



Godwin Mfon Ekpo PhD¹ & Imowo Udoma Udobia PhD²

Economic Liberalisation and Employment Generation in Nigeria

Godwin Mfon Ekpo PhD¹ & Imowo Udoma Udobia PhD²

^{1&2}Department of Economics, Ritman University, Ikot Ekpene, Akwa Ibom State,
Nigeria

godwinmfon1121@gmail.com¹; imowoudobia@gmail.com²
+234-803-8722-5841; +234-802-315-5437

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Abstract

The relationship between economic liberalisation and employment is of growing significance to policymakers, particularly in developing countries. This has become a veritable source of public debate, and the scope of that debate is broadening. Economic liberalisation is a multidimensional concept encompassing telecommunications, trade, finance, and other sectors. This study investigates the relationship between economic liberalisation and employment generation in Nigeria from 1985 to 2023 using the auto-regressive distributed lag (ARDL) bounds testing approach. Labour force participation rate is used to measure employment generation, while current account as a ratio of GDP, real exchange rate, foreign direct investment as a ratio of GDP, and trade openness are used to measure economic liberalisation. The unit root test is conducted using the Augmented Dickey-Fuller test. The results reveal that all the variables are integrated of order one, except FDI, which is integrated of order zero. The CUSUM and CUSUMSQ stability tests show that all the parameters in the error correction model are dynamically stable. The empirical results of the ARDL model indicate mixed effects. The liberalisation of the current account reveals a significant long-run negative relationship with employment generation. However, the liberalisation of exchange rate, foreign direct investment, and trade openness enhances the level of employment generation in Nigeria. The Granger causality

test indicates that causality runs from labour force participation rate to foreign direct investment. The study concludes that economic liberalisation significantly promotes employment generation in Nigeria. Therefore, it recommends that policies should be targeted at promoting foreign direct investment, export promotion strategies, and the creation of a conducive environment for investment.

Keywords: Economic Liberalisation, Employment Generation, Auto-regressive Distributed Lag (ARDL), Current Account and Labour Force Participation Rate

1 Introduction

Economic liberalisation, which encompasses multiple aspects such as trade, finance, and telecommunications, is increasingly attracting the attention of policymakers, particularly in developing nations, due to its relevance to employment generation. Achieving and maintaining full employment has long been one of the major objectives of macroeconomic policy. The desirability of full employment lies in the social benefits it brings, particularly in terms of additional output gains. Unemployment, however, has adverse effects, including social and economic distress, mental anguish, suicide, and domestic violence. Nigeria's unemployment rate has been rising rapidly, leading to declining household incomes and living standards, and resulting in higher poverty levels (Kareem, 2007). This predicament has significant ramifications for Nigerian society, with unemployment representing a social problem that has devastating consequences for individuals, families, and communities. One of the leading causes of poverty in Nigeria is the shortage of opportunities for gainful employment (Onwioduokit, 2001). In a bid to accelerate economic growth and development, which would in turn reduce unemployment and poverty incidence, governments are often faced with the choice between adopting protectionist or liberalised economic policies.

Protectionist policies are implemented to safeguard domestic enterprises from international competition, thereby enabling the domestic economy to develop. In contrast, liberalisation policies seek to achieve similar objectives by promoting efficiency gains from resource utilisation and mobilisation. Economic liberalisation has a wide-ranging impact on the economy, as it involves policy reforms in trade, finance, and telecommunications. By removing barriers to entry and fostering competition, liberalisation encourages the adoption of efficient production methods, potentially leading to higher employment opportunities. This has significant implications for a country's economic development, making it a critical area for policymaking and research. The interconnectedness of trade, finance, and telecommunications highlights the interdependence of economic sectors in the modern global economy (Onwioduokit, 2004).



In Nigeria, economic growth posed significant challenges during the 1980s, as reflected in the negative GDP growth rates of the period. To address these challenges, the Structural Adjustment Programme (SAP) was implemented in 1986, with objectives including restructuring the economy to reduce dependence on oil and imports, achieving fiscal and balance-of-payments sustainability, and encouraging private sector investment (Balogun et al., 2012). A key element of SAP was the economic liberalisation policy, which included the deregulation of the foreign exchange market with the expectation of creating jobs, reducing poverty, and stimulating economic growth. However, SAP and the associated liberalisation policies produced mixed results. While deregulation of the foreign exchange market encouraged increased foreign investment and higher exports—both of which contributed to economic growth—these gains were offset by intensified import competition, which adversely affected domestic industries and led to job losses.

Unemployment in Nigeria remained high throughout the 1980s and 1990s and resurged in more recent years, particularly from 2015 to 2017. The effectiveness of economic liberalisation in achieving job creation and poverty reduction objectives, therefore, remains contentious. Despite successive governments implementing policies to combat unemployment, such as the Structural Adjustment Programme (SAP), the National Directorate of Employment (NDE), the National Poverty Eradication Programme (NAPEP), the National Economic Empowerment and Development Strategy (NEEDS), and the Subsidy Reinvestment and Empowerment Programme (SURE-P), unemployment has persisted as a major challenge. Between 1986 and 1998, the average unemployment rate stood at 4.11%. However, it increased significantly between 1999 and 2009, peaking at 19.7% in 2009. Although there was a slight decline between 2010 and 2011, the rate subsequently rose again, reaching 18.1% in 2017 and 23.1% in 2018 (World Development Indicators, 2019).

In comparison, countries such as Ghana, India, Indonesia, Brazil, and Cuba maintained considerably lower unemployment rates—6.71%, 3.5%, 4.3%, and 2.26%, respectively—over the same period. These trends are concerning for both policymakers and citizens, particularly in view of Nigeria's economic potential and developmental aspirations. The persistence of high unemployment despite policy interventions suggests the need for a more comprehensive approach. This may involve a combination of strategies, including skills development, job creation through public and private sector investments, and targeted policies to stimulate growth in high-employment-potential sectors such as agriculture and manufacturing.

High unemployment in Nigeria has not only social and economic implications but also potential security risks. Prolonged joblessness can lead to frustration and desperation, increasing the likelihood of social unrest and crime. Addressing unemployment is therefore essential not only for the welfare and prosperity of the population but also for maintaining social stability and fostering economic growth. A

sustained and coordinated effort is required from the government, private sector, and civil society, with a focus on creating jobs, promoting entrepreneurship, and providing skills training.

The relationship between economic liberalisation and employment generation in Nigeria is a topical issue warranting substantial research to determine the extent to which liberalisation has contributed to job creation. Despite its importance, there has been a notable lack of studies on the subject in Africa, particularly in Nigeria, partly due to the absence of reliable employment data. This study aims to bridge that gap and contribute to the body of knowledge.

Against this background, the present study seeks to empirically examine the extent to which economic liberalisation has facilitated employment creation in Nigeria and to trace the causal relationship between economic liberalisation and employment generation. The rest of the paper is structured as follows: Section 2 reviews the theoretical and empirical literature; Section 3 discusses the methodology; Section 4 presents and discusses the empirical results; and Section 5 provides the summary, conclusion, and recommendations.

