



International Trade and its Impact on Global Economic Development

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Abstract

The benefit of international trade had not been noticed in the economic growth of Nigeria because some of the goods imported into the country were those that can cause damage to local industries by rendering their products inferior and being neglected, thereby reducing the growth rate of output of such industries which later spread to the aggregate economy. The work investigated the extent to which international trade impacted global economic development with particular reference to the Nigerian economy between 1986 and 2018. The data employed for this study are annual time series data covering 1986-2018. The data were obtained from the World Bank data outlook and the central bank of Nigeria statistical bulletin. This study adopts the statistical method of multiple linear regression approach using ordinary least squares to examine the relationship between RGDP as a dependent variable and degree of openness, foreign exchange rate, and interest rate as independent variables. The paper revealed that a relationship exists between international trade and economic growth and that while some components of international trade exerted a positive and significant effect on growth, INTR exerted a positive but insignificant effect. The result further shows that all the regressors except interest rates were statistically significant at a 5% level of significance. Some policy recommendations which would be helpful and applicable to the Nigerian economy were suggested. For the degree of openness, Nigeria should adopt more policies on trade liberalization like reducing non-tariff barriers, reducing barriers, and eliminating quotas that will enable the economy to grow at a spectacular rate. The finding for exchange rate implies that the policymakers should adopt long-term policies because, in the long run, a strong currency depends on economic fundamentals. To have a strong exchange rate, countries will need a combination of a low inflation rate, productivity growth, and economic and political stability.

Keywords: International trade; Global economic development; Real gross domestic product; Openness.

1. Introduction

International trade promotes economic growth but in recent times this has not been the case. This is because the Nigerian economy is still experiencing some elements of economic instability such as price instability, high level of unemployment, and adverse balance of payments. Also, the poor performance of international trade has been ostensibly blamed on factors such as different languages, difficulty in transportation, risk in transit, lack of information about foreign businessmen, etc. Despite the above-mentioned problems, the study seeks to find answers to the following questions: Does international trade stimulate economic growth in Nigeria? Do trade policies have an impact on international trade in Nigeria?

The purpose of the study is to examine the impact of international trade on the global economic development of Nigeria. The specific objectives are: To investigate the impact of the degree of openness on the economic growth of

Nigeria. To examine the effect of the foreign exchange rate on the economic growth of Nigeria. To determine the influence of interest rates on the economic growth of Nigeria.

2. Conceptual Framework

International trade is the exchange of products/services from one country to another (Murajul and Muhammed, 2014). It consists of imports and exports in terms of flowing into a country from abroad and out of a country from sold overseas respectively. It may also consist of visible and invisible trade i.e. solid tangible things between countries or invisible trade i.e. services. Most economists agree globally that international trade helps boost a nation's wealth. When a person/company purchases a cheaper product/service from another country, living standards in both nations rise (Manteii, 2015). There are several reasons why we buy things from foreign suppliers. Perhaps the imported options are cheaper, their quality may also be better as well as their viability. The exporter also benefits from sales that would be not possible if it solidly sold to its market. The exporters may also earn foreign currency. It can subsequently use foreign currency to import things (Ospina *et al.*, 2018). With international trade, there are greater competitors and more competitive pricing in the market. This means that consumers have more choices and more affordable options. The economy of the world which is driven by supply and demand also benefits. In a world with international trade, both consumers and countries would be better off (Adam, 1723-1790).

Nations trade internationally when there are not the resources/capacity to satisfy domestic needs and wants domestically. By developing and exploiting their domestic resources, countries can produce a surplus. They may use this surplus to buy goods they need from abroad i.e. through international trade. International trade has existed for more than 9000 years. Our modern industrialized world would not exist if countries did not import and export. Put simply international trade is at the heart of today's global economy. Global international dependence is a fact of life for every country today we import goods/services for several reasons: a foreign country may produce things cheaper, quality may be superior abroad; availability i.e. may not be possible to produce the goods locally demand might be greater than local supply.

According to Sothem and Zhang (2017), the advantages of international trade include comparative advantage, economies to scale, competitive transfer of technology, and jobs (Wesley and Peterson, 2017). By comparative advantage, trade can encourage a nation to specialize in producing/supplying only those goods/services that it can deliver more effectively and at the best price after taking into account opportunity cost. By economies of scale, a nation produces a higher volume, thereby reducing the cost item. By competition, international trade boosts competition by forcing suppliers to sell at lower prices and the best quality possible, and consumers can benefit by having more choices, more money left over, and top-quality goods. By transfer of technology, technology goes from its originator to a secondary user. By jobs, great trading nations such as Japan, Germany, the UK, USA, and South Korea have much lower levels of unemployment than protectionist countries.

