DOES TRADE LIBERALIZATION WITH CHINA IMPACT SMALL AND MEDIUM SCALE ENTERPRISES GROWTH IN NIGERIA? AN EMPIRICAL ANALYSIS

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ABSTRACT
The dearth of empirical evidence on the benefits of Nigeria-China trade relations regarding trade liberalization cum small and medium scale enterprises growth in Nigeria motivated this research. Utilizing time series data from 1986-2022 sourced from the Central Bank of Nigeria Statistical Bulletin (2023), data were analyzed using the Ordinary Least Squares (OLS) regression method. The study found a positive and significant influence of trade liberalization on SME growth, and a negative and significant link between the volume of trade with China and SME growth in Nigeria. The study concluded that trade liberalization, competitive exchange rates as well as affordable interest rates are critical factors that positively impacts SME growth in Nigeria. However, the specific trade relationship with China poses challenges for local SMEs.
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1. INTRODUCTION

The role of trade in enhancing business activities, particularly for small and medium enterprises (SMEs), is generally given top consideration in global policy discussions because of its importance at promoting economic growth and development. It is on record that there is a high degree of correlation between a nation's rate of unemployment, poverty, as well as underdevelopment and the vibrancy of its SMEs. Effiom and Edet (2020) argued that the Nigerian economy has not fared better because SMEs have not played their expected role. Nevertheless, the performance of SMEs in Nigeria cannot be considered inconsequential because they have been able to encourage the use of local resources and, in some cases, aided the conversion of local inputs into either intermediate or finished goods (Ibitomi, Dada, Ayedogbon, Micah and Aderotimi, 2024).

Trade liberalization is the removal of trade policy barriers so as to allow free trade operations and create a competitive environment between domestic and international markets. Its purpose is to allow countries to export those goods and services that they can produce efficiently while

they import the goods and services that they produce inefficiently (Bakare & Fawehinmi, 2011). Trade liberalization can be traced to the periods after the 2nd World war in 1947 with the inception of the General Agreement on Trade and Tariffs (GATT). The GATT was negotiated by 23 countries of which 12 were industrialized while 11 were developing countries, with the main aim of lowering trade barriers. It was later replaced with the World Trade Organization (WTO) in 1994 because of the observed inadequacies in the aim, coverage as well as the operation of the GATT arrangements (Echekoba, Okonkwo and Adigwe, 2015; Liu, Xiao and Li, 2024).

Studies (for instance Ibitomi et. al., 2024; Sani and Ajayi, 2022; Adejoh, 2021; Ubi and Mba, 2019) noted that SMEs in Nigeria and in most emerging economies are faced with diverse and debilitating challenges. Adejoh (2021) observed that capital deficit is one of the major challenges inhibiting SME growth in Nigeria. The credit deficit for SMEs remains a persistent problem given that the World Bank (2015) estimated the global credit gap for SMEs to be as high as US $2.6 trillion. The studies concluded that while the gap varies across regions, it is worse in Africa. Consequently, to shore up domestic capital, developing nations are constantly being urged by developed donor nations to institute open economies to attract foreign capital inflow in the form of portfolio capital, foreign direct investments (FDI) and various forms of development assistance.

Nigeria has many trade partners among which China is increasingly becoming popular because of the volume of trade between the two countries. Nigeria established Economic relations with China since 1971, with her assent to the Joint Communiqué on the Establishment of Diplomatic Relations, which have since increased and spread to complex businesses. Ogunkola, Bankole and Adewoyin (2008) noted that Nigeria remains one of the investment beneficiaries from China while China, on her part, has become the fastest investor in Nigeria because of the benefits. Nigeria also enjoys bi-lateral flow of foreign direct investment from China especially in the oil and mineral resources, thus making the China – Nigeria investment to be a symbiotic gain to both countries (Egbula and Zheng, 2011). It is however evident that there is increase in Nigeria's import of Chinese goods relative to exports to China, implying a trade deficit (Muritala et. al., 2019). This is traceable to the fact that Nigeria is yet to offer its industrial producers a home-grown alternatives.

