THE IMPACT OF TRADE LIBERALISATION AND CORRUPTION POLICY REFORM ON CAPITAL INFLOW IN NIGERIA

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ABSTRACT
Despite the implementation of the liberalisation policy, the level of aggregate investment in the Nigerian economy seems inadequate which has necessitated the drive for foreign capital inflows. The study examined the relationship between trade liberalisation, corruption, and foreign capital inflows in Nigeria from 1990 to 2022.The study relied on annual secondary data. Data on market size, inflation rate, trade openness and capital inflows came from the 2022 statistical bulletin of the Central Bank of Nigeria. Data on population growth was obtained from the World Development Indicator, Data on corruption control were from World Governance Indicator. Corruption perception index data from Transparency International. Autoregressive Distributive Lag (ARDL) was employed. The results from the ARDL estimates showed that controlling anticorruption policy reduced the significant effect of trade liberalisation on corruption in both the short-term (ΔACP = -0.536; p=0.0163) and long-term (ACP = -1.172; p=0.0017). This was evaluated at 5% significant level. Furthermore, the results demonstrated that in the short run at 5% critical value, trade liberalisation had a significant and positive impact on corruption ($\Delta TLP\ (-2)$) = 0.7076; p=0.0031) while in the long run trade liberalisation (TLP) was insignificant in influencing corruption in Nigeria. In summary, the study found that both trade liberalisation and anticorruption policies have separate effects in reducing corruption in Nigeria. However, pursuing both policies simultaneously may not be effective in reducing corruption. The study recommended that the government of Nigeria should sustain its anti-corruption policy, a better corruption perception index can attract more capital inflows into the country.

Keywords: Trade liberalisation, Corruption, Capital inflow, Anti-Corruption Policies & Autoregressive Distributed Lag (ARDL).

JEL Classification: D37, F13, F22, F43, O24.

1. INTRODUCTION
Trade liberalisation facilitates increased openness of trade among countries by implementing policy reforms that reduce or eliminate barriers and constraints to trade. This, in turn, can stimulate capital inflows in various countries. The importance of trade liberalisation has gained significant attention in both policy and academic environments, particularly in developing economies. The World Bank (2023) plays a crucial role in assisting developing countries to enhance their access to global markets and promote their active involvement in the global trading system. Trade, being a catalyst for economic growth, not only creates better job opportunities but also helps in poverty reduction and increases overall economic prospects.

Recent research indicates that trade liberalization has led to an increase in economic growth by 1.0 to 1.5 percentage points, resulting in income levels that are 10 to 20 percent higher after a decade. Furthermore, trade in services is viewed as a significant avenue for development as it contributes more than two-thirds of the global GDP, generates the highest number of jobs, attracts over three-quarters of foreign direct investment (FDI), provides business prospects for small firms, and employs a higher proportion of women compared to other sectors (World Bank & World Trade Organization 2023). It is imperative to examine the relationship between trade liberalisation, corruption policy reform and capital inflows as these factors contribute to economic growth and sustainable development. Consequently, the process of trade liberalisation and market-oriented economic reform gained momentum during the 1990s following initial efforts in the early 1980s. Different countries pursued reforms with varying ownership structures and contents. A trade policy regime that countries concur on, trade liberalisation imposes the same tariff rate structure, preferably a minimum rate, on all industries and sectors. According to Neo-Classical theorists, capital flows from wealthy countries to poorer ones due to the higher rates of marginal productivity of capital in the latter. Scholars like Antra and Caballero (2007) and Shah and Samdani (2015) have provided evidence to support the idea that trade integration is a favorable policy for developing economies. They argue that trade integration not only stimulates output growth but also attracts significant capital inflows into these economies. In the case of Nigeria, policies regarding foreign resource inflows, particularly foreign direct investment (FDI), were implemented as part of the Structural Adjustment Program, leading to influx of capital. However, in Nigeria, there was a decline in foreign investment inflows in 2023. The inflows fell by 26.7 percent from US$5.3 billion in 2022 to US$3.9 billion in 2023. This decrease can be attributed to political risks and increased production costs, leading to consecutive drops in foreign investment inflows throughout the first three quarters of 2023 (NBS 2023).

The Nigerian government, in an attempt to boost economic growth and with the view of reducing poverty embarked on various strategies, the Green Revolution of 1980, the ISI, which aimed at domestic production of imported goods, the EPS, which encouraged export and other programs, were the most prominent policies. In contrast, the IMF SAP, which was adopted in 1986 with the aim of restructuring and diversifying the Nigerian economy's productive base, brought the term "trade liberalisation" to light (Oyejide, 1990). Empirical evidence from different research specifies that the benefit is not very inspiring, therefore, this revelation confirms that the Nigerian economy has not derived any advantages from policy reforms aimed at promoting outward-oriented approaches. It is widely accepted that trade liberalisation has an impact on international financial flows (foreign portfolio investment, foreign direct investment, foreign aids, etc.) through the activities of Multinational Enterprises /Corporations (Fugazza & Trentini, 2014; Liargovas & Skandalis 2012; Collie, 2011; Neary, 2009). To promote resilience, transformative reforms are urgently required, particularly in revenue mobilization, competition, trade integration, digitization, transparency and governance, climate change mitigation and maximize the advantages of trade and technological advancements, it is crucial to foster green, resilient, and inclusive growth.