2 Literature Review

2.1 Conceptual Framework

2.1.1 Economic Liberalisation

Economic liberalisation refers to the reduction of government regulation and restrictions on economic activities, with the aim of promoting economic development, competitiveness, and growth. It is a key component of globalisation, which involves the integration of national economies into the global economy. Many developing economies, including Brazil, China, and India, have experienced rapid growth due to liberalisation policies that include privatisation, labour market flexibility, lower tax rates, reduced capital restrictions, and open markets. By opening up their economies to foreign capital and investments, these countries have become more competitive in attracting and retaining domestic and foreign investors. While liberalisation can have significant benefits, it can also have negative consequences, particularly for developing economies that may be less resilient to the effects of sudden changes in the global economy. For example, liberalisation can lead to increased competition from foreign firms, which can threaten domestic industries and cause job losses in the short term.

In addition, liberalisation policies can result in income inequality, as certain sectors of the economy may benefit more than others.

To mitigate these potential negative impacts of economic liberalisation, policymakers in developing economies should consider implementing complementary policies that support domestic industries, promote skill development and job creation, and foster inclusive economic growth. Moreover, international organisations such as the World Bank and the International Monetary Fund (IMF) have emphasised the

importance of responsible and gradual liberalisation, taking into account the specific needs and circumstances of individual countries. This approach emphasises a balance between openness and appropriate regulation, aiming to achieve sustainable and equitable economic development.

2.1.2.1 Labour Force Participation Rate

The Nigerian labour force participation rate represents the proportion of the working-age population that is either employed or actively seeking employment. From 1990 to 2020, the labour force participation rate in Nigeria has fluctuated, reaching a high of 61.2% in 1990 and a low of 53.2% in 2016. The rate in 2020 was 53.4%, which was lower than the 55.9% recorded in 2019. This indicates a shrinking labour force despite an increasing population. The unemployment rate in Nigeria also increased to 33.3% in 2020, highlighting the challenges in generating sufficient employment opportunities for the growing population. (World Bank Development Indicator 2021)

The shrinking labour force participation rate and rising unemployment rate in Nigeria suggest a growing challenge for policymakers to stimulate job creation and promote economic growth. This is especially important in the context of a rapidly expanding population, which increases the pressure on the economy to generate more jobs. In addressing this challenge, policymakers may consider measures such as investing in education and skill development to enhance the employability of the population, fostering entrepreneurship and small business development, and promoting economic diversification to create more job opportunities in sectors beyond the traditional oil and gas industry.

2.2 Review of Theoretical Literature

2.2.1 Heckscher-Ohlin Theorem (1933).

It is quite appropriate to apply trade theory to economic liberalisation and employment generation due to the fact that many analysts regard economic liberalisation as a precondition for the rise in exports and imports (Kareem, 2009). The work is anchored on the Heckscher-Ohlin theorem that was formulated by Heckscher and Ohlin (1933). The theorem deals with two factors of production, labour and capital, under the assumption of perfectly competitive markets and identical production functions with freely available technologies across countries.

According to Heckscher and Ohlin, regions or countries have different factor endowments. It means that some countries are rich in capital while some are rich in labour. In their theory, the concept of factor endowments, or factor abundance, is used in relative terms and not in absolute terms. Moreover, they have defined the concept of factor endowment or factor abundance in terms of two criteria. First, the price criterion, which states that a country is said to be capital abundant if the ratio of the price of capital to the price of labour (P^k/P_L) is lower as compared to the other countries. This criterion

considers both demand for and supply of factors. Second, the physical criterion which states that a country is said to be capital abundant if the ratio of the total amount of capital to the total amount of labour (k/p) is greater as compared to other countries. This criterion considers only the supply of factors.

On the basis of the above criteria, the Heckscher–Ohlin theorem states that a nation will import the commodity whose production requires the intensive use of the nation's relatively scarce and expensive factors. In other words, the countries in which capital is cheap and abundant will export capital-intensive goods and import labour-intensive goods. On the contrary, the countries in which labour is cheap and abundant will export labour-intensive goods and import capital-intensive goods. Therefore, for them it is the differences in factor intensities in the production of goods along with actual differences in factor endowments of the countries which explain international differences in comparative costs of production. The Heckscher–Ohlin theory further leads to the development of the factor price equalisation theorem. The factor price equalisation theorem indicates that free international trade will ultimately lead to equalisation of commodity prices and factor prices.

Paul Samuelson and Wolfgang Stolper further contributed to this theory and have formed the Stolper–Samuelson theorem. The theorem explains the effect of change in relative product prices on factor allocation and income distribution. It postulates that an increase in the relative price of a commodity raises the return of the factor used intensively in the production of that commodity. In other words, an increase in the relative price of a labour-intensive commodity will increase wages. Similarly, an increase in the relative price of a capital-intensive commodity will increase the price of capital. This implies that free trade would raise the returns to the abundant factor and reduce the returns to the scarce factor. The Heckscher–Ohlin model shows that a rise in trade raises the demand for labour-intensive products in poor, labour-surplus countries. This is commonly taken to mean that in the H–O framework, all markets are cleared with macroeconomic equilibrium and full employment throughout; thus, a rise in trade can only cause an inter-sectoral shift towards labour-intensive activities, not greater employment.

According to Ghose (2000), many analysts interpret the H–O model to include labour market rigidities and unemployment. This means that an increase in manufactured trade between developing labour-surplus and developed labour-scarce countries is likely to result in an increase in employment in the developing labour-surplus countries. Moreover, export activity in developing countries does tend to be labour-intensive, and a shift of activity to export activity, consequent upon economic liberalisation, will probably raise the employment intensity of manufacturing.

Meroyi (2016) opined that the Heckscher–Ohlin model argues that trade openness is good for developing countries because they are labour-abundant. Economic liberalisation will increase efficiency and growth and raise employment opportunities

and wages for their most abundant resource. Under the H–O model, trade leads to redistribution of employment from the importing sector towards the exporting sector in the developing countries which export primarily labour-intensive products. Although in the long run, trade opportunities can have a major impact on creating more productive and higher-paying jobs. The major problems with the Heckscher–Ohlin theory are the assumptions of full employment, perfect competition and constant returns to scale. These may not be applicable to most developing countries, as many of the developing countries are facing unemployment problems.

2.2.2 The Keynesian Theory of Employment Generation

Keynesian economics departs from classical economic theory by providing a more comprehensive explanation of employment and income in the short term. Keynesian theory assumes that factors such as capital equipment, population, technical knowledge, and labour efficiency are constant in the short run. In this context, national income and employment are directly related, and an increase in national income means an increase in employment. Keynesian theory asserts that effective demand, which comprises consumption and investment expenditures, determines employment and income in the short run. When consumption or investment increases, effective demand rises, resulting in increased employment and income.

The central role of effective demand, particularly consumption and investment, highlights the crucial importance of consumer and investor confidence in Keynesian theory. The level of consumption and investment determines the level of employment and income, indicating that any increase in consumption or investment can stimulate the economy, thereby generating more jobs and increasing incomes. Keynesian theory offers valuable insights into economic behaviour during downturns and recessions. By understanding the relationship between effective demand, employment, and income, policymakers can formulate effective fiscal and monetary policies to stimulate economic growth, promote employment, and stabilise incomes.