Given the increasing presence of Chinese companies and products in Nigeria's domestic market, it is probable that the Nigerian SMEs will be facing increased competition from Chinese imports. This could potentially lead to a decline in profitability, a reduction in market share, or even closure for some SMEs. On the other hand, the increasing trade with China could offer new opportunities for Nigerian SMEs to access cheaper inputs and expand their exports. Efforts of the Nigerian government in awakening the Nigerian domestic economy, including home-grown rice, millet, wheat, maize etc., supported by the Federal Government through Anchor Borrowers programme of the Central Bank of Nigeria, deliberate closure of the border on importation of some products into the Nigerian markets, etc., have not been well documented in literature to positively impact on the performance of SMEs in Nigeria.

To this extent, the main focus of this study is to assess the impact of trade liberalization with China on SME growth in Nigeria in the periods 1986-2022. Following the introduction which is the Section One of this article, the remaining sections are arranged as follows; Section two is the Literature Review; Section three discusses the Methodology; Section four contained the Results and Discussions of findings; and section five is the summary & conclusions.

2. LITERATURE REVIEW

2.1. Conceptual Literature

2.1.1. Trade liberalization

Trade liberalization is a key economic policy adopted by Nigeria in 1986 to stimulate its exports. It is the process by which governments reduce barriers to international trade, allowing goods and services from different countries to compete freely in the market. (Alade, Ayedogbon and Ologunla, 2024; Harberzar, 2014). Trade liberalization is a complex concept, characterized by the establishment of multiple linkages and interconnections among states and societies in the modern world that is commonly known as the global village (Kyove, Streltsova, Odibo & Cirrella, 2021). Kyove et. al., (2021) submitted that countries trade with each other because trading typically makes a country better off. Competition occurs at the firm level in international trade, while citizens of every country can benefit from free trade. A fundamental principle of comparative advantage holds that when a country produces more of one product, it will create less of some other product. This trade-off occurs because resources are scarce and societies want to get the maximum benefit from them (Ubi and Mba, 2019).

2.1.2. Small and Medium Scale Enterprises (SME)

SME may be defined as a business entity characterized by limit on its size, revenue, number of employees and asset base. These thresholds are not universally fixed, but subject to variation across different nationals and regional regulatory frameworks (Hansen-Addy, Parill and Tingbani, 2024). The European Union defines SMEs as businesses with fewer than 250 employees, and either an annual turnover of less than €50 million, or a balance sheet total of less than €43 million (Nkoloni, 2010). In the United States however, the definition of SMEs varies by industry according to the North American Industry Classification System (NAICS), but typically includes firms with fewer than 500 employees (Gonzalez & Perez, 2022). Similarly, some authors (Ni, Dongmin and Qin, 2024; Aturu-Aghedo, 2023), opinioned that SMEs are businesses whose personnel numbers and financial assets fall below certain threshold. The common characteristics of most of these definitions is that the revenues, assets as well as personnel of SMEs are within certain limit as specified by existing laws guiding such establishment, which are country specific. SMEs in Nigeria and elsewhere are recognized as one of the principal driving forces in sustainable economic development because of their role in job creation, stimulation of entrepreneurial skills and private ownership of businesses (Udechukwu, 2003, Katwalo and Madichie, 2008). Due to their size and innovativeness, SMEs are able to adapt to changes in market conditions besides helping to diversify the economy through exports and international trade (UNECE, 2003).

2.2. Theoretical Literature

2.2.1 Classical or Country Based Theories

Mercantilism Trade Theory

Mercantilism: This theory was popular in the 16th to 18th centuries. It emphasizes that a country's wealth is measured by its stock of gold and silver, which could be increased through a positive balance of trade. Mercantilists advocates for government intervention to achieve a surplus in exports over imports. The theory promotes national economic strength and self-sufficiency. Its major weakness is that it promotes protectionism and trade war. It was on this

basis that Adam Smith critiqued mercantilism in "The Wealth of Nations" (1776) for its zero-sum view of trade, advocating instead for free trade based on absolute advantage.