Corruption can manifest in an economy where governmental institutions possess significant authority and are able to wield discretion without considering the interpretation and implementation of regulations (Canada- European Union Comprehensive Economic and Trade Agreement CETA,2011). In contrast, Treisman (2000), Elliott (1997), Beare & Williams (2000) argued that trade liberalisation may have increased opportunities for corruption and made detection more difficult, due to the rise of e-commerce and offshore financial centres.

The Nigerian government launched institutions such as the ICPC in 2000 and the EFCC in 2003 to tackle the rising corruption in Nigeria as part of its anti-corruption policy reforms. In the years 2021 and 2022 the Nigerian economy was scored 24 on a scale from 0 (most corrupt) to 100 (least corrupt). With 2022 score of 24, Nigeria was ranked among the 30 most corrupt countries in the world (it ranked 150 out of 180 countries assessed (Transparency International, 2023).

The unabated trend in corruption in Nigeria has undoubtedly stifles capital inflows. This is because there have been increasingly accusations by foreign investor that public officials inquire bribes / settlements and other illegal charges before they could be allowed to investment or conduct business in Nigeria. The extent to which these policy reforms may have influenced the relationship between trade liberalisation and corruption have not been examined in the literature with reference to the Nigerian economy. Previous studies such as Egiegba (2013) focused on the socio-economic dimension of corruption while Abu and Staniewski (2019) analyzed the determinants of corruption in Nigeria. Hence, previous research has neglected to investigate the impact of corruption policy reforms on the connection between trade liberalisation and capital inflow in Nigeria. Considering this, the increase in corruption levels following trade liberalisation in Nigeria calls for a more comprehensive examination of the relationship between trade liberalisation and corruption policy reform from 1990 to 2022.

Since empirical studies on trade liberalisation, corruption and policy reform in Nigeria have not been studied with respect to Nigeria and examining the roles of corruption policy reforms in the relationship between trade liberalisation and corruption with the use of relatively complex macroeconomics models and various econometric estimation methods will address the gap identified. Hence, the article centered mainly on the examination of trade liberalization and corruption policy reforms on capital inflow in Nigeria.

Following the introduction which constitutes Section One, the remaining Section are structured in the following ways, Section Two, literature reviews, Section Three constitutes Methodology, Section Four, the results and discussion and Section Five is the summary & conclusions.

2. LITERATURE REVIEW

2.1 Theoretical Literature

2.1.1 Bicycle theory of trade liberalization

The argument posits that it is essential to continuously eliminate trade barriers in order to prevent regression. Without ongoing progress, protectionist tendencies may emerge, similar to how stopping pedaling a bicycle leads to a loss of balance. As articulated by former United States Trade Representative Zoellick (2005), “If the process of trade liberalization stagnates, it will be hindered by the political influence of special interests, akin to the force of gravity pulling a bicycle downward”. This "bicycle theory" has gained significant popularity among proponents of free trade and is believed to have been popularized in the 1970s by Bergsten Fred, founder, and director of the Peterson Institute for International Economics—an influential pro-trade think tank. Moreover, this theory has garnered support from esteemed advocates of free trade within academia.

In response to the deteriorating trade environment, Bergsten emphasized the importance of tackling macroeconomic factors and invoked the "bicycle theory." He advocated for a fresh set of multilateral trade negotiations within the framework of the General Agreement on Tariffs and Trade (GATT) (Bergsten 1983).

The "bicycle theory" of international trade talks suggests that maintaining forward momentum is crucial for successful liberalization efforts, as without it, progress can come to a halt. In line with this theory, the countries within the World Trade Organization (WTO) decided in 1999 to initiate a new "Millennial Round" of trade liberalization.

2.1.2 The New Trade Theory

The emergence of the new trade theory can be attributed to the findings of studies conducted by Balassa (1967) and Grubel and Lloyd (1975). These studies shed light on the occurrence of intra-industry trade. The main objective of this theory is to provide an explanation for the possibility of intra-industry trade through emphasizing the significance of imperfect markets, economies of scale, and product differentiation.

One of the key contributions to the new trade theory was made by Krugman (1979). He argued that trade can take place even in imperfect markets and is driven by economies of scale rather than differences in technology or factor endowments. According to Krugman, firms can lower their average costs by increasing production due to increasing returns to scale. Moreover, the presence of product differentiation enables firms to manufacture and export their distinct varieties of goods to foreign markets.

In summary, the new trade theory challenges traditional assumptions about international trade by emphasizing the importance of economies of scale and product differentiation in facilitating intra-industry trade. This theoretical framework provides a deeper understanding of the factors that drive international trade patterns. In addition, Sunday, Oluwatoyin, and Olasupo (2020) highlighted the significant spillover effects of industrial clusters on firm productivity. They emphasized that these clusters provide firms with access to a wealth of knowledge and other positive externalities, enabling them to benefit and enhance their overall performance. The new trade theory challenges the traditional assumption that trade only occurs between economies with different tastes, technology, and factor endowments. Instead, this theory argues that trade can still happen even if these factors are similar, and in doing so, it enhances firm productivity. Therefore, implementing measures to liberalize trade not only expands consumer choices and fosters competition among firms but also leads to a mutual increase in productivity for firms across different economies.

2.1.3 Grabbing Hand Theory and the Helping Hand Theory

There are two primary theories that explain the connection between corruption and foreign direct investment (FDI): the **grabbing hand theory** and **the helping hand theory**. According to the grabbing hand theory, corruption raises the costs associated with conducting business in a country, potentially dissuading FDI. This is because foreign investors may have to pay bribes to government officials to obtain permits, licenses, and other approvals. They may also be subject to extortion or other forms of harassment (Aidt (2003), Bliss & Di Tella (1997.

