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OPENNESS, INSTITUTIONS AND ECONOMIC GROWTH IN NIGERIA

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Abstracts

This paper examined the influential relationship between Nigeria opening –up, institutional quality and economic growth from 1999-2019. The significance of this study is the inclusion of institutional quality of bureaucracy, civic liberty, rule of law, government accountability and control of corruption into the trade, growth relationship, which are, rarely studied in the context of Nigeria. To achieve the stationary of the data Unit root was employed, to check multicollinearity, correlation analysis was employed. Also auto regressive distributed lag model (ARDL) was applied to examine the long run relationship while dynamic error correction model was applied to determine the short run dynamics. There is long term stable co-integration relationship between, opening-up, Institutions and Economic growth in Nigeria. Evidence from the dynamic Economic growth model has established linkage of rule of law, civil liberty and control of corruption influence on economic growth in Nigeria. However, rule of law, civil liberty, control of corruption, has influential impact on opening-up of the Nigeria economy. This implies that Trade liberalization policy requires good governance capabilities in Nigeria. The Policy implication of, this study suggest that institutions are very important for enhancing the spillover growth effect of trade liberalization in Nigeria.

Keywords: Trade Liberalization, Economic Growth and Institutions

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1. Introduction

Until recently there was a common understanding in both theoretical as well as empirical evidences that foreign trade is the engine of growth, (Arooye 2019, Duru, 2021, Duru & Ezenwe 2020, Duru et al 2021, winters 2004, Siddiqui, 2015, Kneller & Kachanahatekij 2008) However, this idea has been contested; The recent argument in the empirical literature point out that the nexus relationship between growth and foreign trade is not in question, but whether foreign trade alone can actually translate the spillover effects of foreign trade into economic growth in a poor developing countries ((Abasimi, Li, & Khan, 2018). This may not be unconnected to the increasing occurrences of increase in poor governance, and corruption (Bello & Gidiobi 2021). The state of concern is precisely, how such

underdeveloped countries can structure their exports and import to benefit from foreign trade, (Duodu & Baidoo, 2020).

This paper rose very crucial questions, on the ongoing debate, on how country like Nigeria with poor institutional quality benefit from foreign trade and stimulate economic growth? Because the descriptive statistics of the Sub-Saharan African trade which Nigeria is also included had indicated that the total export of just 241,361,532.57 in thousands of US\$ is not commensurate with huge volume of total imports of 253,395,460.66 in thousands of US\$ leading to a negative trade balance trade of -12,033,928.10 in thousands of US\$ which indicates a deficit balance. Equally, the African exports of goods and services as percentage of GDP of 24.97% and the imports

of goods and services as percentage of GDP of 27.56%. This indicates that for economic growth to benefit from international trade there is need to restructure export and import base of a country in questions. But after the 2008-09 global financial crisis trade grew at a lower rate than economic activities in Sub-Saharan Africa. This suggests that openness in Sub-Saharan Africa which Nigeria is no exception decline by 69 percent of GDP in 2008 to 51 percent in GDP in 2017, (UNCTAD, 2021).

Some of the studies described this negative trade growth as results of the absence of critical institutions that can structure import and export of Nigeria, (Charles & Akinlo, 2021, Duru et al 2021, Siddiqui 2015).

This paper differs from the previous studies significantly; first the paper includes certain institutional variables which help to stimulate the spillover growth effect of trade liberalization in Nigeria. Inclusion of these institutional capabilities will help in understanding in context specific to Nigeria the various opportunities and institutional compulsion that can be created by very different types of institution and trade liberalization policies that are necessary for growth. Finally, the study employs a more recent estimation technique like Autoregressive distributed lag model in order to deal with the problem associated with co-integration techniques, for example, Johansen and Juselius (1990) co-integration technique is not reliable for studies that have small sample size. ARDL allowed the use of a small sample data. It also sidesteps other techniques and allows estimating both long run and short run dynamic changes in between variables. Finally, this study also contributes by providing different theoretical arguments to justify how institutions' quality modulates the growth effects of trade liberalization in context specific to the Nigerian economy.

The objective of this study is to determine whether the inclusion of institutional quality may stimulate the spillover growth effect of foreign trade on Nigeria economy.