Samimi and Jenata (2014), opined that the disadvantage of international trade includes: overspecialization, new companies, nations, and security-blocking trade harming the economy. By overspecialization, employees might lose their jobs in large numbers of global demand for product directions. New companies find it harder to grow if they are to compete against giant foreign firms. For national security, a country that depends on imports for strategic industries will be at risk of being held for ransom by the exporters, strategic industries including food, energy, and military equipment.

Blocking trade harms the economy. It is used to give domestic infant companies a chance to grow and hurts the nation's economy i.e. it harms the country's economy's long-term prospects. When governments adopt a protectionist policy, other nations retaliate. Subsequently, there are lit-for-tax responses and sometimes even trade wars (Ma and Lu, 2011). Eventually, unemployment rises and the creation of wealth declines. In every single case, the world's greatest trading nations are also by far the richest. Germany, the Netherlands, Singapore, Japan, and Hong Kong are considerably wealthier than for example, Cuba, North Korea, Zimbabwe, and Venezuela.

Although international trade exists across the world, imports and exports are regulated by quotas and mandates from each country's customs authority. The importing nation may impose a tariff or a tax on certain products. Some markets have special trade deals which list what goods may be freely traded and which ones are restricted. The European countries have 27 member states, which can trade freely with each other, and there are no tariffs/quotas. On June 23rd, 2016, the British electorate voted in a referendum to leave the European Union.

With a soft Brexit, the UK would still have unfettered access to the EU's 500m consumers but would have to sign up for the free movement of people. With a hard Brexit, the country would regain total control of its borders but would lose free access to the market. Tariffs on goods exported to the EU would be between 10% and 20%, with a hard Brexit. NAFTA (North American Free Trade Agreement) consists of three countries-the USA, Canada and Mexico-which also trade freely with each other (Balaniika, 2013). The global system of trade preferences (GSTP) is a preferential trade agreement between emerging economies and LDCs (less developed countries)

3. Theoretical Review

The origin of trade can be traced to the absolute and comparative advantages as well as Heckscher-Ohlin theories (Keho, 2017). The theory of absolute advantage was formulated by Adam (1723-1790) in his famous book titled 'Inquiry into the nature and wealth of nation'. The theory emanated due to the demise of mercantilism. Smith argued that with free trade each nation could specialize in the production of those commodities that it could produce more efficiently than other nations and import those commodities it could not produce efficiently. According to him, the international specialization of factors of production would increase the world output. Thus this specialization makes goods available to all nations. The second is the theory of comparative advantage propounded by David Ricardo.

The theory assumed the existence of two countries, two commodities, and one factor of production. To him a country exports, a commodity whose comparative advantage is lower and an import commodity whose comparative advantage is higher. The theory also assumes that the level of technology is fixed for both countries and that trade is balanced and rolls out the flow of money between nations. However, the theory is based on the labor theory of values which states that the price of the values or the commodity is equal to the labor time going into the production process. Labor is used in a fixed proportion in the production of all commodities. But the assumption underlying this is quite unrealistic because labor can be subdivided into skilled semiskilled and unskilled and there are other factors of production. Despite the limitation, comparative cost advantage cannot be disorder because its application is relevant in explaining the concept of opportunity cost in the modern theory of trade'

Heckscher-Ohliri focuses on the difference in the relative factor endowment and factor prices between nations on the assumption of equal technology and lasts. The model was based on two main propositions: a country will specialize in the production of export of commodity whose production requires intensive use of abundant resources, and countries' different factor endowment, some countries are capital intensive while some are labor intensive. He identified the difference in pre-trade produce prices between nations as the immediate bases of trade, the prices depend on the production possibility curve (supply side) as well as the list and preference (demand side). But the production possibility curve depends on factor endowment and technology. To him, a nation should produce and export a product for which abundant resources are used be it capital or labor. The model suggests that developing countries are labor abundant and therefore they should concentrate on the production of primary products such as agricultural products and they should import capital-intensive products i.e. manufactured goods from the developed countries. The model also assumes two countries-two commodities and two factors and that two-factor input labor and capital are homogeneous. The production function is assumed to exhibit a constant return to scale. However, the theory is not free from criticism and this is because factor inputs are not identical in quality and cannot be measured in homogenous units. Also, factor endowment differs in quality and the variety of relative factors prices reflects differences in relative factor endowment-supply, therefore, outweighing demand in the determination of labor prices. Despite this criticism, trade increases the total world output. All countries gain from trade and it also enables countries to secure capital and consumption of goods from the rest of the world.