2.1.2 Review of Empirical Literature

Economic liberalisation, which involves the removal of trade and investment barriers, has been advocated by many developing countries as a means of promoting job creation and economic growth. However, the actual impact of liberalisation on employment in developing economies remains a subject of debate and inquiry. Bhalotra's (2002) study on the effects of liberalisation on employment and wages in India revealed that productivity and economic growth have accelerated, despite a temporary setback in organised sector employment. This suggests that, over time, liberalisation can indeed have positive effects on employment, although the short-term impacts may be less favourable.

Bhalotra's study highlights the complexities of evaluating the impact of economic liberalisation on employment. The short-term negative effects on employment, as evidenced in India, may be attributed to the disruptive nature of economic reforms, such as labour market adjustments and the displacement of workers in traditional sectors. However, in the long term, increased productivity and economic growth can lead to the creation of new employment opportunities in other sectors. The research further illustrates the importance of careful consideration and planning when implementing economic liberalisation policies, ensuring that the potential short-term adverse effects are adequately addressed and mitigated.

Lall's (2002) study on the employment impact of globalisation highlighted the limitations of the traditional trade theory in explaining the employment effects of globalisation. The complexity of the relationship between globalisation and employment necessitates careful consideration of other factors, including technology transfer and investment, in understanding the employment effects of globalisation.

Christev et al.'s (2005) study on the impact of trade liberalisation on employment in Ukraine found that increased non-state share in industry led to job losses and reduced job creation. The findings of both studies underscore the multifaceted nature of the relationship between economic liberalisation and employment, highlighting the potential for both positive and negative effects. The case of Ukraine illustrates how liberalisation can lead to structural changes in the economy that can impact employment levels, requiring careful management to mitigate negative effects.

Moreover, the reliance on disaggregated data and the ARDL model in Christev et al.'s study suggests the importance of using appropriate methodologies and data to accurately analyse the impact of economic liberalisation on employment. The findings of these studies suggest that economic liberalisation and globalisation can have a wide range of employment effects, depending on the specific circumstances and policies implemented in each country. This highlights the importance of a case-by-case approach to economic liberalisation, with policymakers and researchers adopting a comprehensive analysis that considers the unique conditions and challenges of individual countries. Moreover, the findings underscore the need for a balanced approach to liberalisation that takes into account potential negative impacts and seeks to mitigate them through policies that support job creation, skill development, and investment in new sectors.

Adewuyi and Adeoye (2008) analysed the potential impact of trade policy reform (the Economic Partnership Agreement) on wages and employment in the Nigerian manufacturing sector. Their simulation results revealed that certain sub-sectors, such as textiles, wood products, and furniture, would experience an increase in wages and employment, while other sub-sectors, such as food and beverages, would witness a decline. The study recommended that with significant trade liberalisation,

there is a need for adjustment assistance to manufacturing industries to minimise adverse impacts on wages and employment.

Bhasin's (2008) study on the impact of agricultural trade liberalisation on poverty in Ghana provides a different perspective. Using the CGE model, Bhasin found that the elimination of tariffs on agricultural goods, combined with foreign capital inflows and value-added tax, reduced poverty across all households and increased employment opportunities. This suggests that in Ghana, trade liberalisation in the agricultural sector had positive effects on employment and poverty reduction. The divergent findings of these two studies illustrate that the impact of trade liberalisation on employment and poverty varies across countries and sectors, highlighting the need for context-specific analysis and policies.

Taken together, these studies underscore the complexity of the relationship between trade liberalisation and employment, with effects depending on factors such as the sector, specific policies implemented, and the economic characteristics of the country. Moving forward, policymakers and researchers in developing countries need to understand these complexities and adopt an approach that considers the unique circumstances of each country and sector to maximise the benefits of trade liberalisation while minimising potential negative impacts on employment and poverty.

Kareem's (2009) study found that trade liberalisation policies in Nigeria have had both positive and negative impacts on job creation. Liberalisation of customs and excise duties enhanced job creation, while liberalisation of exchange rates and import duties increased unemployment. The study recommended that the Nigerian government implement trade liberalisation policies carefully, ensuring that the interests of the economy are not dominated by oligopolistic interests.

Kareem's (2010) analysis focused specifically on Nigeria, examining the relationship between trade flows and employment over a 26-year period. The study found no significant relationship between trade flows and employment generation, indicating that factors such as foreign direct investment (FDI), real effective exchange rates, structural adjustment programmes (SAPs), political stability, labour regulations, and real wages are more influential in explaining employment rates.

These findings suggest that economic liberalisation, while generally positive for employment, requires a nuanced approach that considers specific factors that may influence employment in each country. Based on these findings, policymakers in developing countries should consider a comprehensive approach to economic liberalisation that takes into account the unique characteristics of the local economy. This may involve pursuing trade liberalisation alongside other policies, such as investment promotion, skill development, and labour market reforms, to maximise the benefits of globalisation while mitigating potential negative impacts. Furthermore, the role of FDI in promoting employment and economic growth underscores the importance of foreign investment policies in shaping the impact of liberalisation on

employment. Therefore, government should also focus on creating an enabling environment for FDI, including a stable political climate, clear investment regulations, and appropriate infrastructure.

Olayiwola's (2010) study in Tanzania found that while export orientation had a positive but insignificant effect on labour demand, import penetration led to a decline in labour demand. Similarly, Umoru's (2013) study in Nigeria found a negative relationship between employment and international trade flows.

However, David et al.'s (2010) Computed Generalised Equilibrium (CGE) model simulation in Indonesia showed that trade liberalisation with the European Union would increase wages, household income, and employment. Moreover, Akinlo *et al.*'s (2013) Generalised Method of Moments (GMM) analysis found no significant relationship between trade liberalisation and labour force participation in Nigeria.

Onya Ojimadu and Ogu's (2013) study on trade openness and poverty in Nigeria found that trade openness has a positive impact on poverty reduction, which can indirectly improve employment opportunities in the long run. Dutt, Mitra, and Rangjan's (2009) cross-country analysis found a negative relationship between trade openness and unemployment. This suggests that in general, increased trade openness can lead to lower unemployment levels.

Umoh *et al.*'s (2013) sector-specific analysis of the manufacturing sector in Nigeria found that trade openness enhances manufacturing productivity in both the short and long run. This increase in productivity has the potential to expand employment opportunities and economic growth, demonstrating the potential benefits of trade liberalisation in specific sectors.

These findings indicate that trade liberalisation's impact on employment can be complex, depending on the sector, country, and methodological approach. Policymakers and researchers must consider the nuances and complexities of trade liberalisation to ensure that the benefits are maximised while minimising adverse effects on employment and poverty. The heterogeneity in the effects of trade liberalisation on employment underscores the importance of considering sector-specific analysis and country-specific conditions in policymaking. For example, countries with strong domestic industries and robust labour market institutions may be more resilient to the negative impacts of trade liberalisation. Moreover, trade liberalisation can present both challenges and opportunities for employment, depending on how government and businesses respond to the changing economic landscape. Government can promote the development of new industries, support entrepreneurship, and invest in education and skills training to ensure that the labour force remains competitive in a globalised economy.