The remaining part of this study is structured as follows: The subsequent part of the paper reviews the theoretical and empirical literatures connecting trade liberalization to institutional quality and Economic growth. Section 3 presents methods and materials of the study while section 4 presents the results and discussions. Finally section 5 ends the paper with a summary and conclusions.

2. Literature Review

Theoretical Literature

The theoretical linkage between Trade Liberalization, Institutional quality and economic growth can be found in both strands of Institutions and growth theories, each of which emphasize different mechanisms of transmission. These differences in emphases of the channels of transmission have led to a variety of empirical approaches and hence, conclusions about the growth effects of trade liberalization (see eg Akinlo & Akunlola 2021, Sheik & Malik, 2021, Omoke, & Charles, 2021)

Proponent theories in support of Trade liberalization hold the view that trade liberalization can lead to faster economic growth if a country specialized in the production of goods in which they have comparative advantages and participate in international trade with country that can meet to their needs. However, new development theorists in support opening up hold the view that trade liberalization influence technological advancement leading to innovation and competitions which lead increased in economic growth. On the other hand the opponent version of these theories emerged out of the thinking of the dependency theorists who view trade liberalization as detrimental to trade, they justified their argument based on protectionist policies against infant industries that requires tariffs and non-tariffs protections ((see eg, Duodu & Baidoo 2020) Radulovic, 2020).

Empirical Literature

The empirical literature on the relationship between Trade liberalization, institutions and economic growth is overwhelmingly mixed and inconclusive and can be

broadly divided into two groups based on their methodological approach. The first category reveals a positive relationship, while the second category reveals the other way round. Some of the study that attempts to include institutional quality into the Openness and economic growth relation came from the work of (Omoke & Charles 2021) who try to examine the impacts of trade openness on economic growth by including the role of institutional quality in Nigeria using ARDL method of estimation. The findings of their study reveals that exports trade has significant positive impacts on economic growth, While the impact of import on economic growth is significant upon interactive with trade liberalization. On the BRICS countries economy, Sheik and Malik (2021) examine the nexus between trade openness, institutional quality and economic growth using endogeneity expunging GMM techniques. The results of their findings suggest that institutional quality shows indirect effects by augmenting the economic performance when complemented with inputs. In the case of the Sub-Saharan Africa Charles and Okunlola (2021) examine the interactive effects of trade openness, institutional and economic growth in Sub-Saharan Africa. Using Pooled OLS, Fixed regression and dynamic GMMA estimation techniques, while on the empirical section a nonlinear growth regression specification was used that interact openness with law, and order, bureaucratic quality, corruption, government stability, and democratic accountability. The results indicate that corruption, government stability, law and order and bureaucratic quality harm economic growth on the other hand Interactive of trade openness with Institutional variables significantly impact economic growth.

However, on the contrary the work of Duru and Ezenwe (2020) provided an opposing results their studies suggests that exchange rate is statistically significant in explaining economic growth via trade in Nigerian economy, while total trade is not statistically significant in explaining economic growth in Nigeria. They therefore, recommended that government should diversify the economy away from petroleum product as major tradable goods for government revenue. On the contrary, Duodu and Baidoo (2020) using

the data of Ghana examine the impacts of trade liberalization on economic growth by including institutional quality through the use of ARDL approach. The findings of the study reveal that both openness and quality of institutions exert a significant positive impact on economic growth. More so, Elija and Musa (2019) examined the dynamic impact of trade liberalization on economic growth and suggest that trade openness impact significantly on economic growth. In a related study Ajayi and Arooye (2019) examine the impact of trade openness on the economic growth of Nigeria using vector error correction method over a period of 1970 to 2016. The findings of their studies support the argument that trade openness impact on the Nigerian Economy. Another supporting view came from works of Babatunde, Jonathan and Muhyideen (2017) who applied the Ordinary Least Square (OLS) to examine economic growth, international trade nexus in Nigeria by using the variables of exchange rate, export, import, government expenditure, foreign direct investment and the result of their studies suggests that government expenditures, interest rate, import and export positively significantly affect economic growth, while exchange rate and foreign direct investment does not significantly in fact on economic growth of Nigeria. It is interesting to note that the findings of these studies contravene the findings of (Duru and Ezenwe, 2020, Duru et al, 2020 and Charles and Akunlo 2021).

