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Openness and Government Size in Nigeria: Evidence from A New Dataset

Alabi Moshood Kolawole[1]
Usman Aminat Mama[2]

Abstract

African countries recently signed the African Continental Free trade agreement and are currently working on the modalities of its implementation. This Agreement will produce the biggest free trade area in the world in terms of the number of countries taking part. With this agreement, there would be trade and financial openness. But what impact would this have on government size, particularly with respect to Nigeria? In order to find out, this study investigated the link between openness to trade, financial openness and the size of government in Nigeria. A new data set from the 2022 Swiss Economic Institute on trade globalization index and financial globalization index was used. The data was analyzed using the autoregressive distributed lag ARDL model and Bounds testing approach. Results showed that an increase in trade openness has no significant effect on government size in the long run; but only in the short run. This means that the compensation hypothesis is valid in Nigeria only in the short run but not in the long run. Findings of this study also revealed that a rise in financial openness will cause a fall in government size in Nigeria thereby validating the efficiency hypothesis in Nigeria. Going by these results, this study makes the following recommendation. Government should embrace both trade and financial openness although this should be done cautiously. The effects of both trade and financial openness would eventually neutralize each other. Meanwhile the country would reap the benefits of opening up the country to the international community.

Keywords: Trade openness, financial openness, government size, Nigeria

1. Introduction

Globalization is being embraced all across the world today and with it comes the need for various governments to adjust to the emerging issues. One example of an emerging issue is the African Continental Free Trade Area (AfCFTA). The African

[1] Lecturer, Department of Economics, University of Ilorin, PMB 1515, Ilorin, Kwara State, Nigeria. Email: alabi.mk@unilorin.edu.ng
[2] Lecturer, Department of Economics, University of Ilorin, PMB 1515, Ilorin, Kwara State, Nigeria. Email: usman.ma@unilorin.edu.ng

Continental Free Trade Area (AfCFTA) agreement will produce the biggest free trade area in the world in terms of the number of nations taking part. The agreement is going to link together 1.3 billion persons in the 55 African nations with a total gross domestic product of US$3.4 trillion (Echandi, Maliszewska and Steenbergen, 2022). AfCFTA is capable of lifting 30 million men and women out of extreme poverty and at the same time, raising the income of about 68 million other people (Echandi, Maliszewska and Steenbergen, 2022).

With free trade, economies open up totally leading to trade openness and financial openness. This poses two questions: (1) Does trade openness affect government size? (2) Does financial openness affect government size? Cameron (1978) tried to answer these questions. He discovered, among other things that the level of exposure of an economy to the foreign market does indeed affect the size of government. This, he arrived at, based on data analysis from 18 countries. Ever since then, we have witnessed a rising number of scholars in this field who are interested in answering these questions. Two competing hypotheses have emerged. They are: the compensation hypothesis and the efficiency hypothesis. The compensation hypothesis states that an increase in the openness to trade could lead to a rise in government size while the efficiency hypothesis states that a rise in financial openness could lead to a fall in the size of government. While some studies like De Jong (2020) and Fujii (2017) have examined the link between openness to trade and the size of government, others like Erauskin (2011) have assessed the linkage between financial openness and the size of government. Bringing the two together, studies such as Dixit (2014), Mendonca and Oliveira (2019), San and Hotunluoglu (2021) and Nwosa and Akinbobola (2021) have observed the relation between both openness to trade and financial openness as it affects the size of government.

African countries have embraced and signed the African continental free trade agreement (AfCTA) and are currently working on modalities of its implementation. In addition to this, the continent is also working towards having a single currency. Having a free trade agreement and a single currency will certainly require trade and financial openness. Meanwhile, nations that are already facing rising degrees of openness will be sensitive to international economic shocks. Already, the African continent faces challenges of low economic growth rates, high rates of unemployment and inflation. In an attempt to address some of these challenges, these governments resort to external borrowing thereby leading to a rising public debt profile. As the continent opens up, it becomes imperative to know the effect and the relationship that exists between openness (financial and trade) and the size of government in order to prepare adequately.

This study's objective was to assess the relationship between financial and trade openness and the size of government. Unlike previous studies, this present study contributes to the knowledge gap by making use of the 2022 Swiss Economic Institute (KOF) trade globalization index and the financial globalization index to represent trade openness and financial openness respectively. In addition to this, the dependency ratio of the population was included as a control variable, something

which has been left out in previous studies conducted for Nigeria. The significance of including this variable is that it allows us to isolate the impact of financial and trade openness without the interference of population.