4. Empirical Review

Ulasan (2015) empirically examined the impact of international trade on the economic growth of Nigeria. The study adopted a multiple regression model to discover that relationship exists between international trade components' degree of openness, foreign exchange and interest rate, and economic growth. All the components of international trade exerted positive relationships on the economy. All the components of international trade exerted significant impact except interest rate which exerted insignificant impact. It was recommended that Nigeria should adopt more policies on trade liberation. Adeniran *et al.* (2014), investigated the impact of exchange rates on economic growth using multiple regression analysis. The paper indicated that the exchange rate component of international trade has a positive but insignificant impact on the economic growth of Nigeria. This affirms previous studies that developing countries are relatively better off in their choice of flexible exchange rate regimes. It was also indicated that interest rates and inflation rates have a negative but significant impact on economic growth. It was recommended that government should encourage export promotion strategies to enable countries to maintain a surplus balance of trade as well as provide a conducive environment, adequate security effective fiscal and monetary policies, and infrastructural facilities so that foreign investors will be attracted to invest in Nigeria.

Kim (2011) empirically conducted a study on the determinants of foreign trade using a multiple regression model. The paper revealed that the gross domestic product, inflation rate, capacity utilization, exchange rate government expenditure, interest rate, and import and export have significant implications on the level of total trade in Nigeria. It was recommended that countries' trade should be on the development of dynamics rather than the static comparative advantages i.e. emphasizing the promotion of non-primary exports and non-oil export. Examined the impact of foreign trade on the economic growth of Nigeria employing a multiple regression model. The study indicated that export, foreign direct investment, and exchange rate were positively related to the real gross domestic product while import, inflation rate, and openness exert a negative influence on the real gross domestic product. It demonstrated that increased participation in global trade helps Nigeria to reap the static and dynamic benefit of foreign trade despite the nonconformity of the coefficient of openness. The work recommended that the government should design an appropriate strategy by diversifying the economy through export promotion, stimulating foreign direct investment, and exchange rate stability to boost the productivity of the Nigerian economy by raising the standard of living of the citizens.

Examined the determinants of external trade in Nigeria adopting the E-view package. The research revealed that gross domestic product, inflation rate capacity utilization, exchange rate, and exports are positively and significantly related to external trade while government expenditure, interest rate, and import are negatively signed. It was recommended that government should take necessary measures to enhance the productivity and competitiveness of enterprises in the export sector by upgrading infrastructures, enhancement of human capital development, and developing and improvement of technology through the increased allocation of resources to research and development. Jouini (2015) examined the relationship between trade policies and economic growth by comparing and investigating America, Australia, and China. It was discovered that less restrictive trade policy leads to better economic growth, however, overall tariff rates do not seem to have a strong effect on economic growth rates.

Balanika (2013) explained the reason for international trade according to recent theories by collecting several governments of openness about free trade and protectionism. The paper introduced the world trade organization as a

tool for promoting international trade. Silajdzic and Metric (2018), examined the relationship between trade openness and economic growth using a theoretical proposition. The paper revealed that while trade openness leads to greater economic efficiency, and market imperfection, the difference in technology and endowments may lead to adverse effects of trade liberalization on individual countries. Also, it was discovered that openness measured by trade intensity indicators may lead to misleading conducive about the trade growth nexus.

The World Bank (2018) examined open trade policies and economic growth and observed that trade is central to ending global poverty and that countries that are open to international trade tend to grow faster, innovate, improve productivity and provide higher income and more opportunities to their people. Adeleke *et al.* (2015), examined the impact of international trade on the economic growth of Nigeria using regression analysis. The paper argued that there exists a relationship between economic performance and international trade. Only total export remains positive and significant. This implies that Nigeria is running a mono-cultural economy where only other factors as industry and agriculture. It was recommended that government should pursue aggressive diversification of the economy by putting in place policies and incentives that will boost non-oil export.

Igbai *et al.* (2017), empirically examined the impact of India-US trade on India's economic growth using multiple regression analyses. The work revealed a positive impact of the bilateral trade on economic growth for both countries. Dinc *et al.* (2017), analyzed the correlation between foreign trade and economic growth in some developing countries including Iran and Turkey using an economics application. The work revealed that foreign trade has a positive impact on economic growth resource allocation, energy and green energy consumption, human capital development, and physical capital consumption. Jouini (2015), explores the empirical evidence of the link between economic growth and openness to international trade by controlling for auxiliary variables in the model for the six cooperation council countries over the annual sample period 1980-2012 using the pooled mean group estimation. The paper revealed evidence of a co-integration relationship between the variables of interest and revealed that economic growth responds positively to trade openness over both the SR and LR. This supports the view that economic growth is directly and robustly linked to trade openness for the GCC countries.