Keho (2017) Using data for Code D'voire economy examined the relationship between openness and economic growth using ARDL and granger causality test prosed by Toda and Yamamota techniques and findings of his study found no significant relationship between openness and economic growth. In a related study Qazi (2015) used the data of Pakistan economy and examine the impact of trade liberalization on economic growth using ARDL approach for a data of a period between 1971 to 2013 and findings of his study does not found a significant relationship between trade liberalization and economic growth. The works of Duru et al was supported by the work of Umoru (2013) who came up with interesting results, using vector error correction method (VECM) to investigate the impact of international trade flows on employment generation in

Nigeria and the findings of his study suggest that the volume of international trade has no significant positive impact on employment generation in Nigeria. He argues that this is as a result of the SAP-induced trade liberalization that was forced on the country by the IMF and World Bank as a pre-condition for loan procurement and possible debt cancellation. He therefore, advised the Nigerian government to make the country's export competitive by broadening the horizons of production and reduce her volume of importation in order to transform the negative trade balance into positive one.

On the contrary findings from the works of Yusuf, Malarvizhi, and Khin, (2013) provide opposing results. They used ARDL approach to examine the causal relationships between trade liberalization, growth of the Nigerian economy and poverty reduction. The findings suggest that trade liberalization does not cause poverty reduction, implying that the benefit of trade liberalization does not trickle down to the poor in Nigeria. According to them, this result suggests that countries with high propensity to import and poor commodity prices need to focus on trade policies peculiar to its own environment, which can deliver growth and translate growth into a meaningful poverty reduction. On stressing the importance of Institutional quality the work of Sanusi (2008) point out that it is not all host countries that have the capabilities of gaining from openness to trade. It all depends on the availability of human capital and other cooperating factors such as the existence of good institutions. Sanusi went further to argue that the growth effects of openness may require the availability of a minimum threshold of absorptive capabilities on the side of the host countries before growth effects of foreign trade can meaningfully contribute to the economic growth and development of the host country.

On the contrary, despite the wide acceptance those institutions matters for the spill-over effect of trade liberalization on economic growth, there are quite a number of studies that has rejected such views. Some of these studies include the work of Asiedu (2002) who argued that neither political risk nor expropriation risk

positively impacts on Trade liberalization. Similarly, the works of Noorbakhash et al (2001) rejected the idea that institutions matter for Trade liberalization effects on growth. The authors reveal that democracy and political risk does not significantly impacts on trade liberalization significantly. However, on the critiques, note that measures of institutions such as the indicator indices which were provided by Kaupman & Kraay to measure the quality of the institution has been criticized based on the fact that they are proxies' indices subject to multi co-linearity problems (Knacks & Keefer 2015). On the basis of the issues raised the main objective of this study is to examine the influence of Institutional qualities such as rule of law, control of corruption, civil liberty, accountable executive, and quality of bureaucracy on the spillover growth effects on trade liberalization on economic growth Nigeria.

3. Methodology

We employed the technique of Auto distribution lag model approach to co-integration because ARDL provides consistent estimate of the long run coefficient that are asymptotically normal irrespective of whether the underlying regression are purely 1(0), 1(1) or mutually, integrated. But if the series are integrated in the order of 1(2) it provide spurious regression. Therefore, we start the modeling techniques with Unit root test to ascertain the level of the stationary of the series. We employed Dicker fuller (1981) and Phillips and Perron (1988) techniques for achieving the underlying order of the series. The next is to conduct the ARDL test which is specified as follows:

Model Specifications

Our hypothesis is that the growth effects of Trade Liberalization are dependent on Trade liberalization and Institutional quality. Therefore, the dependent variable is the GDP of Nigeria over the period of 1999-2019. The independent variable of attention is the Trade liberalization and institutional quality. To model our hypothesis, we follow the work of Charles and Okulola (2021), as such the

relationship between growth trade liberalization and Institutional quality is specified as:

$$\ln GDP = \beta_0 + \beta_1 TL_t + Inst + \mu_t \dots \dots \dots (1)$$

Where $\ln Y$ is the natural log of real per capita GDP, TL_t is the proxy for Trade Liberalization, “ Ist ” is the proxy of institutional quality and ut is the disturbance terms.