The **helping hand theory** of corruption**,** conversely, posits that corruption might facilitate foreign direct investment (FDI) in certain situations**.** This is because corrupt officials may be willing to provide foreign investors with special favour, such as access to cheap land or labour, or preferential treatment in the awarding of contracts. This theory argues that corruption in an economy is like a grabbing hand that raises the costs of doing business. According to this theory, the need for foreign investors to obtain government licenses, market access, and contracts creates an additional cost to investors. Thus, corruption disrupts the efficient allocation of resources, increases business operating cost and reduces the revenue-generating potential of foreign direct investment (Zhao, Kim & Du 2003; Wei 2000; Shleifer & Vishny,1993). Consequently, corruption is seen as a tax or dual-edged sword which reduces both the quantity and quality of foreign direct investment (Sarkar & Hasan, 2001). Empirical literature (see Wei 2000; Kaufmann & Wei, 1999) has found evidence supporting the grabbing hand theory that corruption results in significant decline FDI in the domestic or host country.

2.2 Empirical Literature

In a study conducted by Onafowora and Owoye (1998), the impact of trade policies (trade orientations), exports, and investment rate shocks on economic growth in 12 Sub-Saharan Africa (SSA) countries was investigated. The study utilized a vector error correction model (VECM) and analyzed data from 1963 to 1993. The findings revealed that these factors had a

significant influence on economic growth in 10 out of the 12 SSA countries examined. Domma, Bankole, and Ilugbemi (2016) the researchers explored the relationship between public financial control and anti-corruption efforts in Nigeria during the period from 2000 to 2016. In this study, public financial control was represented by financial freedom, while the anti-corruption crusade was represented by the corruption control index. Applying inferential statistics**,** the research discovered no significant correlation between anti-corruption efforts and public financial control in Nigeria. Furthermore, the study highlighted that the causal influence from public financial control to the anti-corruption campaign was more pronounced than the influence from the anti-corruption campaign to public financial control.
Emerenini and Ohadinma (2018) conducted a study to assess the impact of trade liberalization on the manufacturing sector in the country, focusing on the period from 1980 to 2016. The research utilized annual time series data and employed the Error Correction Model (ECM) as the analytical tool. The study considered manufacturing sector output as the dependent variable, while trade openness, the exchange rate, the volume of exports and imports, and balance of payments were used as independent variables. The results from the ECM analysis indicated that trade openness, exports, and balance of payments had negative effects on manufacturing output. However, the exchange rate and imports exerted a positive impact on manufacturing output, with only imports and exports being statistically significant factors. The findings revealed that despite trade liberalization policies being implemented, have not led to a substantial enhancement in the growth of Nigeria's manufacturing. This suggests that complete trade liberalization has not been achieved in practice.

Kpoghul, Okpe, and Anjande (2020) examined the correlation between trade openness, foreign direct investment (FDI), and the Nigerian economy's performance. The study employed an annual time series dataset spanning from 1970 to 2018 for in-sample predictions, and a five-year out-of-sample forecast from 2019 to 2023 under four policy scenarios in line with Nigeria's Economic Recovery and Growth Plan (ERGP). The results indicated that trade openness draws FDI, which influences Nigeria's macroeconomic performance via both direct and indirect pathways. The research concluded that an increase in trade openness, FDI, government spending, and broad money supply would result in a rise in private investment, actual consumption, outputs of both oil and non-oil sectors, a notable increase in non-oil exports, and government revenues.

Lawal, George, Oseni and Okunleye (2020) conducted a study to examine the influence of corruption on economic growth in Nigeria from 1987 to 2017. Utilizing ordinary least squares regression, the researchers discovered a significant and detrimental effect of corruption on economic growth in Nigeria. Tsaurai (2021) investigates the elements that impact trade openness in transitional economies. The study employed a range of panel data analysis methods, including dynamic generalized methods of moments (GMM), fixed effects, pooled ordinary least squares (OLS), and random effects models. The panel data spanned from 2000 to 2018. The research discovered that factors such as the development of human capital, the interplay between FDI and human capital development, economic growth, and the expansion of the mining sector have a significant effect on trade openness in these economies. These variables were recognized as crucial determinants of trade openness in transitional economies.

Dan'asabe, and Mustapha (2023) conducted a study to explore the impacts of financial development, trade openness, and economic growth in Nigeria. The research was grounded on the Auto-Regressive Distributed Lags (ARDL), Bound test methodology. Consequently, the findings affirmed the presence of a long-term cointegration between financial development (FD), trade openness, and economic growth. It was also unveiled that both FD and trade

openness exert positive and significant influences on economic growth. The impact of FD is observed in the short term, while the effects of trade openness manifest in the long term.

2.3 Gaps in Literature and value Addition

Based on the reviewed literature with respect to the objective this study seeks to achieve, this study aims to fill gaps in existing global reviews. Thus, to the best of my knowledge, it is rare to find a study or studies that bring together the impact of trade liberalization and corruption on capital inflows in emerging markets, as addressed in the objective with reference to Nigeria. The majority of research has focused on trade openness, manufacturing, and economic growth (see Dan'asabe, and Mustapha 2023; Emerenini & Ohadinma, 2018). Also, the determinants of foreign direct investment performance (see Kpoghul, Okpe & Anjande, 2020) in Nigeria. Literature quest found no studies on the relationship between trade liberalization, corruption, and capital inflow (FDI) in Nigeria. The inconsistency in terms of findings and conclusions also necessitated the need for this study. Understanding the determinants of capital inflow in an economy is essential, and examining the relationship between trade policy reforms, such as trade liberalization and capital inflow is significant for formulating and implementing effective investment policies.