Kayode *et al.* (2014) carried out a study on the impact of trade liberalisation on employment generation in Nigeria using panel regression on time series data from 2003 to 2007. The study found that employment generation as a result of trade liberalisation

has increased significantly. The study recommended that the government should create an enabling environment for foreign direct investment (FDI) to thrive in a bid to create employment.

Ari-Matti (2015) investigated the impact of economic globalisation on the employment policies in 19 Western democracies using the vector autoregressive moving-average model with exogenous regressions on time series data from 1985 to 2010. The findings revealed that the impact of economic globalisation is significantly positive on employment opportunities. Buhari (2016) also delved into a study on the effects of globalisation on employment creation in Turkey. A bound test approach was used on Turkey's data from 1970 to 2011. The findings showed that globalisation affected employment positively in the long run.

Deborah *et al.* (2015) examined the impact of trade liberalisation on the Nigerian labour market using OLS. The findings showed that trade liberalisation exhibited a negative impact on the Nigerian labour market. The study recommended that different degrees of liberalisation for various sectors be applied so as to discourage dumping and encourage local production, thus generating employment opportunities.

In a related development, Okoye *et al.* (2016) evaluated the impact of economic liberalisation on the growth of the Nigerian economy. The study employed OLS on time series data from 1986 to 2015 and concluded that economic liberalisation has a significant impact on the economic growth in Nigeria. This implies an increase in employment generation in the long run. The work recommended that the financial deepening programme should apply a substantial amount of revenue to infrastructural development with a view to reducing the cost of production and price levels.

Similarly, Yemi (2016) examined the impact of trade liberalisation on employment in Nigeria using OLS. The study made use of time series data from 1980 to 2012, and the results revealed that trade liberalisation promotes employment generation opportunities more during civilian regimes than military rule in Nigeria.

The study by Adelani (2021) focused on trade liberalisation and economic growth in Nigeria. This research, being historical, addressed the brief historical background of the Nigerian economy, trade liberalisation and the concept of economic globalisation. Findings revealed that liberalisation of trade stimulates economic growth. However, the study recommended that social infrastructure should be provided, as it will help to remove the constraints to the capacity of local industries to seize opportunities in the international market; a common front should be formed with other countries with similar needs to get the external market barriers removed; promotions of the consumption of locally produced goods through orientation and deliberate policies are required; and that efforts should be made to reorganise both the agricultural and industrial sectors to make the collection of taxes more cost-effective.

The account by Ogbebor *et al.* (2023) on Nigeria's financial markets, economic growth, and liberalisation interaction between 1986 and 2020 using ARDL revealed the

findings that confirmed that while trade openness had a statistically significant negative impact on economic growth, foreign ownership of shares had a statistically favourable impact. Additionally, it was shown that during the studied years, inflation was negative but minor in relation to economic growth. Based on the study's findings, it was advised that an enabling macroeconomic environment be present to make use of the advantages that financial liberalisation and the financial market have to offer. Financial liberalisation requires a favourable macroeconomic climate, according to studies. Macroeconomic instability makes information asymmetry worse and makes the financial sector more vulnerable. If the macroeconomic indicators are stable, foreign investors will be more eager to make investments in Nigeria.

From 2003 to 2007, using a panel regression model on secondary data, Akinyemi *et al.* (2014) examined the nexus between trade liberalisation and employment generation in Nigeria. Tariff structure as a key variable for economic liberalisation revealed a significant and positive effect on employment generation. Further, the cumulative significance of the study revealed that tariffs, wage rates, trade openness and foreign direct investment exerted a significant simultaneous effect on employment rates in the manufacturing, transport, agriculture, mining and quarrying sectors.

Using panel data for 15 Tunisian sectors between 1983 and 2010, Goaled *et al.* (2015) evaluated the relationship between trade liberalisation and the employment intensity of sectoral output growth. The result showed evidence that trade liberalisation has stimulated the intensity of employment in the manufacturing sector.

Zaki, *et al.* (2020) appraised the relationship between employment intensity and sectoral output growth in Egypt and Jordan, employing panel data for 10 sectors. Findings revealed that in Egypt, the manufacturing sector is the most important sector that creates employment, while the service sector is the most important sector that creates employment in Jordan.

Utilising data of 1990-2014, Hlaelefang, *et al.* (2018) carried out a survey on the impunity of trade liberalization on economic growth in Switzerland using the Auto-Regressive Distribution Lag (ARDL). The findings disclosed that trade openness has a positive and significant effect on economic growth in Switzerland.

Umoru's (2013) study attempted to rationalise the impact of international trade flows on employment generation in Nigeria within the framework of the vector error correction model. The study found that the volume of international trade has no significant positive impact on employment generation in Nigeria. Indeed, the recent empirical evidence is that of a significant negative employment effect of a total trade volume in Nigeria.

Okoye *et al.* (2017) examined the extent to which changes in some key economic indicators, such as exchange rate, financial depth, trade openness and inflation rate, accounted for the output performance trend of Nigeria's industrial sectors. The vector

error correction model techniques were used to analyse annual data on the variables. The study identified the effect of economic liberalisation policies of the government on the performance of the industrial sector in Nigeria, which showed that exchange rate volatility and trade openness exerted a significant positive impact on industrial output performance.

2.4.1 Evaluation of Empirical Literature Review

This study seeks to address several gaps in the existing literature on the impact of economic liberalisation on employment generation in Nigeria. Unlike previous studies that use unemployment rate or labour force as proxies for employment generation, this study utilises labour force participation rate as a more comprehensive measure of employment activity in the country.

In addition, some studies, such as Bhasin (2008), Balogun and Dauda (2016), etc., looked at effects of economic liberalisation on macroeconomic variables like poverty, inequality, employment, growth, etc. Most studies that exist on the effects of economic liberalisation on employment were done in the developed countries and some developing countries that are not in Africa (Ghose, 2000; Christev *et al.*, 2005). However, studies on the effects of economic liberalisation on employment generation are few in Africa, specifically in Nigeria; some of them are Adewuji *et al.* (2008) and Kareem (2007 and 2009). This might be due to the dearth of reliable data on employment generation in Nigeria; this study extends the data span to 2023, contributing to the literature with more recent empirical evidence on the effects of economic liberalisation on employment generation in Nigeria.

In addressing these gaps, this study aims to provide a more accurate understanding of the relationship between economic liberalisation and employment generation in Nigeria. By analysing recent data on labour force participation rate, the study seeks to provide more reliable and nuanced insights on the dynamics of employment in the country. Moreover, this study contributes to the existing literature on economic liberalisation and employment by focusing on Nigeria, a developing country in Africa with a unique economic and social context.