Although mercantilism is one of the oldest trade theories, it remains part of modern thinking. Countries such as Japan, China, Singapore, Taiwan and even Germany still favor exports and discourage imports through a form of neo-mercantilism in which the countries promote a combination of protectionist policies/restrictions and domestic-industry subsidies.

Absolute Advantage Trade Theory

Absolute Advantage: This theory was proposed by Adam Smith, this theory suggests that countries should specialize in producing goods for which they have an absolute advantage (i.e., they can produce more efficiently than other countries). By specialization, countries would generate efficiencies because their labor force would become more skilled by doing the same tasks. Production would also become more efficient because there would be an incentive to create faster and better production methods to increase the specialization (Echekoba et. al., 2015). Absolute Advantage theory highlights the benefits of specialization and efficient resource allocation, but does not account for trade when one country holds no absolute advantage. Economists like Paul Samuelson pointed out that it is less universally applicable compared to comparative advantage, which addresses broader scenarios (Samuelson and Nordhaus, 2009).

Comparative Advantage

David Ricardo's theory of Comparative Advantage expands on Smith's by introducing the idea that even if a country does not have an absolute advantage, it can still benefit from trade by specializing in goods where it has the lowest opportunity cost, leading to mutually beneficial trade. The theory demonstrates how trade can be beneficial even without absolute advantage. The critics of this theory, including Wassily Leontief, through the Leontief Paradox, showed that U.S. trade patterns contradicted the theory's predictions (Leontief, 1953). Other weaknesses of the theory is that it assumes immobility of factors of production and overlooks transportation costs, as well as non-consideration for economies of scale (Krugman, 1990).

Heckscher-Ohlin Trade Theory

The theories of Smith and Ricardo did not help countries determine which products would give a country an advantage. In the early 1900s, two Swedish economists (Eli Heckscher and Bertil Ohlin) focused their attention on how a country could gain comparative advantage by producing products that utilized factors that were in abundance in the country (Heckscher and Ohlin 1933). This theory argues that countries will export goods that use their abundant factors of production (land, labor, capital) and import goods that require factors that are scarce domestically. It emphasizes the role of factor endowments in determining trade patterns.

Although, the theory offers a detailed explanation of trade flows based on factor availability; it expands upon Ricardo’s work by including multiple factors of production, it was empirically challenged by the Leontief Paradox as assuming factors are homogeneous, and disregarding technological differences (Leontief, 1953). Krugman (1990) noted the limitations of the theory in explaining trade between similarly endowed nations, and its lack of emphasis on economies of scale

2.2.2 Modern Firm Based Theories

In contrast to the Classical country-based trade theories, the category of modern firm-based theories emerged after World War II. Harberzar, (2014) observed that firm-based theories evolved with the growth of the multinational company (MNC). Country-based theories could not adequately address the expansion of either MNCs or intra-industry trade which refers to trade between two countries of goods produced in the same industry. For example, Japan exports Toyota vehicles to Germany and imports Mercedes-Benz automobiles from Germany. Unlike the country-based theories, firm-based theories incorporate other product and service factors including brand and customer loyalty, technology and quality into the understanding of trade flows.

Country Similarity Theory

Swedish economist, Steffan Linder, developed the country similarity theory in 1961 as he tried to explain the concept of intra-industry trade. This theory suggests that companies are more likely to trade with countries that have similar economic structures and consumer preferences (Linder, 1961). This theory is often most useful in understanding trade in goods where brand names and product reputations are important factors in the buyers' decision-making and purchasing processes. This theory is particularly relevant for intra-industry trade between developed countries. The theory explains intra-industry trade between developed nations with similar demand conditions, but was limited in explaining trade between developed and developing countries. Krugman (1980) critiqued the theory's limited scope and its failure to address broader economic disparities and the role of economies of scale.