Using an Autoregressive distribute Lag (ARDL) model, results showed an increase in financial openness led to a decrease in government size in Nigeria thereby validating the efficiency hypothesis in Nigeria. Meanwhile, results also showed that an increase in trade openness has no significant effect on government size in the long run; but only in the short run. This means that the compensation hypothesis is valid in Nigeria in the short run only but not in the long run. This study is organized accordingly: The first section gives the introduction; the second section talks about the review of relevant literature. The third section is for data and research methodology while the fourth section gives the results and findings. The fifth section gives the conclusion of the study.

2. Literature Review

The compensation hypothesis posits that as trade openness increases there would be an increase in government size (Sari and Hotunluoglu, 2021). This is because it is believed that with greater trade openness comes higher external risks, social polarization and economic inequality, hence, the citizens should be compensated for these in the form of increased government spending. The efficiency hypothesis states that as financial openness increases, there would be a decrease in government size (Heimberger, 2020). The reason for this is because when there is foreign competition across the globe, governments cut back on their tax rates in order to attract capital flow and this will consequently lead to a reduction in government spending. In order to ascertain the validity or not of these hypotheses, we take a look at some empirical studies that have been conducted.

The studies presented here investigated only the compensation hypothesis. The findings from studies such as Rodrik (1998), Sari and Hotunluoglu (2021) indicated that there exists a positive relationship between trade openness and the size of government. This conclusion was arrived at irrespective of whether the country is a low-income or high-income country and also irrespective of the method used to capture government spending. Similarly, Lin and Sim (2014) assessed the linkage between openness to trade and the size of government for 92 small developing countries including sub–Saharan Africa. The methodology used was the instrumental variable model. Results showed evidence in favor of the compensation hypothesis. Islam (2004) analyzed the relation between openness to trade and central government expenditure for Norway, Sweden, USA, Canada, Australia and England using bounds testing. A long run relationship was established in USA and Canada but was not found in the other countries.

Epifani and Gancia (2009) found evidence to support the compensation hypothesis using data of 143 countries. On the contrary, Molana et al. (2011), Benarroch and Pandey (2012) andLiberati (2013) found no evidence in support of the compensation hypothesis. Turan and Karakas (2016) studied the effect of

openness to trade on the size of government for Turkey and South Korea using the autoregressive distributed lag model. The study used various proxies for government size. Results showed a positive relationship for Korea and a negative relationship for Turkey

There were also studies with mixed results reported. For example, Down (2007) and Kim (2007) criticized the assumption that openness leads to volatility which in turn requires government compensation. Their argument is that domestic economic volatility may be the result of the market size and structure rather than the widespread belief that such volatility is caused by trade openness. They gave empirical evidence to show that openness does not make economies more volatile rather it is the level of external risk that leads to volatility. This finding therefore goes contrary to the assumption of the compensation hypothesis. Martin and Steiner (2013) using a panel data of 20 OECD countries examined the compensation hypothesis and their findings were against the compensation hypothesis. Benarroch and Pandey (2008) and Rodrik (1998), gave empirical evidence based on causality tests performed and it revealed that a big government size leads to smaller trade openness. This is contrary to the compensation hypothesis.

The following studies presented here investigated only the efficiency hypothesis. Heimberger (2020) found evidence in support of the efficiency hypothesis. Erauskin (2011) also studied the impact of financial openness on government expenditure in 16 OECD countries from 1970 – 2004. Evidence indicated that an increase in financial openness leads to a decline in government size, hence the efficiency hypothesis was validated. On the contrary, according to Garrett (2001), there was no evidence of the efficiency hypothesis after analyzing data for 165 countries for the period 1970 – 1995.

Next, we take a look at studies that analyzed both compensation hypothesis and the efficiency hypothesis together. It is worthy to note that Liberati (2007) was of the opinion that both the compensation and efficiency hypotheses be studied together and not separately. Also, Dreher et al, (2008) suggested that if we brought the two hypotheses together simultaneously, they could neutralize each other, in terms of their impact on government size. Dixit (2014) looked at the link between openness to trade, capital openness and the size of government in India using the Bounds Testing method. Results showed that the efficiency hypothesis is valid for India but the compensation hypothesis is not. Using several panel data regressions for 124 countries, Mendonca and Oliveira (2019) investigated the trade, financial openness and government size relationship. Results showed that financial openness was insignificant in explaining government size but trade openness was significant. For South Africa, De Jongh (2020) reported that the compensation hypothesis was not valid but found evidence in support of the efficiency hypothesis. Bayat, Tasar and Kayhab (2017) investigated the G7 countries and evidence showed that the compensation hypothesis is present only for Japan and Canada. Fujii (2017) studied Japan's public finance and contrary to the compensation hypothesis, he found out that an expansion in openness to trade actually led to a fall in government spending.