Furthermore, this study has the potential to offer valuable insights to policymakers and practitioners in Nigeria. By understanding the complex relationship between economic liberalisation and employment generation, policymakers can design more effective strategies to promote job creation and economic growth in the country. Furthermore, this study can inform future research on economic liberalisation and employment by providing a more comprehensive understanding of the impact of liberalisation policies on employment in developing countries, particularly in Africa. The gaps identified in the existing literature provide a compelling rationale for the present study, which aims to contribute new insights and potentially reconcile the conflicting findings in the field.

3 Methodology

3.1 Research Design

The research employs a quasi-experimental research design, integrating theoretical considerations with empirical observations. This design facilitates the observation of the impact of explanatory variables on the explained variable, offering a balanced approach. The chosen timeframe spans from 1985 to 2023, providing a substantial duration for capturing the long-term relationship between economic liberalisation and employment generation. This extended period enhances the study's ability to discern patterns and trends, contributing to a comprehensive understanding of the dynamics between these key economic indicators.

3.2 Model Specification

In line with the extent literature, we used current account as a ratio of GDP, exchange rate, foreign direct investment as a ratio of GDP and trade openness to measure economic liberalisation. If the net foreign income is positive, the current account as a ratio of GDP is assumed to be positively related to job creation as postulated in the theoretical literature. It is also revealed in the literature that foreign direct investment stimulates investment and total output invariably enhances employment opportunities (Christev *et al.*, 2005). Furthermore, the degree of trade openness is conceived to be positively related to employment generation, particularly in the developing labour surplus economies. This is in tune with the theoretical literature of the Heckscher-Ohlin model, which states that free trade will raise the returns of the abundant factor and reduce the return of the scarce factor.

Based on the foregoing and following Kareem (2009), the relationship between employment and economic liberalisation can be specified as:

$$LFPR_t = f(CA, EXR, FDI, OPN) \dots \dots \dots (3.1)$$

Where;

LFPR = Labour Force Participation Rate (which is an index of job creation)

CA = Current Account as a ratio of GDP, EXR = Real Exchange Rate

FDI = Foreign Direct Investment as a ratio of GDP, OPN = Trade Openness

$$LFPR_t = \alpha_0 + \alpha_1 CA_t + \alpha_2 EXR_t + \alpha_3 FDI_t + \alpha_4 OPN_t + \mu_t \dots \dots \dots (3.2)$$

Where;

α_0 is a constant term, $\alpha_1 - \alpha_4$ = Slope parameters, μ = White noise error term

$\alpha_1 > 0, \alpha_2 > 0, \alpha_3 > 0, \alpha_4 > 0$

Labour force participation rate is calculated as the actual labour force divided by potential labour force multiplied by 100

Current Account as a ratio of GDP is calculated as the difference between exports and imports divided by GDP

Trade openness is calculated as exports plus imports divided by GDP.

3.3 Estimation Technique

The study employs the autoregressive distributed lag (ARDL) bounds test approach put forward by Pesaran *et al.* (2001) based on the unrestricted error correction model. The bounds testing methodology as compared to other conventional co-integration procedures such as Engle and Granger (1987) and Johansen and Juselius (1990) has gained popularity in recent times for some reasons.

First, it can be used with a mixture of I (0) and I (1) variables. Second, it involves just a single-equation setup, making it simple to implement and interpret. Third, it has superior statistical properties on small samples, as it is relatively more efficient in small data sizes. Fourth, all the variables are assumed to be endogenous. Finally, different variables can be assigned different lag lengths as they enter the model. Nevertheless, to apply the bounds test, it is expedient to ensure that the variables under consideration are not integrated of an order higher than one. The following ARDL representation of equation 3.2 will be estimated in order to test the existence of long run relationship between economic liberalisation and employment generation in Nigeria:

$$\begin{aligned} \text{LFPR}_t = & \alpha_0 + \sum_{i=1}^k \alpha_1^i \Delta \text{CA}_{t-1} + \sum_{i=1}^k \alpha_2^i \Delta \text{EXR}_{t-1} + \sum_{i=1}^k \alpha_3^i \Delta \text{FDI}_{t-1} + \sum_{i=1}^k \alpha_4^i \Delta \text{OPN}_{t-1} \\ & + \sum_{i=1}^k \alpha_5^i \Delta \text{LFPR}_{t-1} + \alpha_6 \text{CA}_{t-1} + \alpha_7 \text{EXR}_{t-1} + \alpha_8 \text{FDI}_{t-1} + \alpha_9 \text{OPN}_{t-1} + \alpha_{10} \\ & \text{LFPR}_{t-1} + \mu_t \dots \dots \dots (3.4) \end{aligned}$$

To determine the optimal lag length for the ARDL model in equation 3.4, lag selection criteria such as Final Prediction Error (FPE), Schwarz Information Criterion (SIC) and Akaike Information Criterion (AIC), etc., are employed and the lag combination that minimises these criteria is the optimal lag for the model. Investigating the presence of a long run relationship amongst the variable in equation 3.4 given the lag length selected, requires the use of F-test in which the joint significance of the coefficients for lagged one variable is tested with F-statistics calculated under null. We performed a joint significance test, where the null hypothesis ($H_0: \alpha_6 = \alpha_7 = \alpha_8 = \alpha_9 = \alpha_{10} = 0$) against the alternative (H_a : at least one of the parameters is not equal to zero).

Consequently, the computed F-statistic is then compared with the non-standard critical bounds values reported by the Pesaran *et al.* (2001). If the computed F-statistic exceeds the upper critical bounds value, then H_0 is rejected. If the F-statistic lies below both the upper and lower critical bounds value, it implies that the null hypothesis of no co-integration and is not rejected. However, when the computed F-statistics falls between the critical lower and upper bounds values, then the test becomes inconclusive.

Once the co-integrating relationship is established, the short run dynamic is also analysed. The error correction model representation of the ARDL model is specified in

Godwin Mfon Ekpo PhD¹ & Imowo Udoma Udobia PhD²

equation (3.5) below:

$$\Delta LFPR_t = \alpha_0 + \sum_{i=1}^k \alpha_1^i \Delta LFPR_{t-1} + \sum_{i=1}^k \alpha_2^i \Delta CA_{t-1} + \sum_{i=1}^k \alpha_3^i \Delta EXR_{t-1} + \sum_{i=1}^k \alpha_4^i FDI_t + \sum_{i=1}^k \alpha_5^i OPN_{t-1} + \varphi Z_{t-1} + e_t \dots \dots \dots (3.5)$$

Where φ is the speed of adjustment parameter. A negative and significant φ implies that any short-term disequilibrium between the dependent and explanatory variables will converge back to the long run equilibrium relationship. Z is the error correction term which is the OLS residuals series from the long-run co-integrating, and e_t is a white noise error term. Further, we performed the CUSUM and CUSUMSQ tests for parameter stability.