3. METHODOLOGY

3.1 Theoretical Framework

This study adopts the "grabbing hand" and "helping hand" theories of corruption to examine its effect on a country's capital inflows. As per Bardhan (1997), the "grabbing hand" theory pertains to the escalation in transaction expenses encountered by foreign investors due to the necessity of bribing local authorities for licenses, taxes, permits, security, utilities, and commissions for substantial contracts. These supplementary costs increase the total cost of foreign direct investments, thereby diminishing returns. The "grabbing hand" theory underscores that corruption not only augments financial costs for capital inflows but also incurs qualitative costs such as eroding the rule of law and infringing legal procedures in the concerned nation.

Moreover, corruption also possesses a "helping hand" aspect that facilitates business transactions in economies with weak legal systems (Bardhan, 1997). Corruption provides quick money that bypasses due process and allows investors to circumvent legal protocols in business (Leff, 1964; Huntington, 1968). Gribincea (2017) argues that corruption involves an implicit arrangement among companies, citizens, and pressure groups seeking to satisfy their selfish interests by paying bribes. In addition, government officials often exploit their positions and authority to maximize revenue through unlawful means.

The helping hand theory postulates that corruption could be a lubricant against strict economic policies and government bureaucracy, which can increase the level of foreign investment by easing transactions in economies with excessive government policies and bureaucratic bottlenecks. Kaufmann & Wei (1999) developed a simple model of corruption between a government official and a firm.

The firm's after-bribe profit is maximized by choosing the bribe payment, while the official's bribe intake is maximized by choosing the level of red tape delay, which can be adjusted to some degree. The equilibrium levels of bribe and red tape delay are determined by using backward induction (see Ardiyanto, 2012)

$$FDI = f\{\pi_a(b)\} \quad 3.1$$

which will be the basis of equation postulating in achieving the impact of trade liberalization and corruption policy reform on capital inflow.

3.2 Model specification

With reference to equation (3.1) and in line with studies that have suggested that trade liberalisation and corruption influence foreign direct investment in a host country (Epaphra & Massawe, 2017; Quazi et al., 2014; Caetano & Caleiro, 2005), hence this study will adapt the model of Epaphra & Massawe, (2017), Quazi et al, (2014) and Soudis, (2009).
Model specification to examine the impact of trade liberalisation and corruption policy reforms on capital inflow (only FDI) in Nigeria:

$$FDI = f(TLB, \pi_a) \quad 3.2$$

Where FDI represents foreign direct investment proxy for capital inflows, TLB represents trade liberalisation proxy by trade liberalisation policy (TLP), trade openness (OPN), and COR represents Corruption,(π_a) is corruption, as in (Epaphra & Massawe, 2017) thus equation becomes:

$$FDI = f(TLP, OPN, COR) \quad 3.3$$

Introducing control macroeconomic variables which studies have identified as important variables of determinants of foreign direct investment in a host country (Ayadi, 2009; Goel, 2009; & Meoti, 2005), which include market size (MKZ), population growth rate (POP), GDP growth rate (GRT) and governance indicators. Market size (MKZ) is included in the model because when a foreign firm experiences an economy of scale, the firm searches for markets with high demand and purchasing power, which is expected to positively influence its production, sales and profit. Furthermore, rapid population growth suggests increased demand for different commodities (both local and foreign) and could also reflect cheaper costs of labour in the domestic economy. The increase in demand may result in large-scale production which would result in reduced average cost of the product while cheap labour results in a reduction in firms' production cost. Thus, increasing population growth is expected to create the incentive that brings about inflow of more foreign investment into the domestic economy. Previous studies conducted by Al-Sadig (2009), Li, Li, and Dalgic (2004), and Yin, Ye, and Xu (1998) have highlighted the positive relationship between real gross domestic product (GRT) growth rate and domestic demand for both local and foreign commodities. Consequently, this suggests that there is an expectation for foreign direct investment (FDI) to flow into the domestic economy (Demirhan & Masca, 2008).
The effect FDI on economic growth remains unclear, although there is consensus regarding the main drivers of economic growth, namely the Modernization and dependency hypotheses. According to the Modernization hypothesis, FDI stimulates economic growth by providing external capital and distributing its benefits throughout the economy. It is often seen as a catalyst for development in developing countries. On the other hand, the dependency hypothesis argues that FDI has a negative long-term effect on growth. While in the short term, FDI increases investment, INF (Inflation rate) must be equally regulated, equation (3.3) changes (O Hearn, 1990).

$$FDI = f(TLP, OPN, COR, MKZ, POP, INF) \quad 3.4$$

In estimation form, equation (3.4) is expressed as:

$$FDI_t = \alpha_0 + \alpha_1 TLP_t + \alpha_2 OPN_t + \alpha_3 COR_t + \alpha_4 MKZ_t + \alpha_5 POP_t + INF_t + \varepsilon_t \quad 3.5$$

3.3 Estimation Techniques

The technique adopted the Autoregressive Distributed Lag (ARDL), co-integration approach and dynamic error correction model (ECM) in analyzing equations (3.6) and (3.7) using the ARDL cointegration approach developed by Pesaran, Shin, and Smith (2001).