Product Life Cycle Theory

This theory posits that products go through stages—introduction, growth, maturity, and decline. Initially, new products are produced in the innovating country and exported (Vernon, 1966). As the product matures, production shifts to other countries to reduce costs. The theory links innovation and production location, explaining shifts in trade patterns over time, but is less applicable in today's globalized economy where products can be simultaneously launched in multiple countries. Porter (1990) criticized its applicability in modern contexts, especially in industries like technology where products do not follow predictable stages.

Global Strategic Rivalry Theory

This theory emphasizes the role of multinational corporations and strategic competition in international markets. It highlights factors like economies of scale, brand loyalty, and R&D investment as crucial for firms to maintain competitive advantage globally. The theory highlights the strategic behavior of firms and the role of innovation and competition, but emphasizes firm strategies while neglecting broader economic and regulatory influences. Michael Porter and others argue that the theory simplifies complex competitive dynamics and does not fully account for national factors (Porter, 1985; Krugman & Obstfeld 2009).

Porter's National Competitive Advantage Theory

Michael Porter's theory, also known as the Diamond Model, identifies four determinants of national advantage: factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry (Porter, 1990). This model explains why certain

industries within a country are competitive internationally. It provides a comprehensive framework for understanding the competitive advantage of nations in specific industries, but lacks empirical support in some instances, and does not adequately consider global supply chains. Critics like Paul Krugman and Jeffrey Sachs have pointed out that the model's limitations in explaining the success of industries in rapidly changing global markets, and is complex to apply universally (Krugman, 1994; Sachs & Warner, 1995). Porter's theory along with the other modern firm-based theories offers an interesting interpretation of international trade trends. Nevertheless they remain relatively new (Ubi, and Mba, 2019).

2.3. Empirical Literature

Literature is vast on the interplay of trade liberalization (TL) and the various aspects of economic growth and development. Liu, Xiao and Li (2024) examined the effect of TL in Import on China's Export Growth using matched data from World Trade Organization tariff data base for 1995-2020 and analyzed by individual time two-way fixed effects model. Their findings revealed that increasing the level of TL helps optimize China's growth pattern. Similarly, Chukwu and Jepkorir (2024) found evidence that FDI inflow (proxy for TL) and manufacturing output significantly affected economic growth in Kenya. Similar research was by Obiukwu, Nwosu and Chukwu (2024) who analyzed the effects of Trade Liberalization and Manufacturing Sector on Economic growth in Nigeria using time series data from 1981-2018. Their study found evidence of a long run relationship among the variables. Other studies, including Ni, et. al., (2024), Felix et. al., (2024), Dan'Asabe & Mustapha (2023), as well as Atoyebi, et. al., (2023), concluded that TL impacts positively on Economic growth in the long run.

Specific studies on TL and SME growth have provided differing results. Some agreed that TL can spur the growth of SMEs, while others found that TL impedes SME growth. Ni et. al., (2024), found that the level of economic development, trust and TL has led to entrepreneurial growth in China. Gonzalez and Perez (2022) delved into the effects of trade liberalization on SMEs innovation capabilities and technological adoption. Through surveys and interviews with SMEs in a liberalized trade environment, the study revealed that trade liberalization stimulated SMEs to innovate and competitive globally. Wang (2021), through a longitudinal analysis with trade data and SME surveys also revealed positive relationship between improved market access and SME export growth, especially in sectors characterized by low trade barriers. Ijirshar (2019) emphasized that trade openness positively impacts economic growth within ECOWAS, by indirectly benefiting SMEs through larger market access and enhanced competitiveness. Oladimeji and Ibrahim (2017) also found a positive correlation between international business and SME growth, thus suggesting that trade policies can foster competitive pressures and innovation.