ARDL Approach to Co-integration

The ultimate objectives are to investigate how institutional quality affects the spill-over growth effects of Trade Liberalization. Therefore, to examine the long run relationship the study applies the Autoregressive distributed lag model (ARDL) which allow both dependent and independent variable to be introduced into the model

$$\lambda \ln GDP_{t-1} = \beta_0 + \beta_1 \lambda \ln GDP_{t-1} + \beta_2 \lambda TL_{t-1} + \beta_3 \lambda nb_{t-1} + \beta_4 \lambda ne_{t-1} + \beta_5 \lambda nc_{t-1} + \beta_6 \lambda nl_{t-1} + \beta_7 \lambda nk_{t-1} + \beta_8 \ln GDP_{t-1} + \beta_9 TL_{t-1} + \beta_{10} nb_{t-1} + \beta_{11} ne_{t-1} + \beta_{12} nc_{t-1} + \beta_{13} nl_{t-1} + \beta_{14} nk_{t-1} + et \dots (2)$$

Based on the equation (2) the null hypothesis of no long-run relationship is determined through the value of the F-test statistics.

$$H_0: \beta_8, \beta_9, \beta_{10}, \beta_{11}, \beta_{12}, \beta_{13}, \beta_{14} = 0$$

$$H_1: \beta_8 \neq \beta_9 \neq \beta_{10} \neq \beta_{11} \neq \beta_{12} \neq \beta_{13} \neq \beta_{14} \neq 0$$

The dependent variable is represented by the $\lambda \ln GDP_t$ while TL_t is a proxy of foreign direct investment and the remaining independent variables are the proxies of institutional quality, which are, nb_t , proxy of quality of bureaucracy, ne_t , proxy of strong civic liberty, while nc_t , a proxy of the rule of law and nl_t , a proxy of accountable executive and finally nk_t represent control of corruption, while et represent the disturbance term in the model.

with legs, so that the past values of both dependent and independent variables in the model are allowed to explain its present value. The best advantage of using ARDL it provides a consistent estimate of the long-run coefficient that are asymptotically normal, irrespective of whether the underlying regressors are purely 1 (0), 1 (1) or mutually Co integrated. ARDL also allowed us to estimate small sample properties and it also provides better statistical properties than the other existing co-integration techniques. ARDL takes care of the structural breaks inherent in most economic variables. However, provide the easiest means of conducting a stability test of the parameters through the CUSUM and the CUSUM of square CUSUMSQ.

In this study, we followed the work of we follow the work of Charles and Okulola (2021), modified and specified the model as presented below:

Sources of the Data

The data where obtain from a multiple sources, first, the data on GDP per-capita was sourced from the World Development Indicators. While data on trade liberalization was collected from the UNACTDA data set various issues. Thus, data on the quality of bureaucracy was obtained from ICRG data house and BERI data house, while data on the rule of law was extracted from the ICRG. The data on strong civil liberties were obtained from Gatil (now refers to freedom house). Finally, data on control of corruption were obtained from the transparency international data set

4. Presentation and Analysis Results

Table 1: Distribution of the Sample data

	InGDP	TL	nb _t	nc _t	ne _t	nk _t	nl _t
Mean	915.81	194.81	-0.9503	-1.0103	-1.17	-1.11	-0.97
Median	532.50	163.00	-1	-1	-1	-1	-1
Maximum	228.00	692.00	-0.59	-0.88	1.69	-1	-0.69
Minimum	203.00	245.000	-1.67	-1.22	-2.08	-1.52	-1.32
Std. Dev.	746.95	162.46	0.25	0.06	0.65	0.16	0.15
Skewness	0.56	1.26	-1.18	-1.39	2.32	-1.33	-0.11
Kurtosis	1.64	4.42	5.14	5.61	12.28	3.54	3.57
Jarque-Bera	4.13	10.87	13.55	19.41	143.61	9.81	0.49
Probability	0.13	0.01	0.01	0.01	0.00	0.01	0.78
Sum	293.00	600.0	-30.41	-32.33	-37.35	-35.4	-31.1
Sum Sq. Dev.	173	7.87	1.96	0.14	13.43	0.79	0.61
Observations	31	30	31	31	31	31	31

Source: Author's Computation Using Eviews 10

Note: InGDP, TL, nb, ne, ncnl and nk represent, Gross domestic product, Trade liberalization, quality of bureaucracy, civic liberty, rule of law, accountable executive and control of corruption.