Following the ARDL method to cointegration and the error correction modeling technique, equation (3.5) can be written as

$$\Delta FDI_t = \alpha_0 + \alpha_1 \sum_{i=1}^{q} \Delta TLP_{t-1} + \alpha_2 \sum_{i=1}^{q} \Delta OPN_{t-1} + \alpha_3 \sum_{i=1}^{q} \Delta COR_{t-1} + \alpha_4 \sum_{i=1}^{q} \Delta MKZ_{t-1} + \alpha_5 \sum_{i=1}^{q} \Delta POP_{t-1} + \alpha_6 \sum_{i=1}^{q} \Delta INF_{t-1} + \psi_1 FDI_{t-1} + \psi_2 TLP_{t-1} + \psi_3 OPN_{t-1} + \psi_4 COR_{t-1} + \psi_5 MKZ_{t-1} + \psi_6 POP_{t-1} + \psi_7 INF_{t-1} + \varepsilon_t \quad 3.6$$

The variables short-run relationship is expressed in equation (3.6), here the drift component is $\boldsymbol{\alpha_0}$, the white noise is $\boldsymbol{\varepsilon_t}$ while the error correction dynamics is represented by the terms with summation signs. The other part of the equation with $\boldsymbol{\psi_i}$ **C**oefficients corresponds to the long-run relationship.

To estimate the short-run relationship, the error correction equation is specified as:

$$\Delta FDI_t = \alpha_0 + \alpha_1 \sum_{i=1}^{q} \Delta TLP_{t-1} + \alpha_2 \sum_{i=1}^{q} \Delta OPN_{t-1} + \alpha_3 \sum_{i=1}^{q} \Delta COR_{t-1} + \alpha_4 \sum_{i=1}^{q} \Delta MKZ_{t-1} + \alpha_5 \sum_{i=1}^{q} \Delta POP_{t-1} + \alpha_6 \sum_{i=1}^{q} \Delta INF_{t-1} + \omega ECM_{t-1} + \varepsilon_t \quad 3.7$$

The ECM_{t-1} is the error correction term in the short run model.

With respect to assessing the anti-corruption policy reforms on the relationship between trade liberalisation and corruption, this study incorporates anti-corruption policy (ACP) and Corruption control (COC) into equation (3.5). Improve and strong anti-corruption policy is expected to encourage more foreign direct investment inflows into the domestic economy (Quazi et al., 2014).

$$FDI_t = \alpha_0 + \alpha_1 TLP_t + \alpha_2 OPN_t + \alpha_3 COR_t + \alpha_4 MKZ_t + \alpha_5 GRT_t + \alpha_6 POP_t + \alpha_7 COCt + \alpha_8 ACPt + \alpha_9 INF_t + \varepsilon_t \quad 3.8$$

ARDL estimation technique by comparing the estimates from equation 3.9 & 3.10

$$FDI_t = \alpha_0 + \alpha_1 TLP_t + \alpha_2 OPN_t + \alpha_3 COR_t + \alpha_4 MKZ_t + \alpha_5 POP_t + \alpha_6 INF_t + \varepsilon_t \quad 3.9$$

$$FDI_t = \alpha_0 + \alpha_1 TLP_t + \alpha_2 OPN_t + \alpha_3 COR_t + \alpha_4 MKZ_t + \alpha_5 GRT_t + \alpha_6 POP_t + \alpha_7 COCt + \alpha_8 ACPt + \alpha_9 INF_t + \varepsilon_t \quad 3.10$$

Two regressions were carried out, one with Anti-Corruption policy reforms and other without anti-corruption policy reforms to actually captured the impact of corruption reforms policy. The ARDL cointegration method is employed due to several advantages it offers. Primarily, it eliminates the need for pre-testing variables for unit roots, setting it apart from other cointegration methods like the Engel-Granger (1987) two-step residual-based procedure and Johansen's (1988) system-based reduced rank regression approach. A shared characteristic of these latter methods is their requirement for variables to be of first order integration (Narayan & Narayan, 2003). In addition, we utilized the ARDL co-integration method regardless of whether the variables are solely I(0), solely I(1), or mutually integrated. Furthermore, the ARDL estimation procedure is recognized for its efficiency and lack of bias when dealing with small or finite sample data sizes (Oteng-Abayie & Frimpong, 2006; Narayan & Narayan,

2003). Thirdly, the short-term and long-term regression model components can be estimated instantaneously, thereby addressing omitted variable bias and autocorrelation problems (Narayan & Narayan, 2003). Finally, a dynamic error correction model (ECM) term is derivable from the ARDL estimate. The ECM term merges the short-term dynamics with the long-term without sacrificing any long-term information (Banerjee & Newman, 1993).

3.4 Data Sources and Measurements

Foreign direct investment (FDI) is based on the annual value of direct foreign investment into the country. Trade openness (OPN) will be measured by calculating the ratio of total trade (exports plus imports) to real gross domestic product (GDP), Market size (MKZ) will be determined by evaluating the value of real gross domestic product. Real gross domestic product (GRT) and Inflation rate (INF) using the consumer price index (CPI), all are obtained from the Central Banks of Nigeria statistical data. The trade liberalization policy (TLP) will be measured using a dummy variable: one representing the period when trade policy was implemented in Nigeria. An anti-corruption policy (ACP) proxy will involve using a dummy variable, to assess corruption (COR) levels, a corruption index will be utilized by Transparency International report, Control of Corruption Scores (COC) is obtained from World Governance Indicators.

4. RESULTS AND DISCUSSION OF FINDINGS

4.1 Descriptive Statistics: In the Table (4.1) presents the descriptive statistics for each series used in the study and briefly is discussed thereafter.