He concluded that financial openness played a more vital role than trade openness. Interestingly, results from studies like Adam and Kammas (2007), have validated both compensation and efficiency hypotheses. The study made use of panel data for 17 OECD countries and the period was from 1970 to 1997.

Meanwhile, Kim (2009) investigated both hypothesis for 18 high-income countries from 1970 – 2000. Using a broader definition of globalization, the study found out that there is a curve-linear link between globalization and social welfare effort. Countries where globalization is not fully developed, globalization raises the social welfare but countries where globalization is fully developed, globalization process leads to adverse effect on social welfare effort.

Leibrecht et al (2011) found evidence to validate the compensation hypothesis in Western Europe while the efficiency hypothesis was found to be valid in Eastern Europe. Garrett and Mitchell (2001) investigated both the efficiency and compensation hypothesis for 18 countries. They found out that an increase in trade and capital mobility led to a decrease in government spending. Thus, there was no evidence for the compensation hypothesis but the efficiency hypothesis was validated. Similarly, Gemmell et al (2008) examined both the compensation and efficiency hypothesis for 25 OECD nations from 1980 – 1997 but they found no impact on government size.

There are a few studies which have focused on African countries. For Nigeria, the studies we have are quite few. Aregbeyen and Ibrahim (2014) estimated the relationship between openness to trade and government spending in Nigeria. In their model specification, trade openness was the dependent variable while government spending was the independent variable. Government spending was disaggregated into capital and recurrent expenditure. Using the ARDL and Bounds test, a long run relationship was established between openness to trade and government expenditure, and between openness to trade and recurrent government expenditure but such relationship did not exist between openness to trade and capital expenditure. Also, the study found the compensation hypothesis to be valid for Nigeria and there was unidirectional causality from openness to trade to government expenditure, from openness to trade to recurrent government expenditure but no causality from trade openness to capital expenditure.

Meanwhile, Ibrahim (2015) extended the model used in Aregbeyen and Ibrahim (2014) by adding real per capita gross domestic product as a control variable and sampled the five biggest countries in Africa namely Egypt, South Africa, Nigeria, Algeria and Angola. According to the study's findings, openness to trade is positively related to government spending for Nigeria and Algeria, a negative relationship for South Africa but no relationship was observed for Angola and Egypt. According to Olagunju, Olakanmi and Osakede (2023), if openness to trade rises by 1%, there will be a 2% improvement in the small and medium scale enterprises productivity in Nigeria.

Contrary to earlier works of Aregbeyen and Ibrahim (2014) and Ibrahim (2015), Olawole and Adebayo (2018) in their model specification made government spending the explained variable but trade openness was the explanatory variable. Other variables included were financial openness and GDP per capita. The empirical findings revealed that openness to trade is positively related to government spending thereby validating the compensation hypothesis in Nigeria and corroborating the results of Aregbeyen and Ibrahim (2014). Furthermore, financial openness had a negative relation with government spending, an indication that the efficiency hypothesis is equally valid in Nigeria.

Meanwhile, Oyeleke and Akinlo (2016) also made trade openness the dependent variable while government expenditure was made the explanatory variable along with exchange rate added as a control variable. Government expenditure was split into recurrent and capital expenditures, and at the same time, total government expenditure was included in the model. According to their results, there was no cointegration between the variables. The results go against those of Aregbeyen and Ibrahim (2014), Ibrahim (2015) and Olawole and Adebayo (2018). Similarly, Nwaka and Onifade (2015) worked on a sample of 5 countries in Africa namely South Africa, Egypt, Kenya, Ghana and Nigeria. The study made use of the autoregressive distributed lag (ARDL) and fully modified ordinary least squares (FMOLS) method of estimation. Their findings revealed a positive link between openness to trade and government spending for Ghana and Egypt although there was very little evidence observed for Nigeria, Kenya and South Africa.