However, Obokoh (2008) noted that not all SMEs benefit uniformly considering the challenges that SMEs face under trade liberalization. The study underscored the need for supportive policies to mitigate the adverse effects of increased competition. Hansen-Addy et. al. (2024) found evidence that TL impedes SME performance in Africa. Drawing empirical evidence from 39,461 observations spanning 27 African countries, their study concluded that tax administration and business licensing/regulation rather than TL will improve SME performance in Africa. This negative relationship is also the findings of Alade et. al., (2024), on MSMEs in Nigeria.

Beyond economics, the Nigeria-China relationship has significant political and strategic dimensions. Obah-Akpowoghana, (2022) noted that there is huge technological transfer that has affected the level of business in Africa. China's engagement in Nigeria is part of its broader strategy to expand its influence in Africa. This strategy is summarized in the Forum on China-Africa Cooperation (FOCAC), which provided a platform for dialogue and cooperation between China and African countries (FOCAC, 2018). Alden and Alves (2017) reported that Nigeria is a crucial partner in China's quest for global influence and access to natural resources. In return, Nigeria benefits from Chinese investments and political support in international forums.

Nigeria-China trade relations have been facing several challenges and criticisms. One major issue is the perceived neo-colonial nature of the relationship. Critics argue that China's economic activities in Nigeria resemble those of former colonial powers, characterized by resource extraction and economic dependency (Uzonwanne, 2015). There are also concerns about the environmental and social impacts of Chinese investments, particularly in the mining and oil sectors. Another challenge is the debt incurred by Nigeria from Chinese loans. While these loans have financed critical infrastructure projects, there are concerns about Nigeria's ability to repay them because Chinese loans account for a significant portion of Nigeria's external debt (DMO, 2020). From the foregoing, it's evident that empirical evidence regarding trade liberalization between Nigeria and China regarding SME growth is scanty in literature. This study is an attempt to update the literature in this regard.

2.4. Gaps in Literature and Value Addition

Despite extensive research on TL and SME growth in Nigeria, several gaps remain. Some previous studies on the impact of TL and SME growth used both trade openness and included export and import trade variables. This made some of the variables to be susceptible to serial correlation. This study excluded export and import trade since these variables are already contained in the measure of trade openness. Similarly, most studies provided a general overview, lacking detailed analysis of specific sectors affected differently by trade policies (Ijirshar, 2019; Oladimeji & Ibrahim, 2017; Obiukwu et. al. 2024; Ni et. al., 2024). It was noted that there is a shortage of long-term empirical studies tracking TL with China on SME growth over extended periods of post-liberalization in Nigeria. The influence of trade liberalization on the informal sector, which constitutes a significant portion of SMEs, is under-researched. Addressing these gaps could provide a more comprehensive understanding of the nuanced effects of trade liberalization on SMEs in Nigeria, hence this study.

3. METHODOLOGY

3.1. Theoretical Framework

This study is anchored on the Modern Firm-Based Theory of Porter's National Competitive Advantage (Diamond Model). Porter's model explains how nations and industries achieve competitive advantage, which is crucial for SMEs, in an environment of trade liberalization. It considers factors like demand conditions, firm strategy, structure and rivalry, related and supporting industries, and factor conditions, all of which directly impact SMEs' ability to compete and grow in liberalized markets.

Trade liberalization reduces barriers to trade, thus, increasing competition from international firms. Porter's model helps SMEs identify and leverage national strengths, such as innovation, skilled labor, and efficient supply chains, to enhance their competitiveness.