Table 4.1: Descriptive Analysis of trade liberalisation, corruption reform and capital inflows in Nigeria from 1990 to 2022

	FDI	TLP	OPN	COR	MKZ	POP	PCI	INF	ACP	COC
Mean	2474.24	0.84845	36.3178	18.382	43446.2	2.5743	288497.7	107.64	0.6061	11.0706
Med	759.380	1.0000	36.058	17.000	39995.5	2.5648	288530.7	66.438	1.0000	12.0000
Max	29660.3	1.0000	53.278	28.000	74639.5	2.6809	385349.0	499.36	1.0000	16.0000
Min	22.2300	0.0000	20.723	6.9000	19199.1	2.4888	202704.0	2.4139	0.0000	4.0000
StD.	5605.5	0.3641	8.7072	6.9303	20851.7	0.0668	67901.6	118.654	0.4962	4.3740
Skew	3.9129	-1.9439	0.1237	-0.0438	0.18428	0.2383	0.00108	1.6963	-0.434	-0.3443
Kurt	18.532	4.7786	2.3082	1.4321	1.39018	1.6607	1.33546	5.6255	1.1885	1.4498
J-Bera	415.927	25.132	0.7423	3.3906	3.75013	2.7786	3.80972	25.304	5.5488	3.9563
Prob	0.000	0.000	0.68996	0.1836	0.15335	0.2493	0.14884	0.000	0.0624	0.1383
Obs	33	33	33	33	33	33	33	33	33	33

Source: Authors' computation (2024).

Table (4.1) presents the statistical features of each of the series used in this study. The descriptive statistics showed that foreign direct investment (FDI) had a maximum of 29,660 million naira and a minimum value that is just a tiny percentage of its maximum, pointing to possible variations in the series (as could also be observed from its mean value). The variables that did not show lots of variability (judging by the standard deviation) were inflation (INF) and anti-corruption policy (ACP). The Jarque-Bera test measures how much a variable deviate from normality and it can never be negative. A value close to zero indicates that the variable is normally distributed, while a large value suggests otherwise. According to Table 4.1, it can be observed that all the variables follow a normal distribution. (that is, OPN, COR, MKZ, POP, PCI, ACP and COC) while FDI, TLP and INF were not normally distributed.

4.2 Correlation Analysis

In order to prevent the potential issue of multicollinearity in this study, it is important to ensure that the variables being used are not affected by this problem as a result of closely related independent variables, a correlation analysis was conducted and the result was presented in Table (4.2), with a brief discussion.

Table 4.2: Correlation Matrix for trade liberalisation, corruption reform and capital inflows in Nigeria from 1990 to 2022

Corre-lation	FDI	TLP	OPN	COR	MKZ	POP	PCI	INF	ACP	COC
FDI	1.00000									
TLP	-0.6641	1.00000								
OPN	-0.0954	0.18369	1.00000							
COR	-0.2513	0.50967	-0.35745	1.00000						
MKZ	-0.2226	0.49062	-0.43137	0.69176	1.00000					
POP	-0.1970	0.29269	-0.10851	0.63016	0.67237	1.00000				
PCI	-0.1934	0.42924	-0.39078	0.74762	0.56922	0.52132	1.00000			
INF	-0.1970	0.44640	-0.31447	0.65224	0.70756	0.29861	0.69022	1.00000		
ACP	-0.2756	0.52414	-0.24967	0.72119	0.61796	0.78228	0.80022	0.56058	1.00000	
COC	-0.3331	0.59894	-0.16066	0.77850	0.76033	0.74351	0.55779	0.60643	0.72997	1.00000

Source: Authors' computation (2024).

In Table (4.2) presented the result of the correlation analysis. According to Kim (2019), the findings indicated that there was no evidence of multicollinearity in any model that combined the independent variables, as none of their correlation coefficients exceeded 0.8. Thus, this correlation estimate suggests a negative association among trade liberalisation, capital inflows and corruption in Nigeria during the study period.

4.3 Unit root test

The study used two types of tests to check if the series had a unit root - the ADF and the PP Tests. These tests showed that most of the series became stationary after taking their first difference. This means that they did not have a unit root anymore. This also meets the requirement for applying the ARDL method by Pesaran & Shin (2001), which can handle series that have the same level of integration or different levels of integration (but not higher than I (1)). Table (4.3) presents the results of the unit root tests.

Table 4.3 Unit Root Tests

Augmented Dickey/Fuller (ADF)			**PP Unit Root Test**		
LEVEL			LEVEL		
	Constant	**Constant / Trend**	**None**	**Constant**	**Constant / Trend**	**None**
Lfdi	-2.3762	-2.9123	-0.5744	-2.6302	-2.5729	-0.4724
Lopn	-2.8232	-3.3251	-0.2538	-2.8591	-3.2771	-0.2699