Table 1 presented above explain the characteristics of the sample data. The results reveals that Gross domestic

Product has the mean with the highest value while quality of bureaucracy and government accountability has the least value indicating that other variables means are clustered around means of GDP and quality of bureaucracy. Similarly, GDP has the highest deviation from the mean value, while other variable s has least standard deviation. This indicates that other variables standard deviation cluster around GDP.

Table 2: Correlation of the Sample Data

	InGDP _t	TLi _t	nb _t	nc _t	ne _t	nk _t	nl _t
InGDP _t	1	0.82	0.69	-0.12	-0.38	-0.56	0.23
TLi _t	0.82	1	0.37	-0.36	-0.40	-0.54	0.42
nb _t	0.69	0.37	1	0.08	-0.18	-0.28	-0.14
nc _t	-0.12	-0.36	0.08	1	-0.14	0.00	-0.36
ne _t	-0.38	-0.41	-0.18	-0.14	1	-0.05	-0.45
nk _t	-0.56	-0.54	-0.28	0.00	-0.06	1	0.17
nl _t	0.23	0.42	-0.14	-0.36	-0.45	0.19	1

Source: Author's Computation Using Eviews 10

Note: InGDP, TL, nb, ne, nc and nk represent, Gross domestic product, Trade liberalization, quality of bureaucracy, civic liberty, rule of law, accountable executive and control of corruption.

multicollinearity in the estimated model. Multicollinearity exist when there is strong correlation in the estimated regression with correlation coefficient 0.8 (Yusuf & Malarvizhi, 2013). With less appearance of multicollinearity we proceed with Unit root test.

The results in table 2 above suggest that with exception of two, all the remaining variables are not correlated with each other this suggest that there is less issues of

Table 3: The Augmented Dickey- Fuller (ADF) Test and Phillips Perron Test for a Unit Root

Variables	ADF atLevel	Critical value	ADF at First dif.	Critical value	PP at level	Critical value	PP at first dif.	Critical value
nb _t	-2.22	-2.86	-5.65*	-2.86	-2.32	-2.86	-5.65*	-2.86
nc _t	-4.66	-2.88	-6.94*	-2.86	-2.99	-2.86	-7.47*	-2.86
ne _t	-3.99	-2.86	-6.76*	-2.87	-3.96	-2.86	-19.55*	-2.86
TL _t	3.53	-2.87	-2.23*	-2.87	3.10	-2.87	-2.09*	-2.87
InGDP _t	0.03	-2.86	-5.29*	-2.86	0.02	-2.86	-5.29*	-2.86
nk _t	-2.67	-2.86	-8.32*	-2.86	-2.64	-2.86	-14.71*	-2.86
nl _t	-4.66	-2.89	-7.91*	-2.86	-2.17	-2.86	-8.11*	-2.86

Source: Author's Computation Using Eviews 10

Note: * ** *** indicate significant at 1% 10% 5% respectively while InGDP, TL, nb, ne, nc and nk represent, Gross domestic product, Trade liberalization, quality of bureaucracy, civic liberty, rule of law, accountable executive and control of corruption.

level of significant. Therefore, to make the series stationary another test was conducted at the first differences and the series become stationary and to ensure robustness confirmatory Phillips Perron test was estimated. The result indicates after first differencing all the series become stationary at 5% level of significant.

Table 3 indicates the results of the unit root test through the ADF test. However, the estimated results indicate that the null hypothesis of no unit root cannot be rejected at 5%

Table 5: Co- Integration Test, Bound Testing Approach

F- test statistics	%	1(0)	1(1)
	1%	5.75	6.48
	5%	3.99***	4.53***
	10%	3.25	3.77
InGDP _t =3.47			

Source: Author's Computation Using Eviews 10

Note: * ** *** indicate significant at 1% 10% 5% respectively thus InGDP, TL, nb, ne, ncnl and nk represent, Gross domestic product, Trade liberalization, quality of bureaucracy, civic liberty, rule of law, accountable executive and control of corruption.

The results in table 5 test the hypothesis of no long run relationship. Thus, the results reject the null hypothesis since the computed F- statistics is greater than the upper critical value at 5% level of significance. Therefore, this suggests that there is the existence of long run relationship.