Ulasan (2015), examined openness – growth nexus in a dynamic Panel data framework by using various openness indicators. The result showed that lower trade barriers are not associated with higher growth. Sakyi *et al.* (2015), examined the long-run impact of FDI and trade openness on economic growth in Ghana adopting the autoregressive distributed Lag bounds testing approach to co-integration. The results showed that the interaction of foreign direct investment and exports has been crucial in fostering growth, thus validating the famous Bhagwati hypothesis. The study recommended the changing of EDI to export-oriented sectors and the promotion of export-led growth strategies in long-term development plans. Adeniran *et al.* (2014) examined the relationship between trade and economic growth in Argentina, Columbia, and Peru with emphasis on both the role of exports and imports using Granger Causality and impulse response function. The work revealed that the singular focus of past studies on exports and as to ensure of growth may be misleading. The empirical support for the import-led growth hypothesis is relatively stronger than the export-led. In some cases, there is evidence for reverse causality from GDP to export and imports.

Keho (2017), examined the impact of trade openness on economic growth for Cote d'ivoire over the period 1965-2014 using the Auto regressive distribution Lag bound test to cointegration and the Today and Yamamoto granger Causality tests. The result showed that openness has positive effects on economic growth both in the long run and short run. Also, it was revealed that there exists a positive and strong complementary relationship between trade openness and capital formation in promoting economic growth. Kim (2011), used the instrumental variable threshold regression approach of Kim (2011) to investigate the trade's contribution to the standard of living and long-run economic development. The empirical evidence showed that greater trade openness has strongly beneficial effects on growth and real income for the developed countries but a significant effect on the developing countries. The heterogeneity in the relationship suggests that greater international trade and integration may foster uneven development and hence contribute to more diverging economies. The real effect of trade depends on the level of financial development, inflation and trade openness.

5. Methodology

The data employed for this study are annual time series data covering 1986-2018. The data were obtained from the World Bank data outlook and the central bank of Nigeria statistical bulletin. This study adopts the statistical method of multiple linear regression approach using ordinary least squares to examine the relationship between RGDP as a dependent variable and degree of openness, foreign exchange rate, and interest rate as independent variables.

The multiple regression model is explicitly specified as follows: $RGDP = f(DOP, FXR, INTR)$ 1 where RGDP = Real Gross Domestic Product, DOP = Degree of Operation, FXR = Exchange Rate, INTR = Interest Rate.

The above model can be expressed in a linearized form as:

$$RGDP = a_0 + a_1DOP + a_2FXR + a_3INTR + E_t \dots\dots\dots (2)$$

Where a_0 = Constant, $a_1 - a_3$ = coefficient, E_t = error term

6. Data Analysis and Results

Table-1. The Augmented Dickey-Fuller Test for the series of LR GDP, LDOP, INTR, and FXR

Variables	At Level		At First difference		Remark
	Intercept	Trend and Intercept	Intercept	Trend and Intercept	
LRGDP	2.127413	0.112947 xx	-3.796300	-3.63296 xx	1(1)
LDOP	0.741301	-2.281834 xx	-7.281662	-7.750162 xx	1(1)
FXR	-0.030011	-2.118196 xx	-5.226117	-5.213710 xx	1(1)
INTR	-2.917554	-2.965950 xx	-6.221526 xx	-6.294825 xx	1(1)

Note: xx denotes the significance level at 5%.

The table above shows that all the variables are stationary at first difference 1(1). So the variables are integrated in the same order, and with the result, we proceed to estimate the model thus.

Table-2. Result of the estimated model

Variable	Coefficient	Std. error	t-statistics	Prob.
C	5.407448	1.924861	2.809266	0.0093
LRGDP	0.178513	0.060716	2.940110	0.0068
FXR	0.005884	0.004649	9.071346	0.0000
INTR	0.005481	0.004627	1.84606	0.2461

$R^2 = 0.91$, Adj. $R^2 = 0.91$, $F = 106.33$, $F\text{-Prob} = 0.000$, $DW = 1.72$.

Akaike criterion = -0.88, Schwatz = -0.69, RSS = 0.60.