3.2. Model Specification

This study utilized the single equation technique of econometric modelling. A functional relation is specified as follows;

$$SMEG = f(OPEN, TRDV, FDI, EXR, INF.INT) \quad (1)$$

3.2.1. Variable Definition and Measurement

The data for the variables used in this study were sourced from the CBN statistical bulletin (2023). SMEG is the Growth of Small and Medium Scale Enterprises

OPEN= Trade Openness as a measure of trade

TRDV = Nigeria/Chinese Trade Volume as a measure of trade liberalization with China

FDI = Measure of Foreign Direct Investment; EXR = the real Exchange rate;

INF = measure of Inflation rate; INT = measure of the interest rate

The CLRM was expressed from the earlier specifications as follows

$$SMEG = \alpha_0 + \alpha_1 OPEN + \alpha_2 TRDV + \alpha_3 FDI + \alpha_4 EXR + \alpha_5 INF + \alpha_6 INT + \varepsilon_i \quad (2)$$

Where the α_{is} and β_{is} are the coefficients, ε_i is the stochastic error term and other variables as earlier defined.

3.3 Data Sources and Measurements

Secondary time series data on variables of interest, including Small and Medium Enterprises Growth (SMEG), Trade Openness (OPEN), Nigeria/China Trade Volume (TRDV), FDI inflows (FDI), Exchange rate (EXR), interest rate (INT) and inflation rates (INF), were obtained from the publication of the Central Bank of Nigeria statistical bulletin 2023 and augmented with data from the World Development Indicators (WDI).

4. RESULTS AND DISCUSSION OF FINDINGS

4.1. Descriptive Statistics: The preliminary estimation results (Descriptive Statistics) are presented in table 4.1.

Table 4.1. Descriptive Statistics

	LN_SMEG	*OPEN*	*LNTRDV*	*LN_FDI*	*EXR*	*INT*	*INF*
Mean	3.793069	42.85974	2.765231	10.69556	155.5451	13.71622	19.11865
Median	3.806662	42.11447	2.701361	10.70196	132.0000	13.50000	12.55000
Maximum	4.127779	68.84908	5.054971	11.89580	437.2000	26.00000	72.84000
Minimum	3.414443	21.04538	2.312535	8.708953	3.900000	6.000000	5.390000
Std. Dev.	0.192210	10.40674	0.446482	0.788966	130.0202	3.738948	17.44146
Skewness	-0.306770	0.726519	3.665354	-0.546246	0.804233	0.751791	1.775615

Kurtosis	2.210681	3.799838	19.91814	2.565866	2.519644	5.016366	4.846409
Jarque-Bera	1.540826	4.241221	524.1091	2.130603	4.344273	9.753342	24.69822
Probability	0.462822	0.119958	0.000000	0.344624	0.113934	0.007622	0.000004
Sum	140.3436	1585.811	102.3135	395.7355	5755.170	507.5000	707.3900
Sum Sq. Dev.	1.330006	3898.806	7.176469	22.40880	608589.3	503.2703	10951.36
Observations	37	37	37	37	37	37	37

Source: Computed with E-views 10

The mean and median values of LN_SMEG are very close (3.7 and 3.8 respectively), indicating that the distribution of SME growth rates is relatively symmetrical. This symmetry suggests that most SMEs experience growth rates that are clustered around the average value. Similarly, the standard deviation is relatively low (0.192,) indicating that the SME growth rates do not vary widely from the mean. The negative skewness (-0.192) indicated that the distribution of SME growth rates is slightly skewed to the left. This means that there are a few SMEs with growth rates lower than the mean, but this effect is not pronounced. The kurtosis value, being less than 3 (2.2), indicates a platykurtic distribution. This means that the distribution of SME growth rates has thinner tails compared to a normal distribution, implying fewer extreme values. The Jarque-Bera test result suggests that the distribution of LN_SMEG is not significantly different from a normal distribution as the p-value is higher than 5% threshold. This normality implies that standard statistical techniques that assume normality can be appropriately applied to this data. The low standard deviation and near-normal distribution suggest that the growth rates of SMEs are relatively stable, with most SMEs experiencing growth rates close to the average.