Table 6: Estimated Long Run Economic Growth

Regressors	Coefficients	T-ratio
TLi _t	0.019161	1.8742
nb _t	8.1781*	2.8942
ne _t	1.3423	1.3449
nc _t	6.89827	0.20402
nl _t	6.626*	12.4485
nk _y	5.5644	4.7553

Source: Author's Computation Using Eviews 10

Note: * ** *** indicate significant at 1% 10% 5% respectively thus all variables are significant, thus InGDP, TL, nb, ne, ncnl and nk represent, Gross domestic product, Trade liberalization, quality of bureaucracy, civic liberty, rule of law, accountable executive and control of corruption.

that the coefficient of trade liberalization is not statistical significant implies that it does not significantly impacts on economic growth in Nigeria. But the coefficient of nbt, nlt and nkt are statistically significant which implies that nbt, nlt, and nkt significantly contribute on the economic growth of Nigeria

Table 6 represents the result of the dynamic estimated economic growth long run relationship. The results suggest

Table 7: Dynamic Economic Growth Model

Variables	DInGDP _t	DTL _t
DInGDP _{t-1}	0.17	44.17*
	(-0.083)	(0.00)

DTL _{t-1}	0.01*	0.42
	(0.00)	(0.06)
Dnbt _{t-1}	21.16	1.11
	(-0.88)	(-0.83)
Dnet _{t-1}	68.94	9.76*
	(-0.38)	(0.00)
Dnct _{t-1}	3.05*	1.57*
	(0.00)	(0.00)
Dnlt _{t-1}	11.33*	1.03*
	(-0.029)	(0.00)
Dnkt _{t-1}	6.91*	6.87*
	(-0.00)	(0.00)
ECM _{t-1}	- 0.28*	-0.14*
	(2.02)	(-2.04)

Source: Author's Computation Using Eviews 10

Note: * ** **** indicate significant at 5% 10% 1% respectively thus all variables are significant, thus DInGDP, DTL, Dnb, Dne, Dnc, Dnl and Dnk represent, Changes in Gross domestic product, Trade liberalization, quality of bureaucracy, civic liberty, rule of law, accountable executive and control of corruption.

However, the estimated co-efficient of gross domestic product in the dynamic equilibrium model is also significant indicating that trade liberalization growth spillover effect is significant. In fact all the coefficient of the Institutional quality variables with exception of quality of bureaucracy are significant and impacting on trade liberalization suggesting that trade liberalization requires quality of institutional quality and good governance capabilities in order to stimulate economic growth. The findings of this study supported the work of (Charles and Okunlola 2021) and opposed to the work of (Duru et al 2020). However, the estimated coefficient of trade liberalization (DLT_{t-1}) is significantly negative which implies that trade liberalization negatively impact on economic growth. The negative sign support the findings of the work of (Yusuf, Malarvizhi, and Khin, 2013) which suggest that the effect of trade liberalization can be in both

negative and positive subjects to the existence of good institution or otherwise. It is, therefore, not surprising that trade liberalization took a negative sign in Nigeria because the country depend so much on import. This also implies that Nigeria need to restructure its import export base in order to benefit from opening up of the economy.

5. Conclusion and Recommendations

This study examine the relationship between trade liberalization institutional quality and economic growth in Nigeria by identifying specific institutional quality to examine whether they modulate the spillover effect of trade liberalization on economic growth. The study uses time series data of Nigeria and applied the auto distributed lag model and error dynamic equilibrium model to determine the causal linkage. Findings of the study suggest that institutional quality module the growth spillover effect of trade liberalization in Nigeria. This study is consistent with the work of (Charles & Akinlola 2020) but disagree with the findings of the work of Duru & Ezenwe 2020 and Duru et al (2021). However, trade liberalization also affect economic growth this supported the work of Yusuf, Malarvizhi & Khin (2013). On the

negative sign of the coefficient of trade liberalization this give support to the protectionist theory of trade liberalization that in the absences of institutions the impact of trade liberalization can be negative where the policy is not well manage with proper import export structures. The policy implication of the findings from the study suggest

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- that for trade liberalization growth spillover effects there is need for institutional quality that can translate trade policy into meaningful economic growth. This paper also suggest for further studies on Nigeria with emphasis need on growth driven institutions with much capabilities.
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