Source: E-view regression Output

From the above result, R^2 shows that all the explanatory variables in terms of the degree of Openness (DOP), foreign exchange rate (FXR), and interest rate (INTR) explained 91% of the variability in the real gross domestic product (RGDP). This implies that the model explains 91% of the changes in RGDP and the remaining 9% is contributed by other variables outside the model or that are captured by the error term since R^2 measures the fit of the model so this model is well fit i.e. the data is filled well. Considering the adjusted R^2 (which can be less than or equal to R^2) after considering the degree of freedom, the R^2 explained 91% variability in RGDP. Therefore, we can still conclude that the explanatory variables perfectly explained the behavior of the dependent variable Durbin Watson statistic, the benchmark for Durbin Watson is 2 given the DW to be 1.79 which can be approximately 2 showings that the model is free from autocorrelation problem.

The F-statistic is used to check if the independent variables are jointly significant to explain the dependent variable or the overall significance of the model. Given the F-value of 106.33 with the probability of 0.000, we can conclude that there is a statistically significant relationship between the explanatory variables of DOP, EXR, and INTR and the dependent variable of RGDP. This is because the R-value of 0.000 is less than 0.05 which led to the rejection of the H_0 which states that there exists no significant relationship between the explanatory variables and the dependent variable; hence the acceptance of H_0 which states otherwise.

The coefficient of DOP is 0.18 and it gives a positive and significant relationship with real GDP it shows that the percentage increase in DOP will lead to an 18% increase in RGDP. This is in line with economic theories that held that open economies would experience increased economic growth while closed economies, those with relative tariffs and not open to trade would experience no economic growth. This result agrees with the notion that economic growth cannot exist without DOP of the economic policies that other restrict or liberalized trade.

The coefficient of FXR is positive and statistically significant. This means that FXR plays a vital role in Nigeria's level of trade and its movement affects the country's trading relationship with other countries. The higher the exchange rate the more expensive the exports and the cheaper the imports in the foreign market, and the lower the exchange rate the cheaper the exports and the more expensive the imports in the foreign market. So the higher the exchange rate, the lower the GDP while a lower exchange rate will increase GDP.

The coefficient of INTR showed positive and in line with the prior expectation that there is a positive relationship between INTR and GDP. Given the value of INTR at 0.005, INTR explained a positive but insignificant relationship with RGDP. This is because the p-value is less than 0.05. Higher INTR increases the value of a given country's currency. The high INTR that can be earned tends to attract FDIN increasing the demand for the value of the home country's currency. Conversely, lower INTR tends to be unattractive for foreign investment and decreases the currency in relative value.

However, INTR above does not determine the value of a currency. Other factors that are often of greater importance are political and economic stability and the demand for a country's goods/services. Factors such as a country's BOT between imports and exports can be a much more crucial determining factor for a country's product means greater demand for the country's currency as well. Favorable GDP and BOT numbers are key figures that analysts and investors, consider an assessing the desirability of owning a given currency.

Table-3. Result of Granger Causality Test

Null Hypothesis	Obs.	F-Statistic	Prob.
LDOP does not granger cause LRGDP	30	2.18829	0.1331
LRGDP does not granger cause LDOP		8,79843	0.0013
FXR does not granger cause LRGDP	30	4.06861	0.0295
LRGDP does not granger cause FXR		0.58807	0.5629
INTR does not granger cause LRGDP	30	0.01386	0.9862
LRGDP does not granger cause INTR		0.04417	0.9559
FXR does not granger cause LRGDP	30	4.57082	0.0203
LDOP does not granger cause FXR		0.54271	0.5879
INTR does not granger cause LDOP	30	0.77812	0.4701
LDOP does not granger cause INTR		0.09317	0.9114
INTR does not granger cause FXR	30	0.20024	0.8198
FXR does not granger cause INTR		0.14465	0.8660

Source: E-views

From the above result, RGDP was found to granger cause DOP was also found to granger cause RGDP within the period in review. However, the fact that the probability of FXR shows significance at 5%, therefore we do not accept Ho that FXR does not granger cause RGDP. In another word, FXR indeed granger causes RGDP i.e. one-way causation in this case criteria paribus. In this case, granger causality runs one way from FXR to RGDP and not the other way.

7. Conclusion and Recommendation

The paper revealed that a relationship exists between international trade and economic growth and that while some components of international trade exerted a positive and significant effect on growth, INTR exerted a positive but insignificant effect. The result further shows that all the regressors except INTR were statistically significant at a 5% level of significance. Some policy recommendations which would be helpful and applicable to the Nigerian economy were suggested. For the DOP, Nigeria should adopt more policies on trade liberalization like reducing non-tariff barriers, reducing barriers, and eliminating quotas that will enable the economy to grow at a spectacular rate.

The finding concerning the exchange rate implies that policymakers should adopt long-term policies because, in the long run, a strong currency depends on economic fundamentals. To have a strong EXR, countries will need a combination of low INFR, productivity growth, economic and political stability.

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