3.4 Causality

Causality test is also conducted to establish the direction of causality between economic liberalisation and employment generation in Nigeria. This approach tests whether one variable causes another variable so as to ascertain to what extent the current value of a variable can be explained by its previous values alone, and to check whether the inclusion of the lagged values of a variable can improve the outcome. We specified the Granger causality in the equations below:

$$\Delta LFPR_t = \sum_{j=1}^n \alpha_j \Delta CA_{t-j} + \sum_{i=1}^n \beta_i \Delta LFPR_{t-i} + \mu_{1t} \dots \dots \dots (3.6)$$

$$\Delta CA_t = \sum_{j=1}^n \lambda_j \Delta LFPR_{t-j} + \sum_{i=1}^n \pi_i \Delta CA_{t-i} + \mu_{2t} \dots \dots \dots (3.7)$$

$$\Delta LFPR_t = \sum_{j=1}^n \delta_j \Delta EXR_{t-j} + \sum_{i=1}^n \phi_i \Delta LFPR_{t-i} + \varepsilon_{1t} \dots \dots \dots (3.8)$$

$$\Delta EXR_t = \sum_{j=1}^n \alpha_j \Delta LFPR_{t-j} + \sum_{i=1}^n \beta_i \Delta EXR_{t-i} + \varepsilon_{2t} \dots \dots \dots (3.9)$$

Godwin Mfon Ekpo PhD¹ & Imowo Udoma Udobia PhD²

$$\Delta LFPR_t = \sum_{j=1}^n \lambda_j \Delta FDI_{t-j} + \sum_{i=1}^n \pi_i \Delta LFPR_{t-i} + e_{1t} \dots \dots \dots (3.10)$$

$$\Delta FDI_t = \sum_{j=1}^n \delta_j \Delta LFPR_{t-j} + \sum_{i=1}^n \phi_i \Delta FDI_{t-i} + e_{2t} \dots \dots \dots (3.11)$$

$$\Delta LFPR_t = \sum_{j=1}^n \gamma_j \Delta OPN_{t-j} + \sum_{i=1}^n \beta_i \Delta LFPR_{t-i} + v_{1t} \dots \dots \dots (3.12)$$

$$\Delta OPN_t = \sum_{j=1}^n \alpha_j \Delta LFPR_{t-j} + \sum_{i=1}^n \pi_i \Delta OPN_{t-i} + v_{2t} \dots \dots \dots (3.13)$$

Where;

Δ = the first difference operator

$\alpha, \beta, \lambda, \pi, \delta, \phi, \gamma,$ = coefficients

i and j = lagged period

t = time

m = maximum number of lags

$\mu_{1t}, \mu_{2t}, \varepsilon_{1t}, \varepsilon_{2t}, e_{1t}, e_{2t}, v_{1t},$ and v_{2t} = Uncorrelated white noise series or impulses.

3.5 Data

The study uses annual time series data from 1985 to 2023. The data span is adjudged appropriate as it covers the period when the economic liberalisation (SAP) started in Nigeria. The sources of these data were National Bureau of Statistics (NBS), Central Bank of Nigeria statistical Bulletin (Various issues) and World Development Indicator (WDI).

4.1 Empirical Results and Discussions

4.1.1 Unit Root Results

Although, the bounds test approach to co-integration does not require the pre-testing of the variables included in the model for unit root, Augmented Dickey – Fuller (ADF) unit root test is however considered to ensure that none of the variables are integrated of order 2.

Table 4.1: ADF Stationarity Test

Variable	Level	First Difference	Conclusion
LFPR	-1.945073(-3.552973)	-10.40869(-3.557759)	I(1)
CA	-1.82843(-3.56288)	-5.805011(-3.562882)	I(1)
EXR	-2.23995(-3.55775)	-4.260420(-3.557759)	I(1)
FDI	-3.689146(-3.55297)		I(0)
OPN	-2.700082(-3.552973)	-7.499366(-3.557759)	I(1)

Source: Author's Computation using Eviews 9

The table above shows the results of the unit root. It reveals that except for foreign direct investment (FDI) which was stationary at level, all other variables were stationary after first difference.

4.2 Var Lag Order Selection Result

The determination of autoregressive lag length is very important and it is the foremost exercise in the application of ARDL model. Table 4.2 shows the results of the VAR lag order selection.

Table 4.2: VAR Lag Order Selection Criteria

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-414.9777	Na	993759.2	27.99851	28.23204	28.07322
1	-324.5806	144.6354*	13051.32	23.63870	25.03990*	24.08696
2	-298.2145	33.39707	13866.68	23.54763	26.11649	24.36943
3	-268.2122	28.00213	15357.32	23.21415	26.95067	24.40949
4	-210.9737	34.34311	5159.169*	21.06491*	25.96910	22.63380*

Source: Author's Computation Using Eviews 9

To determine the optimum lag length, we used a lag length of four since we employed annual data for the estimation. The results of all the test statistics, which include the Sequential Modified LP Test, Final Prediction Error (FPE), Akaike Information Criterion (AIC), and Schwarz Information Criterion (HQ), are diverse. The tests run over lag lengths of 1 and 4 to determine the optimal lag length. The LP and SC indicate a lag length of one, while the FPE, AIC and HQ indicate a lag length of four. At a lag length of one, the model was not stable; we therefore chose a lag length of four, implying that the effect of the exogenous variables would be experienced on the endogenous variable after the fourth period.

Furthermore, considering the sample size of 30 observations, lag length is determined using AIC, which will not only minimise the probability of underestimation but can simultaneously maximise the chance of getting the correct lag length.

4.3 Co-integration Test Result

The co-integration test was conducted after the stationarity of the variable had been established to ascertain the long-run relationship among the variables. Table 4.3 presents the result of the co-integration analysis.

Table 4.3: Bounds Test for Existence of Cointegration

Test statistic	Value	Significance	I0 bound	II bound
F – Statistic	76.27294			
K	4	10%	2.45	3.52
		5%	2.86	4.01
		2.5%	3.25	4.49
		1%	3.74	5.06

Source: Author's Computation using Eviews 9

From table 4.3 above, the result of co-integration shows that the computed F-statistic of 76.27 exceeds the lower and upper bounds critical values of 3.74 and 5.06, respectively, at the 1 percent significance level, using Pesaran *et al.* (2001). Therefore, the null hypothesis of no co-integration is rejected, implying a long-run relationship among LFPR, CA, EXR, FDI and OPN.

4.4 Correlation Matrix Result

To evaluate the relationship as well as the strength of the relationship between economic liberalization and employment generation in Nigeria, the correlation analysis matrix is presented.

Table 4.4: Correlation Matrix

	LFPR	CA	FDI	EXR	OPN
LFPR	1				
CA	-0.390925	1			
FDI	-0.198476	0.169360	1		
EXR	-0.582727	0.100437	-0.3339	1	
OPN	-0.238125	0.035606	0.447762	-0.115591	1

Source: Author's Computation

Table 4.4 above shows that all the explanatory variables are negatively correlated with labour force participation rate (LFPR). Based on the strength of the relationship, all the explanatory variables revealed a weak relationship with LFPR apart from EXR, which was moderately high. Also, the table reveals that there is low correlation among the variables.

4.5 Long and Short Run Dynamics

The long-run estimated coefficients are presented in Table 4.5

Table 4.5: Estimates of the Long Run Coefficients

ARDL Dependent Variable: LFPR.