2.1 Research Gap

Based on the literature reviewed, it was observed that some studies examined the compensation hypothesis, others looked at the efficiency hypothesis, while the rest analyzed both the compensation and efficiency hypothesis. A lot of the studies measured trade openness using the ratio of import plus export to real gross domestic product while financial openness was measured using the ratio of net inflow of foreign direct investment to real gross domestic product. Unlike previous studies, this study contributes to the knowledge gap by making use of the 2022 Swiss Economic Institute (KOF) trade globalization index and the financial globalization index to represent trade openness and financial openness respectively. Based on the author's knowledge, in Nigeria, this will be the first research which employs this new dataset. In addition to this, the dependency ratio of the population was included as a control variable, something which has been left out in previous studies.

3. Methodology

3.1 Specification of the Model, the Variable and Data Sources

Following the model specifications of Dixit (2014) and Mendoca and Oliveira (2019), the model used for this study is given as:

$$GS = f(TO, FO, PGDP, DEP) \quad (1)$$

Taking the natural logarithm of the GDP per capita, the model becomes

$$GS_t = \alpha_1 + \beta_2 TO_t + \beta_3 FO_t + \beta_4 LnPGDT_t + \beta_5 DEP_t + u_t \quad (2)$$

Where GS_t is general government final consumption expenditure as a percentage of Gross domestic product, TO_t is the trade globalization index, FO_t is the financial globalization index, $LnPGDT_t$ is the natural logarithm of per capita GDP, DEP_t is the dependency ratio of the population while u_t is the error term. The trade and financial globalization indices were obtained from the 2022 Swiss Economic Institute (KOF) dataset for the period 1981-2018. The years selected were based on the availability of data. Also, annual data between 1981-2018 for general government final consumption expenditure, per capita GDP and the dependency ratio were obtained from the World bank's World development indicators (2022) database. The study also considered using the Chinn and ito index for financial openness but unfortunately there was no data for Nigeria on it. The 2022 Swiss Economic Institute (KOF) trade globalization index and the financial globalization index were chosen as the ideal index to use due to its comprehensiveness when compared to other indices.

Table 1: Descriptive statistics of the variables

Variables	Unit	Max	Min	Average	SD	Obs
GS	% of GDP	9.44834	0.9112346	3.672712	2.853351	38
FO	Index	60.86544	31.58003	50.27564	6.903996	38
TO	Index	46.30026	24.8128	33.59748	5.296673	38
PGDP	$US	2550.47	1317.36	1749.393	437.5624	38
DEP	Ratio	0.9276325	0.8661516	0.8907954	0.0201722	38

Source: Author's computation, 2023

Notes: Max represents the maximum, Min represents the minimum, SD represents standard deviation and Obs. represents the number of observations

The compensation hypothesis exists in Nigeria if β_2 the coefficient of TO is greater than zero ($\beta_2 > 0$). The efficiency hypothesis is valid for Nigeria if β_3, the coefficient of FO is less than zero ($\beta_3 > 0$). A rise in the per capita GDP is expected to cause an increase in government size and so the coefficient of $LnPGDT$ is expected to be greater than zero ($\beta_4 > 0$). A rise in the level of the dependency ratio is assumed to be linked with a rise in government size and so the coefficient of dependency ratio is expected to be greater than zero and positive ($\beta_5 > 0$). Table 1 presents the descriptive statistics of the data and Table 2 presents the result of the correlation analysis.

In Table 1, we observed that the maximum value for general government final consumption expenditure as a percentage of Gross domestic product (GS) was 9.4% while the minimum was 0.9% for the period 1981-2018. The average general government consumption expenditure stood at 3.67%. It means that government was spending on average, 3.67% of gross domestic product annually. The financial openness index had an average of 50.276 while trade openness had an average of 33.597. We observed that, on the average, Nigeria had a higher level of financial openness than trade. The per capita GDP on the average was US$1,749.39 for the period 1981-2018.

3.2 Empirical Method

A correlation analysis was carried out and the result is presented in Table 2. We observe a positive and statistically significant relationship between government size (GS) and trade Openness (TO). Also, there is a positive and statistically significant relationship between government size (GS) and per capita GDP (PGDP). This means that a rise in TO and PGDP is associated with a rise in GS. A negative and statistically significant relationship between government size (GS) and the dependency ratio. Financial Openness (FO) had no significant relationship with government size. The level of correlation between Per capita GDP and GS is 0.8321 which is the highest. The level of correlation between financial openness and GS is 0.1147 which is the lowest.

