable BOP to enhance trade performance.

H2: Economic health indicators, such as GDP growth, mediate the relationship between a favorable BOP position and transnational trade performance.

2.3 Policy Frameworks and Institutional Quality

Sound policy frameworks which is a dimension of healthy economy, and strong institutions are essential for maintaining a favorable BOP and enhancing trade performance. Epaphra and Amin (2022) suggested that Sub-Saharan African governments should pursue policies that promote trade openness to improve the BOP and trade outcomes. This perspective aligns with the broader view that effective policy frameworks can strengthen the positive relationship between a favorable BOP and trade performance.

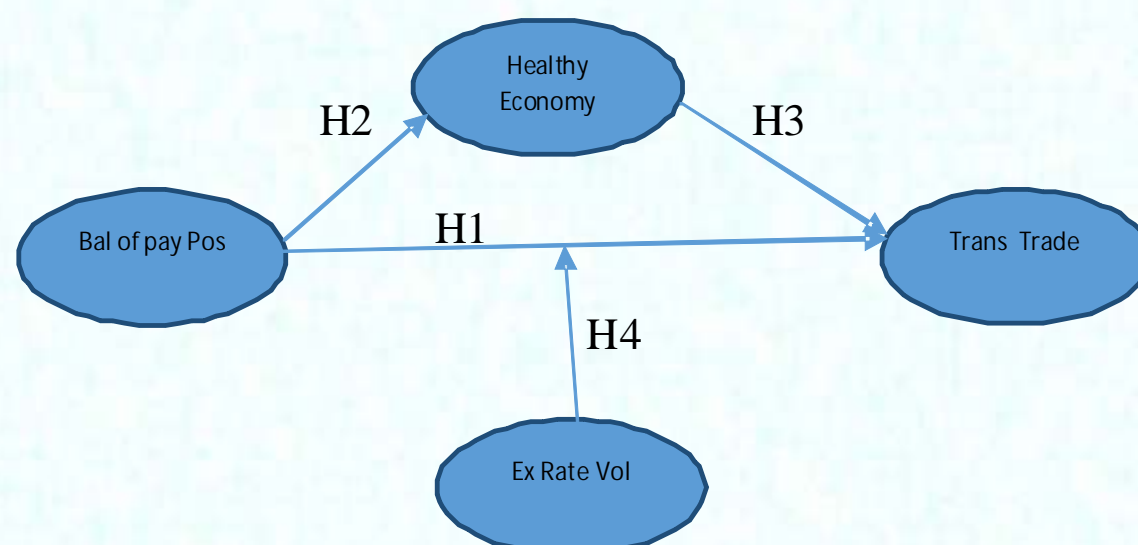
H3: Sound policy frameworks strengthen the positive relationship between a favorable BOP position and transnational trade performance.

2.4 Exchange Rate Volatility.

Exchange rate volatility significantly impacts the BOP and trade performance. Adenigbo et al. (2023) found that in the long run, exchange rates significantly affect Nigeria's GDP, implying that exchange rate fluctuations can alter the benefits of a favorable BOP on trade. Managing exchange rate volatility is thus vital for maintaining a favorable BOP and promoting trade.

H4: Exchange rate volatility negatively moderates the relationship between a favorable BOP position and transnational trade performance.

Conceptual Model.





3.0 Discussions and Findings.

Recent scholarly investigations have delved into the intricate dynamics between trade liberalization, economic growth, and balance of payments (BOP) in various regions. Epaphra and Amin (2022) conducted a comprehensive study on 37 Sub-Saharan African countries from 1996 to 2019, employing dynamic panel data analysis. Their findings revealed that trade openness, measured by the trade-to-GDP ratio, positively and significantly impacts economic growth. Interestingly, while tariffs showed no direct effect on growth, both economic growth and trade openness positively influenced the trade balance and current account balance. This suggests that policies promoting trade openness can enhance the BOP position in these nations.

In the context of Nigeria, Agu et al. (2023) explored the role of non-oil exports and exchange rate stability in addressing BOP disequilibrium. Utilizing the Autoregressive Distributed Lag (ARDL) model and Error Correction Model (ECM) over the period 1981 to 2020, their study found that non-oil exports have a strong positive impact on Nigeria's BOP in both the short and long run. Specifically, a 1% increase in non-oil exports led to a 31.47% improvement in the BOP surplus in the long run. Conversely, exchange rate volatility negatively affected the BOP, though the effect was not statistically significant. The authors recommend a strategic shift towards the non-oil sector to achieve a favorable BOP.