Variable	Coefficient	Std. Error	t-statistic	Prob.
CA	-0.043338	0.007696	-5.631282	0.0001
EXR	0.003412	0.001518	2.247890	0.0442
FDI	0.160714	0.076370	2.104411	0.0571
OPN	0.007477	0.007206	1.037560	0.3199
C	54.144297	0.587387	92.178176	0.0000

Source: Author's Computation using Eviews 9

The result of the long-run relationship in table 4.5 shows that all the variables except trade openness are statistically significant at 5 per cent. Foreign Direct Investment (FDI) as a ratio of GDP, exchange rate and Trade Openness (OPN) have the expected sign, and as such, they are in line with the theory. The current account as a ratio of GDP (CA) does not have the expected sign.

Current account shows a significant negative relationship with LFPR. This implies that for every one percent liberalisation of current account, there will be about a 0.04 percent reduction in employment generation. This is in line with Olayiwola (2010). This arises when a country's net foreign income is negative, and as such, the country imports more than it exports, therefore creating employment abroad. Exchange rate reveals a significant positive relationship with LFPR. This implies that for every one percent liberalisation of the exchange rate, employment generation increases by 0.003 percent. This conforms to the work of Kayode *et al.* (2014) but is contrary to the work of Kareem (2009). This result indicates that if the exchange rate is liberalised, particularly when a country's productive capacity increases, job opportunities would be created.

Foreign direct investment (FDI) as a ratio of GDP exhibits a positive and significant relationship with LFPR. This implies that for every one per cent increase in foreign direct investment, there will be a 0.16 percent rise in the level of employment in the country. This result supports the works of Yemi (2016) and Kareem (2010).

Degree of openness to GDP reveals a positive but insignificant relationship with LFPR. This implies that for every one per cent increase in openness of the country's border, there will be a 0.007 percent rise in the level of employment in the country. This result is in line with the works of Kareem (2009), Dutt, Mitra and Ranjan (2009) and Buhari (2016). The long-run coefficient creates a picture that foreign direct investment most significantly dominates the economic liberalisation policies.

4.6 Short Run Dynamics

The short run estimated coefficients are presented in table 4.6

Table 4.6: Estimates of the Short Run Error Correlation Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D (LFPR(-1))	-0.376361	0.048681	-7.731145	0.0000
D (LFPR(-2))	-0.259377	0.049500	-5.239971	0.0002
D (LFPR(-3))	-0.262969	0.041649	-6.314003	0.0000
D (CA)	-0.023516	0.003022	-7.781553	0.0000
D (CA(-1))	0.005850	0.003439	1.701391	0.1146
D (EXR)	0.000712	0.000807	0.882508	0.3948
D (EXR(-1))	0.002758	0.001235	2.232928	0.0454
D (EXR(-2))	-0.001604	0.000888	-1.807471	0.0958
D (FDI)	-0.34289	0.013976	2.453352	0.0304
D (FDI(-1))	-0.034799	0.016659	-2.088980	0.0587
D (OPN)	0.001808	0.001749	1.033657	0.3217
D (OPN(-1))	-0.003498	0.001979	-1.767612	0.1025
ECM(-1)	-0.433964	0.053306	-8.141025	0.0000

Source: Author's Computation using Eviews 9

The above short-run results show that the estimated lagged error correction mechanism (ECM(-1)) is negative and highly significant at one per cent. This result is in line with the co-integration among the variables represented by equation (3.5). The feedback coefficient is -0.43, which suggests a high speed of adjustment to equilibrium after a shock. Approximately 43 per cent of the disequilibrium from the previous year's shock converges or adjusts back to the long-run equilibrium in the current year.

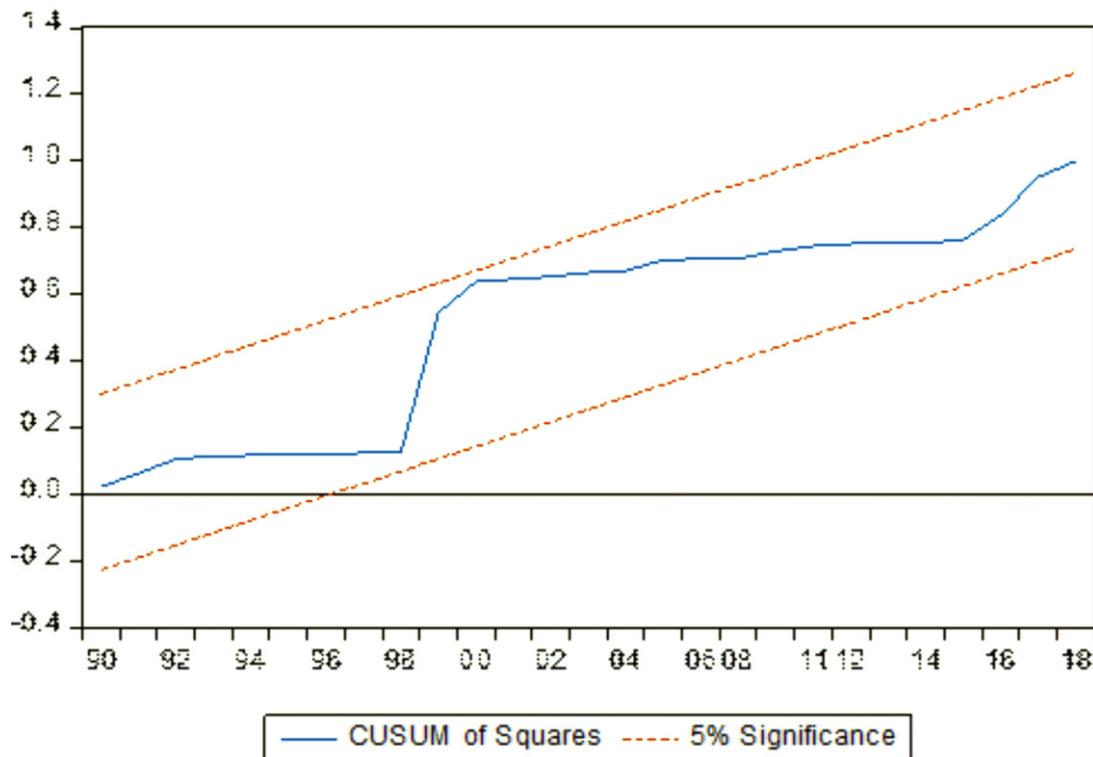
Furthermore, lagged values of LFPR greatly influence the changes in the current level of employment. The lagged value of current account as a ratio of GDP exerts a positive influence on the level of employment. The second lagged value of the exchange rate and the lagged values of FDI and OPN show a negative influence on the level of employment.