Table 2: Result of the correlation analysis

Variables	GS	TO	FO	PGDP	DEP
GS	1.0000				
TO	0.5040***	1.0000			
FO	0.1147	0.5367***	1.0000		
PGDP	0.8321***	0.3794**	0.0549	1.0000	
DEP	-0.4279***	-0.6171***	-0.3569	-0.4672***	1.0000

Source: Author's computation, 2023

*Notes: ***, ** and * represent the significance levels at 1%, 5% and 10% respectively*

The Augmented Dickey-Fuller (ADF) and the Philips-Perron unit root tests were conducted to test the stationarity of the variables. Next, the autoregressive distributed lag (ARDL) Bounds testing was carried out. This method permits the use of a combination of variables that have orders of integration I(0) and I(1). It shows the short run and the long run relationship and the estimators are consistent for a sample size that is short (Pesaran, Shin and Smith, 2001). The Bounds test was carried out in order to identify whether the variables are cointegrated. Once there is cointegration among the variables, an Error Correction Model (ECM) is estimated. Granger causality test was carried out in order to detect whether there is bidirectional or unidirectional causality among the variables.

4. Results and Discussion

The results of the Augmented Dickey-Fuller (ADF) and the Philips-Perron unit root tests are presented in Table 3. GS, TO, LnPGDP and DEP became stationary after taking first difference. Meanwhile, FO was stationary at levels at 1% statistical significance level.

Table 3: ADF and PP unit root test results

	Augmented Dickey-Fuller (ADF) Statistic		Philips-Perron (PP) statistic	
	Intercept	**Intercept & Trend**	**Intercept**	**Intercept & Trend**
At level				
GS	-1.124653	-2.809434	-1.305086	-1.965275
FO	-3.797636***	-3.587396**	-3.595273**	-2.759594
TO	-2.098218	-2.423333	-2.035641	-2.410245

	Augmented Dickey-Fuller (ADF) Statistic		Philips-Perron (PP) statistic	
	Intercept	**Intercept & Trend**	**Intercept**	**Intercept & Trend**
LnPGDP	-0.560759	-1.462871	-0.106273	-2.927408
DEP	2.064891	-0.912207	-1.007227	-2.071806
At first difference				
GS	-5.555557***	-5.463151***	-5.616814***	-5.531844***
TO	-6.917151***	-6.886355***	-6.937313***	-7.012435***
LnPGDP	-3.589279**	-3.446866*	-3.498787**	-3.309390*
DEP	-6.05266***	-5.010665***	-2.620875*	-2.550455

Source: Author's calculation, 2023

*Notes: P-values ***p<0.01,**p<0.05 and *p<0.10 mean that we reject the null hypothesis of a unit root at 1%, 5% and 10% level, respectively. The variables were not stationary at levels except financial globalization index*

Some of the variables were I(0) while others were I(1). A cointegration test was performed using the ARDL Bounds testing approach. This method is preferred due to its ability to accommodate I(0) variables and I(1) variables. Furthermore, it presents the short run and long run equilibrium relationships and the speed of adjustment. An unrestricted error correction model was estimated and it is given in equation (3).

$$\Delta GS_t = \alpha_{0i} + \sum_{i=1}^{p} \alpha_{1i} \Delta GS_{t-i} + \sum_{i=0}^{q} \alpha_{2i} \Delta TO_{t-i} + \sum_{i=0}^{q} \alpha_{3i} \Delta FO_{t-i} + \sum_{i=0}^{q} \alpha_{4i} \Delta LnPGDP_{t-i} + \sum_{i=0}^{q} \alpha_{5i} \Delta DEP_{t-i} + \beta_6 GS_{t-i} + \beta_7 TO_{t-i} + \beta_8 FO_{t-i} + \beta_9 LnGDP_{t-i} + \beta_{10} DEP_{t-i} + e_t \quad (3)$$

Akaike information criteria (AIC) was used to select the appropriate lag length. The null hypothesis for the bounds test is there is no cointegration relationship and it's depicted as represented as $\beta_6 = \beta_7 = \beta_8 = \beta_9 = \beta_{10} = 0$. Alternative hypothesis is that there is cointegration relationship, depicted as $\beta_6 \neq \beta_7 \neq \beta_8 \neq \beta_9 \neq \beta_{10} \neq 0$. We compare the obtained F-value with the critical values. If the obtained F-statistic is greater than the critical value, we reject the null hypothesis but if the obtained F-statistic is lower than the critical value, then we accept the null hypothesis (Narayan and Narayan, 2004).