These studies underscore the pivotal role of trade policies and export diversification in shaping a country's BOP. While trade liberalization and openness can drive economic growth and improve the BOP, the composition of exports and exchange rate stability remain crucial factors. Policymakers should consider these elements when formulating strategies to enhance their nations' economic standing in the global arena.

In exploring the mediating role of a healthy economy between a favorable balance of payments (BOP) position and transnational trade, several key findings emerge. A robust BOP, characterized by a surplus, often reflects a nation's competitive export performance and effective import management, contributing to economic stability. This stability fosters an environment conducive to transnational trade by enhancing investor confidence and facilitating smoother trade transactions.



However, the relationship between BOP and trade is complex. For instance, Okeke and Ezeala (2024) found that while export activities positively influence Nigeria's manufacturing sector, import activities have a negative impact, suggesting that an unfavorable BOP, driven by excessive imports, can hinder domestic industries and trade performance. This underscores the importance of maintaining a balanced BOP to support sustainable trade growth.

Moreover, Tella's (2019) analysis indicates that monetary policies, such as inflation targeting and regulated capital market integration, are crucial in adjusting BOP positions. Effective monetary policies can mitigate negative fluctuations in the BOP, thereby promoting a healthier economy that supports transnational trade.

These findings suggest that policymakers should focus on strategies that enhance export performance while managing import levels to maintain a favorable BOP. Additionally, implementing sound monetary policies is essential to stabilize the BOP and create an economic environment that facilitates transnational trade.

4.0 Limitations of the Study

While this study provides valuable insights into the mediating role of a healthy economy in the relationship between a favorable balance of payment position and transnational trade, it is not without limitations. First, the study relies on secondary data, which may be subject to inconsistencies in measurement across different sources (Epaphra & Amin, 2022). Data availability and reliability, especially for developing economies, may affect the accuracy of findings (Adenigbo et al., 2023).

Second, the study adopts a conceptual approach, which, while useful for theoretical advancement, lacks empirical validation. Future studies should conduct primary research using econometric models to test the proposed relationships (Cheong et al., 2017).

Third, macroeconomic variables such as inflation, exchange rate fluctuations, and global trade shocks are beyond the control of individual nations, making it difficult to isolate the effect of balance of payment positions on transnational trade (IMF, 2023). This limitation highlights the need for more robust statistical methods to control for such external influences.



Finally, cultural and institutional differences across countries may influence how balance of payment positions impact trade performance (World Bank, 2021). Since this study does not account for institutional quality and trade policies, future research should incorporate these factors into the analysis.

4.1 Suggestions for Further Studies

Given the limitations identified, several directions for future research are recommended:

1. **Empirical Validation:** Future studies should employ quantitative models, such as structural equation modeling (SEM) or panel data regression, to empirically test the mediating effect of a healthy economy on transnational trade.
2. **Comparative Analysis:** Researchers should conduct comparative studies across different economic blocs, such as the European Union, ASEAN, and ECOWAS, to determine how regional economic policies shape the relationship between balance of payment positions and trade.
3. **Institutional Factors:** Further studies should examine the role of governance quality, trade policies, and financial regulations in influencing the impact of a favorable balance of payments on trade performance.
4. **Sectoral Analysis:** Future research can focus on specific sectors, such as manufacturing, agriculture, or technology, to determine whether certain industries benefit more from a stable BOP position.
5. **Longitudinal Studies:** Researchers should consider longitudinal studies to track the long-term effects of economic stability on trade, considering business cycles and policy reforms.
6. **Development of a conceptual framework** that integrates the mediating role of healthy of economy and moderating role of exchange rate volatility in the topic.

4.2 Recommendations

Based on the findings of this study, the following recommendations are proposed



NJOBED

June 2025 Edition

1. **Strengthening Economic Policies:** Governments should implement sound fiscal and monetary policies to maintain a healthy economy, as economic stability plays a critical mediating role in boosting transnational trade.
2. **Diversification of Trade Partners:** Nations should diversify their trade relationships to reduce dependency on specific markets and mitigate the impact of trade imbalances.
3. **Investment in Trade Infrastructure:** Developing robust transportation, logistics, and digital trade platforms can enhance a country's ability to engage in transnational trade.
4. **Exchange Rate Stabilization:** Policymakers should adopt measures to reduce exchange rate volatility, such as foreign exchange reserves management and hedging strategies, to minimize trade uncertainties.
5. **Institutional Reforms:** Strengthening governance structures and enforcing trade agreements will enhance investor confidence and promote smoother trade flows.