The average level of economic openness (OPEN) over the period studied is approximately 42.86 while the Median, which is the midpoint of the openness data is 42.11, this is close to the mean, thus, suggesting a relatively symmetrical distribution. The highest value of openness observed is 68.85 while the lowest value is 21.05. There is a moderate variability in openness values around the mean as indicated by the Standard Deviation value (10.40674). The variable is positively skewed (0.726519) indicating that there are some higher values pulling the mean above the median. The Kurtosis is a little higher than 3 (3.799838) indicating a leptokurtic distribution (more data values are in the tails). The Jarque-Bera value (4.241221) and the corresponding Probability (0.119598) suggests that the data is not significantly different from a normal distribution at the 10% level.

The Log of Trade Volume (LNTRDV) also has a mean (2.7652) and median values (2.7013) that are close, suggesting a somewhat symmetrical distribution. The highest value of log trade volume observed is 5.05 while the lowest value is 2.31. The data also shows that there is low variability in the data values around the mean. The very high kurtosis value (19.9184) indicated a heavy-tailed distribution. The Jarque-Bera test statistic (524.1091 (Probability: 0.000000) suggests that the data is significantly different from a normal distribution. The statistical properties of other variables (interest rate, inflation and exchange rate) are also moderately behaved, hence reliable for informed estimation

4.2. Unit Root Properties

Table 4.2 contained the results of the unit root test conducted on the variables. The Augmented Dickey Fuller Test was employed to test the presence of unit root among the variables.

For each variable tested (represented by their respective series names), the p-values for all series are less than the common significance threshold of 0.05. This means that the null hypothesis (which states that the series has a unit root, implying non-stationarity) is rejected for each variable. As a result, the decision for each series is I (0), indicating that they are stationary at their levels. Stationary series are generally preferable and often a prerequisite for the CLRM statistical analyses earlier proposed. Relying on the unit root test results, this study proceeded to run the CLRM earlier specified.

Table 4.2. Unit Root Test Results

SERIES	*COEFFICIENT AT LEVELS*	*t-STATISTICS*	*P-VALUE*	*DECISION*
LN(SMEG)	-0.273345	-2.302598	0.0275	I(0)
OPEN	-0.363810	-2.703534	0.0106	I(0)
LN(TRDV)	-1.149837	-6.806652	0.0000	I(0)
LN(FDI)	-0.439239	-3.299653	0.0023	I(0)
EXR	-0.742521	-4.228536	0.0002	I(0)
INT	-0.492303	-3.360542	0.0019	I(0)
INF	-0.361011	-2.447453	0.0237	I(0)

Source; Computed with E-views 10

4.3. Estimation of Results.

Table 4.3 is the result of the regression as computed.

Table 4.3. Results of the OLS estimates

Dependent Variable: LN_SMEG
Method: Least Squares
Sample: 1986 2022

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	4.016152	0.289478	13.87379	0.0000
OPEN	0.000647	0.003017	2.214581	0.0315
LNTRDV	-0.025844	0.063913	-2.404360	0.0487
EXR	0.000545	0.000259	2.108233	0.0432
INT	-0.018907	0.008112	-2.330784	0.0264
INF	-0.000251	0.001756	-0.143107	0.8871
R-squared	0.657143	Mean dependent var		3.793069
F-statistic	6.444446	Durbin-Watson stat		2.083619
Prob(F-statistic)	0.013681			

Sources: Computed by the Author with E-views 10

From the table, the positive and significant coefficient (0.000647 with a p-value of 0.0315) for trade liberalization (OPEN) suggests that increasing openness to international trade in Nigeria

positively impacts the growth of SMEs in Nigeria. An increase in OPEN by one unit is associated with an increase in LN_SMEG by 0.000647 units. This implies that policies promoting trade liberalization could enhance SME growth. This is in line with the studies of Liu et, al., (2024), Felix et. al., (2024), Dan'Asabe & Mustapha (2023), as well as Atoyebi, et. al., (2023), who found that TL impacts positively on Economic growth.