4.7 Stability Tests

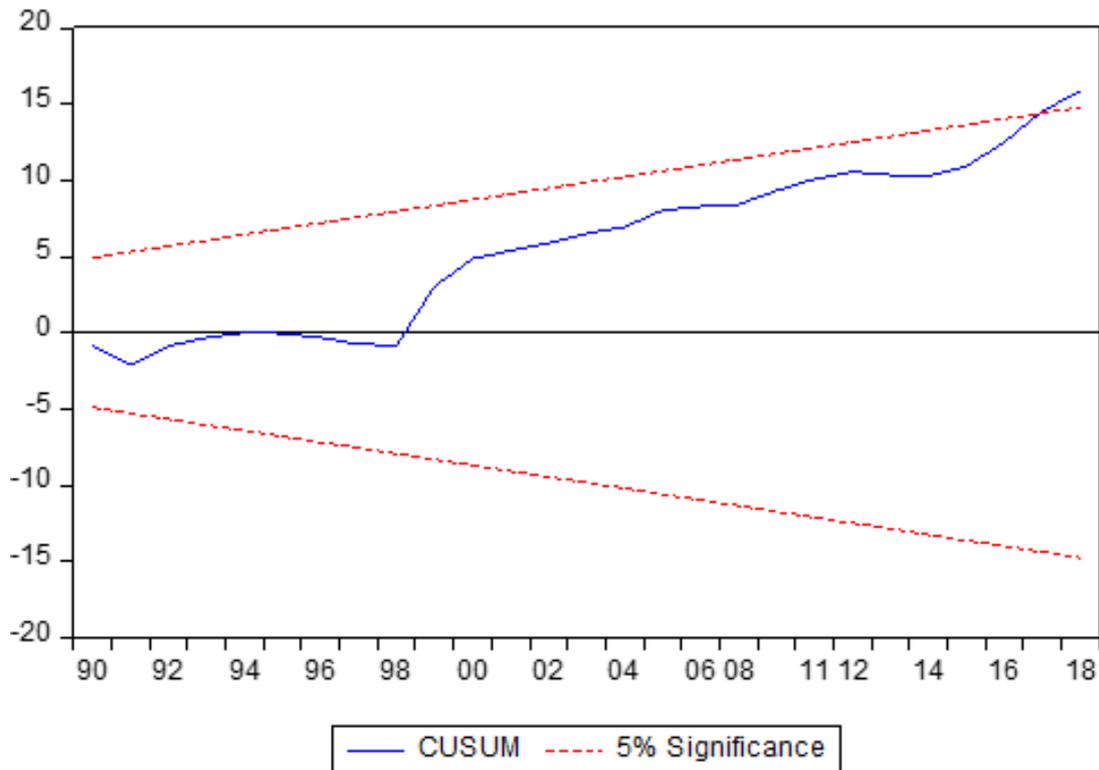
We also performed CUSUM and CUSUMSQ stability tests for the estimated error correction mechanism so as to investigate whether the above long and short-run relationships found are dynamically stable for the entire period of study.

Figure 1 shows that the plot of CUSUM and CUSUMSQ is within the 5 per cent critical bound, therefore, providing evidence that the parameters of the model do not suffer from any structural instability over the period of the study. We therefore conclude that all the coefficients in the error correction model are dynamically stable.

Figure 1 CUSUM and CUSUMSQ Plot for Stability Test



Godwin Mfon Ekpo PhD¹ & Imowo Udoma Udobia PhD²



4.8 Diagnostic Tests

In line with some of the assumptions of the classical linear regression, it is necessary to carry out some diagnostic tests to check the adequacy of a chosen model.

Table 4.8: Breusch – Godfrey Serial correlation LM test

F-Stability	2.381952	Probability	0.1353
Obs* R. Squared	2.870665	Probability	0.0902

Source: Author's Computation Using Eviews 9

The Lagrange multiplier (LM) test is a diagnostic test used in identifying the presence of serial correlation to prevent the model from spurious results. From the result above, we observed that the observed R-squared value of 0.09 is greater than the probability level of 0.05, which suggests that we accept the null hypothesis. This implies that there is an absence of serial correlation. Therefore, the errors of the model are serially independent.

Table 4.9: Heteroskedasticity Test: ARCH

F – Statistic	2.20	Probability	0.1484
Obs* R – Squared	2.187	Probability	0.1392

Source: Author’s Computation using Eviews 9

The test is conducted in order to identify whether there exists the presence of heteroskedasticity or not. From the output above, the value of the observed R-squared is 0.139, which is greater than the 0.05 significance level. This suggests that we accept the null hypothesis. That is, there is an absence of the heteroskedasticity problem.

Table 4.9.1: Pairwise Granger Causality Test.

Null Hypothesis	F –statistic	Probability	Decision	Direction
LFPR does not Granger cause CA	0.42589	0.6575	Accept	No causality
CA does not Granger cause LFPR	0.41472	0.6647	Accept	No causality
LFPR does not Granger cause EXR	0.14023	0.8698	Accept	No causality
EXR does not Granger cause LFPR	0.07222	0.9305	Accept	No causality
LFPR does not Granger cause FDI	3.74145	0.0368	Reject	Causality
FDI does not Granger cause LFPR	0.71991	0.4959	Accept	No causality
OPN does not Granger cause LFPR	0.67797	0.5161	Accept	No causality
LFPR does not Granger cause OPN	0.55708	0.5793	Accept	No causality

Source: Author’s Computation using Eviews 9

In table 4.7 above, the result shows that for the Granger causality between LFPR and FDI, the causality runs from LFPR to FDI. That is, FDI does not Granger cause employment, but it is employment that Granger causes FDI. The other variables show no causality between them.

5 Summary, Conclusion and Recommendations

This paper examined the impact of economic liberalisation on employment generation in Nigeria from 1985 to 2023 using the Bounds Test. The results indicated a long-run stable relationship between economic liberalisation and employment generation, as confirmed by the CUSUM and CUSUMSQ stability tests.

The findings further revealed that, apart from the current account as a ratio of GDP, which exhibited a negative relationship with employment, implying that economic liberalisation has hindered employment growth, other variables such as the exchange rate, foreign direct investment (as a ratio of GDP), and trade openness showed a positive relationship with employment. The collective positive effects of these variables offset the single negative effect of the current account as a ratio of GDP.

The study also found evidence of unidirectional causality from the labour force participation rate to foreign direct investment. This implies that employment growth Granger-causes foreign direct investment. No causality was found among the other variables. This suggests that the aspect of economic liberalisation with the most influence on employment opportunities in Nigeria is foreign direct investment liberalisation. Based on these findings, the study concludes that economic liberalisation has a positive and significant impact on employment generation in Nigeria.

The study therefore recommends the following:

- Caution should be exercised in the liberalisation of the merchandise account, as this is not employment-enhancing. Without adequate safeguards, the productivity of domestic industries could decline, reducing job opportunities, income, and overall welfare. To address this, the government should regulate merchandise account liberalisation.
- Given the strong and significant role of foreign direct investment in creating employment opportunities, policies should focus on promoting FDI and creating a conducive environment to sustain it.
- Adequate policy measures that strengthen trade relations between Nigeria and other nations should be implemented to benefit from increased trade flows.
- Export promotion strategies should be intensified to improve the trade balance.

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Godwin Mfon Ekpo PhD¹ & Imowo Udoma Udobia PhD²

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