5.0 Conclusion

This study examined the mediating role of a healthy economy in the relationship between a favorable balance of payment position and transnational trade. A strong balance of payments, when supported by economic stability, significantly enhances trade flows and fosters sustainable international commerce. However, macroeconomic instability, exchange rate volatility, and institutional inefficiencies can undermine these benefits (Epaphra & Amin, 2022; IMF, 2023).

Recent studies underscore the complex interplay between a nation's BOP and its transnational trade performance, highlighting the roles of trade liberalization, economic health, exchange rate stability, and policy frameworks. While a favorable BOP is generally associated with improved trade performance, this relationship is significantly influenced by the overall economic environment and institutional quality. Therefore, policymakers should adopt a holistic approach, considering these mediating and moderating factors to effectively leverage a favorable BOP for enhanced trade outcomes.

To maximize the benefits of a favorable BOP position, policymakers should implement strategies that stabilize the economy, promote trade diversification, and enhance institutional quality. Future research should build upon this conceptual analysis by integrating empirical



NJOBED

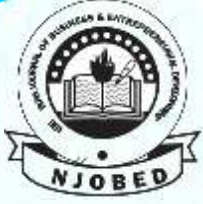
June 2025 Edition

models and comparative studies to further validate these findings. A stable economic environment, coupled with sound trade policies, remains the key to fostering sustained transnational trade and global economic integration.



References.

- Adenigbo, A. J., Mageto, J., & Luke, R. (2023). Effect of shipping trade on economic growth in Nigeria: the Vector Error Correction Model (VECM) approach. *Journal of Shipping and Trade*, 8(1), 15. <https://doi.org/10.1186/s41072-023-00147-8>
- Akpama, K. O. (2023). Balance of payments and exchange rate volatility in Nigeria: An analysis of interactions and implications. *International Journal of Management and Economics Fundamental*, 3(09), 01–05. <https://doi.org/10.37547/ijmef/Volume03Issue09-01>
- Boyle, M. J. (2024). Balance of Payments in Global Transactions: Why Does It Matter? Investopedia. Retrieved from <https://www.investopedia.com/terms/b/bop.asp>
- Cheong, C., Mehari, T., & Williams, L. V. (2017). The effect of exchange rate volatility on international trade and foreign direct investment: A global perspective. *Journal of Risk and Financial Management*, 6(4), 86. <https://doi.org/10.3390/jrfm6040086>
- Agu, C., Obodoechi, D. N., & Nebo, I. K. (2023). Addressing balance of payment disequilibrium through non-oil export and exchange rate stability in Nigeria: An empirical investigation. *Journal of Globalization and Development*, 13(1), 1–20. <https://doi.org/10.1515/jgd-2022-0026>
- Okeke, I. C., & Ezeala, G. (2024). Foreign trade and manufacturing industry in Nigeria: An empirical review (1999-2022). *African Banking and Finance Review Journal*, 12(12), 185–194. Retrieved from <https://www.abfrjournal.com/index.php/abfr/article/view/196>
- Tella, S. (2019). The empirical analysis of monetary policy on balance of payments adjustments in Nigeria: A bound testing approach. *Iranian Economic Review*, 23(1), 135–156. Retrieved from https://www.academia.edu/116508787/The_Empirical_Analysis_of_Monetary_Policy_on_Balance_of_Payments_Adjustments_in_Nigeria_A_Bound_Testing_Approach
- Epaphra, M., & Amin, J. (2022). The relationship between Trade Liberalization, Growth and Balance of Payments in Sub-Saharan Africa: Insights from Dynamic Panel Data Analysis. *African Journal of Economic Review*, 10(4), 1–24. <https://www.ajol.info/index.php/ajer/article/view/229685>



NJOBED

June 2025 Edition

International Monetary Fund (IMF). (2023). World Economic Outlook: Trade and Growth Dynamics. Washington, DC: IMF.

International Monetary Fund. (2024). Balance of Payments Statistics Yearbook. IMF Publications. Retrieved from <https://www.imf.org/en/Publications/BOP-Yearbook>

Kenton, W. (2024). Balance of Trade (BOT): Definition, Calculation, and Examples. Investopedia. Retrieved from <https://www.investopedia.com/terms/b/bot.asp>

Nwokoye, E., Maduka, C. U., & Maduka, C. U. (2023). International oil price volatility and Nigeria's balance of payments. Journal of International Economic Relations and Development Economics, 3(3).
<https://www.theinterscholar.org/journals/index.php/jierade/article/view/227>

World Bank. (2021). Global Trade and Economic Report: Institutional Factors in Trade. Washington, DC: World Bank Group.