The negative and significant coefficient (-0.025844 with a p-value of 0.0487) of the volume of Chinese trade (LNTRDV) indicated that increased trade volume with China is associated with a decrease in the growth of Nigerian SMEs. This negative coefficient indicated that an increase in LNTRDV is associated with a decrease in LN_SMEG. This findings does not deviate from the works of Hansen-Addy et. al. (2024), Alade et. al., (2024), Gonzalez and Perez (2022), as well as Wang (2021). This could be due to competitive pressures from Chinese imports, which might be more affordable and diverse, potentially outcompeting local SMEs. It might also reflect issues such as dependency on Chinese goods, which could stifle local innovation and production.

Exchange Rate (EXR) shows a positive and significant relationship with SME growth (0.000545 with a p-value of 0.0432). This suggests that a depreciation of the Nigerian currency (a higher exchange rate) benefits SMEs. This might be because a weaker currency makes Nigerian goods cheaper and more competitive abroad, boosting exports and supporting SME growth. On the other hand, the negative and significant coefficient for the interest rate (-0.018907 with a p-value of 0.0264) indicates that higher interest rates are detrimental to SME growth. The inflation rate does not have a significant impact on SME growth in this model. This could imply that within the period and context of the study, inflation variability did not directly influence the performance and growth of SMEs, or it might be that the effect of inflation is mediated through other variables such as interest rates or exchange rates.

The R-squared value of approximately 0.6571 indicates that about 65.71% of the variance in the dependent variable (LN_SMEG) is explained by the independent variables (OPEN, LNTRDV, EXR, INT, INF) included in the model. Also, the F-statistic is significant, with a p-value below 0.05, indicating that the model as a whole is statistically significant. This implies that the independent variables collectively have a significant effect on the dependent variable. The estimates is also free of autocorrelation as the Durbin-Watson statistic is close to 2, indicating that there is no significant autocorrelation in the residuals.

4.4. Policy Implication of Findings

Based on the OLS regression results, some key policy implications can be drawn to support the growth of SMEs in Nigeria: The positive impact of trade liberalization (OPEN) on SME growth suggests that increasing the openness of Nigeria's economy to international trade benefits SMEs. The government should continue to pursue and enhance trade liberalization policies. This includes reducing tariffs, eliminating non-tariff barriers, simplifying customs procedures, and entering into more bilateral and multilateral trade agreements. Encouraging exports and facilitating imports of necessary inputs can help SMEs become more competitive and integrated into the global market.

The negative impact of the volume of Chinese trade (LNTRDV) on SME growth indicates that increased trade with China might be adversely affecting local SMEs. Similarly, the negative impact of interest rates (INT) on SME growth highlights the importance of affordable financing for SMEs. The government and central bank should focus on reducing interest rates to make borrowing more accessible and affordable for SMEs. In contrast, the positive relationship

between the exchange rate (EXR) and SME growth suggests that a weaker Nigerian currency, which makes exports cheaper, benefits SMEs. The central bank and government should aim to maintain a competitive exchange rate. Although inflation (INF) was not found to be statistically significant in this model, it remains an important macroeconomic variable that can indirectly affect SME growth. Policymakers should continue to monitor and control inflation to ensure a stable economic environment

5. CONCLUSION AND RECOMMENDATION

From the foregoing, this study concludes that trade liberalization, competitive exchange rates as well as affordable interest rates are critical factors that positively impacts SME growth in Nigeria. However, the specific trade relationship with China poses challenges for local SMEs. The negative impact of the volume of Chinese trade (LNTRDV) on SME growth indicates that increased trade with China might be adversely affecting local SMEs.

Policymakers should carefully manage and balance trade relations with China with protective measures for local industries. Nigeria can enhance the growth and development of its SME and as well contribute to overall economic prosperity and development by ensuring competitive exchange rates, and maintaining low interest rates. This will help create a supportive environment for SME growth, and create a balanced trade environment to foster a thriving SME sector.

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