Based on the cointegration results, Government size, Trade Openness index, Financial Openness index, real per capita GDP, dependency ratio all have a long-run relationship. The next step was to estimate an Error correction model (ECM). Table 4 shows the results of the long run coefficients analysis and Table 5 shows the results of the ECM. Equation 4 illustrates the ECM:

$$\Delta GS_t = \alpha_{0i} + \sum_{i=1}^{p} \alpha_{1i} \Delta GS_{t-i} + \sum_{i=0}^{q} \alpha_{2i} \Delta TO_{t-i} + \sum_{i=0}^{q} \alpha_{3i} \Delta FO_{t-i} + \sum_{i=0}^{q} \alpha_{4i} \Delta LnPGDP_{t-i} + \sum_{i=0}^{q} \alpha_{5i} \Delta DEP_{t-i} + \lambda ECT_{t-1} + e_t \quad (4)$$

In equation (4), the ECT_{t-1} is the error correction term while λ, which is the coefficient of the ECT, represents the speed of adjustment to the long run equilibrium. Looking at the long run estimates, a rise in the financial openness index leads to a fall in government size. The estimate was statistically significant at 10%. A unit increase in financial openness causes a fall in government size in the long run

by 0.29 units, all other factors held constant. On the contrary, a rise in the real per capita income leads to a rise in government size. The parameter estimate for the real per capita income was 0.0041, it was positive and statistically significant at 1%. The implication of this is that if per capita income in Nigeria increases by 1%, government size will also increase by 0.00004 units in the long run, all other factors remaining constant. Our findings are in conformity with a priori expectations and the efficiency hypothesis is valid for Nigeria.

Meanwhile, trade openness index had no statistically significant effect on government size in the long-run but only in the short-run. If openness to trade rises by a unit, government size will also rise by 0.14. This indicates that the compensation hypothesis is valid for Nigeria only in the short run but not in the long run. The dependency ratio was not statistically significant both in the long and short run. These findings are similar to those of Aregbeyen and Ibrahim (2014), Ibrahim (2015) and Olawole and Adebayo (2018).

Table 4: Long-run coefficient estimates result

Dependent variable: GS			
Explanatory variable	**Coefficient**	**t-value**	**p-value**
TO	0.03628	0.32	0.752
FO	-0.29030	-1.99	0.063*
LnPGDP	0.00413	3.83	0.001***
DEP	-42.80864	-1.07	0.300

Source: Author's calculation, 2023

Table 5: Long-run coefficient estimates result

Dependent variable: GS			
Explanatory variable	**Coefficient**	**t-value**	**p-value**
ECT_{t-1}	-0.57967	-2.61	0.018**
ΔTO_{t-2}	0.1430	1.91	0.073*
ΔFO_{t-1}	0.133	2.33	0.033**
ΔLnPGDP	0.007449	2.44	0.026**
ΔDEP_{t-2}	-24.81518	-1.48	0.157

Source: Author's calculation, 2023
*Notes: P-values ***p<0.01,**p<0.05 and *p<0.10 means that the variables are statistically significant at 1%, 5% and 10% level respectively*

5. Conclusion and Recommendations

This study investigated the relationship between openness to trade, financial openness and the size of government in Nigeria. A new data set from the 2022 Swiss Economic Institute on trade globalization index and financial globalization index was used. The data was analyzed using the autoregressive distributed lag ARDL model and Bounds test. Results showed that an increase in trade openness has no significant effect on government size in the long run; but only in the short run. This means that the compensation hypothesis is valid in Nigeria only in the short run but not in the long run. The policy implication of this is that Nigeria should adopt a guided approach to trade openness. While we open up to foreign trade, we must also provide an enabling environment for our local producers to thrive and succeed.

The results also indicated that a rise in financial openness causes a fall in government size in Nigeria thereby validating the efficiency hypothesis in Nigeria. Based on this finding, it is recommended that the Nigerian government should open up the financial sector and be integrated into the global financial market. This would further open up the country to foreign investments and this has the potential of developing the economy. Furthermore, government should embrace both trade and financial openness although this should be done cautiously. The effects of both trade and financial openness would eventually neutralize each other. Meanwhile the country would reap the benefits of opening up the country to the international community such as increased trade and economic integration. This study was limited due to inadequate data. Areas for further research would be to carry out panel data studies on how the size of government in Africa is affected by openness using the latest tools of analysis.

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