Lcor	-2.0211	-3.9487**	0.2712	-1.7920	-3.7424**	1.3008
Lmkz	-1.1141	-1.6113	1.9346	-0.4268	-1.5871	3.7613
Pop	-1.7669	-4.4344***	0.6631	-1.2902	-1.7018	-0.0547
Lpci	-0.8741	-1.7556	1.2630	-0.5996	-1.8130	1.3266
linf	-2.3842	-3.5874**	1.4025	-2.3885	-3.4724	1.4118
lcoc	-1.7417	-0.7795	0.5865	-1.5038	-0.9569	0.8280
FIRST DIFFERENCE				**FIRST DIFFERENCE**		
lfdi	-6.9158***	-7.0460***	-7.0322***	-7.1917***	-7.9836***	-7.3224***
lopn	-6.5054***	-4.7175***	-6.6071***	-10.3754***	-14.5973***	-9.8260***
lcor	-5.2227***	-5.1499***	-7.1027***	-13.9388***	-14.1337***	-8.1795***
lkmz	-2.4207	-2.4210	-1.2741	-2.4194	-2.2978	-1.2593
pop	-2.1777	-1.7140	-2.0202**	-2.0310	-1.9606	-2.0953**
lpci	-2.9783**	-2.9162	-2.6689***	-2.9557	-2.8744	-2.574**
linf	-8.7377***	-6.0256**	-7.9197***	-9.7947***	-18.1012***	-7.9768**
lcoc	-2.7823	-11.6180***	-2.6317**	-9.3953***	-10.5980***	-8.7120***

Source: Researchers' computation (2024).

Note: *** and ** signifies 1% and 5% significant levels. All variables are in their natural logarithm form.

4.4 Bounds Test of Cointegration

Before the estimation, we determined the existence of any long-term relationships among the system's variables using the bounds approach. The results, as shown in Table (4.4), reveal that the F-statistic of the bounds test surpasses both the upper and lower bounds at a five percent critical value. This indicates a long-term relationship among the variables.

Table 4.4 ***Bounds Test of Cointegration***

Model without ACP		
F-Satat		6.310279
	I (0) Bound	I (0) Bound
10%	3.47	4.45
5%	4.01	5.07
2.50%	4.52	5.62
1%	5.17	6.36
Long run relationship?	Yes	

Note: Researchers' computation (2024).

Table 4.5 ***ARDL Result for trade liberalization and corruption policy reform on capital inflow in Nigeria from 1990 to 2022***

Dependent Variable: *COR*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Short-run results				
Δ (COR (-1))	0.661881	0.175536	3.770626	0.0023***
Δ (COR (-2))	0.190899	0.139991	1.363653	0.1958
Δ (TLP)	0.208664	0.159494	1.308289	0.2134
Δ (TLP (-1))	0.060908	0.243239	0.250405	0.8062
Δ (TLP (-2))	0.947703	0.213330	4.442419	0.0007***
Δ (TLP (-3))	0.033036	0.016156	2.044740	0.0617
Δ (ACP)	-0.536146	0.194444	-2.757331	0.0163**
Δ (ACP (-1))	1.337754	0.251320	5.322920	0.0001***
Δ (ACP (-2))	0.748798	0.207269	3.612694	0.0032***
Δ (COC)	-0.020397	0.042192	-0.483441	0.6368
Δ (COC (-1))	-0.924230	0.197006	-4.691380	0.0004***
Ect	-0.551045	0.140259	-3.928769	0.0017***
Long-run results				
TLP	-0.190083	0.172725	-1.100494	0.2911
ACP	-1.172442	0.297485	-3.941178	0.0017***
COC	0.155439	0.036607	4.246129	0.0010***
C	1.410993	0.204135	6.912070	0.0000***
@TREND	0.031582	0.011698	2.699704	0.0182**
F-stat	8.531999 (0.000166) **			
Adj R^2	0.856818			
J-B stat.	0.860487 (0.650351)			

Breusch-Godfrey Serial Correlation LM test	2.55077 (0.1230)
Breusch-Pagan-Godfrey Hetereoscedasticity test	0.80964 (0.6600)
Lag selection (SIC)	3, 3, 3, 3

Note: Researchers' computation (2024).
Note: Values in parenthesis are probability values
*Note: *** and ** imply significance at 1% and 5% respectively.*

Table 4.7 ARDL Result for trade liberalisation and corruption in Nigeria from 1990 to 2022

Dependent Variable: *COR*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Short-run results				
Δ (COR (-1))	10.426891	4.918764	2.119819	0.1014
Δ (TLP)	14.108163	8.020091	1.759103	0.1534
Δ (TLP (-1))	13.937155	3.497602	3.984775	0.0163**
Δ (TLP (-2))	0.707607	0.105486	6.708077	0.0031***
Δ (TLP (-3))	1.628769	0.459090	3.547824	0.0238**
Δ LINF	10.216108	3.217667	3.175005	0.0337**
Δ (LINF (-1))	0.772297	1.831928	0.421576	0.6950
Δ (LINF (-2))	3.561852	1.049525	3.393775	0.0274**
Δ (LINF (-3))	-0.276503	0.133570	-2.070099	0.1072
Δ (OPN)	0.502380	0.194662	2.580784	0.0613
Δ (OPN (-1))	-8.874296	2.988302	-2.969678	0.0412**
ECT	-0.486992	0.158518	-3.072155	0.0073***
Long-run results				
TLP	-4.275759	5.473640	-0.759103	0.4784
LPCI	-27.783426	4.794834	-5.794450	0.0044***

LINF	14.152666	2.273977	6.223752	0.0034***
OPN	2.641753	5.798273	0.455610	0.6723
C	-371.900335	58.085509	-6.402635	0.0031***
F-stat	10.03914 (0.0185)**			
Adj R^2	0.8179			
J-B stat.	1.06896 (0.5860)			
Breusch-Godfrey Serial Correlation LM test	9.7358 (0.2304)			
Breusch-Pagan-Godfrey Heteroskedasticity	0.6394 (0.7839)			
Lag selection (SIC)	2, 3, 1, 3, 4			

***Note*:** Researchers' computation (2024).
Note: *Values in parenthesis are probability values*
*Note: *** and ** imply significance at 1% and 5% respectively*

4.6 Short run result

The result of the short-term impact of trade liberalization on corruption Table (4.5), taking into account anti-corruption policies, is very enlightening. Corruption control has a positive impact on itself up to the second lag, as demonstrated by research. From the estimated output, if COR rise by about one percent in the next year, present COR will rise by about 0.66 percent at 5% significant level. The second-year effect of COR on current COR is positive, but not statistically significant. According to the estimation, the impact of Trade liberalisation policy (TLP) on COR is positive but lacks statistical significance. However, the positive effect of TLP becomes significant in the second year, with COR increasing by approximately 0.94 percent for every one percent increase in TLP. This relationship is statistically significant, as evidenced by the estimated coefficient's p-value of 0.0007, which is below the allowable 0.05 threshold for this study.

From the estimate, anti-corruption policy (ACP) is shown to have a negative contemporaneous effect on COR. From the estimates, COR falls by about 0.54 percent. The estimated coefficient of 0.0163 has a p-value less than 0.05, indicating that this immediate effect is statistically significant. Interestingly, the effect of ACP after one and two years are positive. From the estimated result, for every percentage rise in ACP in the next year, current COR rises by about 1.34 percent, at a significance level of 5%, the effects of ACP on COR are statistically significant for both one-year and two-year lags. Specifically, the second-year effect results in a current COR increase of approximately 0.75 percent.

Finally, the result indicates that the contemporaneous effect of control of corruption (COC) on COR is negative, but not statistically significant. The result shows that the effect of COC in the next year on current COR is still negative and statistically significant. From the result, for every one percent rise in the following year's COC, current COR falls by about 0.92 percent and this is falls in corruption is statistically significant at 5% level. The model's error correction term (ECT) is statistically significant, negative, and less than one. This indicates that if a shock occurs in the system during the current year, approximately 55.1 percent of the disequilibrium is restored in the following year.

4.7 Long run result

The long run result indicates that trade liberalisation policy (TLP) has a negative effect on COR. That is, for every one percent rise in TLP, COR falls by about 0.19 percent. Given that the estimated p-value of 0.2911 > 0.05, it can be concluded that this negative effect is statistically not significant. Additionally, ACP exerts a negative effect on COR.

From the estimates, for a one percent rise in ACP, there is about 1.17 percent fall in COR. This relationship is statistically significant given that the p-value of the estimated coefficient of 0.0017 is less than 0.05.

Finally, the effect of COC on COR is positive. From the estimated output, it is observed that for every one percent rise in COC, COR increases by about 0.16 percent. The relationship is considered statistically significant because the p-value of the estimated coefficient, 0.0010, is lower than the threshold of 0.05.

The estimated model's adjusted R-square suggests that approximately 85.7 percent of the variation in corruption perception in Nigeria is explained by factors such as lag in corruption, trade liberalization policy, anti-corruption policies, and control of corruption. The other 14.3 percent can be attributed to factors not captured in the model. Post-estimation results show that the error is normally distributed, given a Jarque-Berra (J-B) test that is not statistically significant. Furthermore, the Breusch-Godfrey and Breusch-Pagan-Godfrey tests indicate that the error is not affected by serial correlation and heteroskedasticity respectively.

With respect to focus of this study on objective one, which is to determine the role that corruption policy reforms play in the relationship between trade liberalisation and corruption, the regression estimates on Tables 4.5 (with the inclusion of anti-corruption policy (ACP)) and Table 4.6 (with the exclusion of anti-corruption policy) are compared and discussed. First, the estimates showed that anti-corruption policy did not play any significant role in the links between trade liberalisation and corruption. This is because with the inclusion of anti-corruption policy (ACP) in the regression estimate presented on Table 4.5, trade liberalisation had insignificant impact on corruption while with the exclusion of anti-corruption policy on the estimate presented on Table 4.6, the impact of trade liberalization on corruption was still insignificant. The inputs from the above showed that in the long run, anti-corruption policy played an insignificant role in determining the relationship between trade liberalization and corruption in Nigeria.

In the short run, anti-corruption policy played a significant role in the relationship between trade liberalization and corruption in Nigeria. This is because without the inclusion of anti-corruption policy in the estimate presented on Table 4.6, trade liberalization significantly influenced corruption from lags one to three ((ΔTLP-1, ΔTLP-2 and ΔTLP-3); but with the inclusion of anti-corruption policy in the estimates presented on Table 4.5, the impact of trade liberalization on corruption was only significant at lag two (ΔTLP-2). The implies that the

presence of anti-corruption policy reduced the effect of trade liberalization on corruption from three lags (see Table 4.5) to one lag (see Table 4.6). Thus, in the short run, anti-corruption policy played a significant role in determining the relationship between trade liberalization and corruption in Nigeria.

5. CONCLUSION AND POLICY RECOMMENDATIONS.

The study examined trade liberalization and corruption policy reform on capital inflow in Nigeria. The ARDL estimation technique was used to meet this objective in Nigeria from 1990 to 2022. Results showed that controlling for anticorruption policy reduces the significant effect of trade liberalization on corruption perception both in the short-run and long-run estimates. which can induce capital inflow into the country. The result revealed that good corruption policy reforms are good for the country combined with foreign capital inflows can lead to attainment of high level of development. Consequently, the study recommends that the anti-corruption policy of the government of Nigeria should be sustained given that the better the corruption perception index, the more the capital inflows into the country. Also, this study suggests that the government should strive to maintain the inflation rate at a balanced level to prevent any adverse impacts on foreign direct investment.

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