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The Role of Trade Openness in Shaping Economic Growth: A Case Study of Malawi's Development Trajectory

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ABSTRACT

It analyzed this study and articulated the effect trade openness had on the economy of Malawi with the aid of annual time series data from 1975 to 2024. Such period contained an instance of history in that independent Malawi would shift into democratic form of governance, which would be characterized by different regimes. One of the objectives of the study was to enlighten how trade openness would affect the economic trajectory of the country within this particular time frame. The study used Error Correction ARDL (Autoregressive Distributed Lags) method for examining the long-term relationship between trade openness and economic growth. The model was best-suited for mixed and integrated dataset, that is, combining the variables that were stationary and no stationary. This analysis result indicated short and long-run effect of trade on economic growth in Malawi. The impact that trade openness brought about in the course of economic growth resembled the kind of recent topic under debates that had many mixed and opposed views, and sometimes described them as contradictory. Part of the reason might have been the exclusion of other significant variables like labor and capital, which were viewed play a very important role in the nexus of trade and growth. Other elements such as innovation, competition, technology, grants, and equal opportunity were also highlighted, all of which empirically validated themselves to serve as catalysts for a successful economy. Imports had negative impacts while exports had a boom with positive impacts, especially in terms of Africa. The study was, therefore, in conclusion with that of the Malawi government should have focused on developing and internalizing new structural economic policies purposed for boosting exports to trigger additional economic growth. Investment was also proven to be having a positive and statistically significant effect on output growth in both the short and long run, which further emphasizes the importance of a favorable investment climate. The study found a significant linkage between the economy, trade openness, capital formation, and development, suggesting that trade openness provided a vast opportunity for the economy in the light of increased capital accumulation. The study further recommended that Malawi should intensify efforts towards product diversification and processing as the negative impacts of volatile terms-of-trade would be tackled with lesser dependency on just several primary products for export earnings. The study called for policies that would encourage an increase in domestic investment because this would have an important contribution towards economic growth in both the short and long term. This research envisaged introducing sound policies that would effectively attract FDI into Malawi, as this would promote growth over time through technology transfer, innovation, and increased productivity.

INTRODUCTION

Over various trade policy reviews, the Government of Malawi (GOM) has emphasized the import of trade as an instrument for poverty alleviation and the quest for sustainable socio-economic development. For example, in the Malawi growth and development strategies I, II, and III (Government of Malawi, 2006; 2011; and 2017) and other policy implementation platforms, it has been strongly articulated. This is a clear manifestation of the openness-theory by the GOM for accelerated economic development. Indeed, the International Monetary Fund (IMF) declared Malawi to be one of the most open economies in Africa in 2001, with a restrictiveness-of-trade-policy index of 3 out of 10, with 1 meaning least restrictive (Musila, 2002). Trade openness statistics for Malawi suggest that for the 20 years preceding the participation in the multilateral trade regime (1975-1994), the trade average openness index stood at 0.5997; whereas for 20 years in the multilateral trade regime (1995-2014), the country registered an improved average trade openness index of 0.6052. Thus, the multilateral trade system fenced off more openness for Malawi. During the same period GDP for Malawi averaged about 1.3 billion US Dollars during 1975-1994 and 4 billion US Dollars during 1995-2014. An ordinary-time casual review of historical data gives an idea that movements in changes in GDP are responding to movements in trade openness.

One of the debates emerging at present is on the relationship between openness in trade and economic performance, specifically growth. The degree to which countries are open to international trade with their imports and exports are what research scholars would usually use in measuring trade openness. Whereas the economic performance would then usually be measured in terms of gross domestic product (GDP) or productivity in different forms of the economy. The proposed hypothesis in the literature is assessing whether trade openness may affect economic performance either across countries, or over a given time period. The exports' remarkable increase displays a phenomenal economic growth trajectory. Since 1993, the establishment of democracy

in Malawi has provided an enabling environment for small-scale traders so that many people and families would start their own businesses (Majanga, 2015). This increased the number of small-scale businesses to constitute not less than 80% of business entities in Malawi.

It is abundantly clear that historians of economic thought have, over the 20th century, amply illustrated those terribly divergent performances among the various developing countries in the second half of the century. Countries such as Brazil, Chile, China, Indonesia, India, Korea, Malaysia, Mauritius, Singapore, Thailand, and Vietnam have, within a decade, achieved great growth with openness in an incredible way, lifting hundreds of millions out of poverty (Lin, 2011). By contrast, these nations would be in quandary about the seeming inability of African countries, where humanity still remains entrapped in poverty (UNCTAD, 2016). Even amid the strenuous efforts expended by developing countries and the intercession of numerous global development agencies, there has been meager economic convergence between the rich and the poor countries. Besides, that is what the policymakers of the developing countries would like to be in the know as regards the possible amounts with some international trade in their relevant time horizons. These time horizons are generally short for the policy advisors in emerging countries since attaining high growth rates stands as a major policy objective. On the contrary, most of the theoretical work on endogenous growth has concentrated on the long-term factors of growth, usually spanning decades. This calls for an urgent need to separate among policies that can be efficiently executed in the short to medium term from those that take decades to implement.

The economic development offers the economy higher standards, investment situation domestic and foreign. (Manoj, 2022). The belief that international trade openness can lead to economic growth originated with Adam Smith in the late 18th century. Initially, this analysis was concerned with the static effects of trade and argued that if the internal relative prices in autarky were different from the ones that can be obtained internationally, then the country can grow by specializing in and exporting the relatively less expensive domestic product and importing the relatively more expensive product (is specialization and trade based on comparative advantage). There seemed to be another argument concerning the international trade vent for surplus (i.e., the large market would allow the country to be able to expand output and employment). On the other hand, on-the-fly effects of international commerce should always be dynamic effects that may turn the economy to be positively or negatively affected. The phenomenon of bring about applications dynamic benefits from trade are cited by Appleyard and Field (2017) as economies of scale that would not have been possible with a limited domestic market, the nurturing of infant industries into internationally competitive ones mainly by providing the market size and exposure to products and processes, increased investment, dissemination of technology into the country, exposure to different products, changes in institutions whose changing literacy comes along with an increased exposure to different countries, cultures and products. Conversely, market imperfections and differences in market operation and characteristics of tradeable goods between the developing countries and the industrialized countries are some of the well-known dynamic costs of trade. Baldwin (1984) showed that for the economy, the dynamic effects of trade are infinitely greater than the static effects. Dynamic effects may slow down or accelerate economic progress. The chance that dynamic effects outweigh the static effects makes the overall trade effect on economic growth unpredictable and vary from country to country. Partly because of this net uncertainty concerning the overall trade impact on economic progress, interest in re-evaluating the association between trade and growth was rekindled. Indeed, the association between economic growth and trade openness has been one of the most hotly debated subjects among scholars in research. However, the empirical studies have failed to reach a consensus regarding this relationship.

3.NEED OF THE STUDY.

The aim of this research is to assess the connection between trade openness and economic growth and thus identify the short-and long-term relationship between these two important criteria. It will assist in analyzing the factors that are causing slow economic growth and improving optimal strategies for expeditious economic growth by means of removing trade barriers and finding new ways to enhance exports and foreign direct investment into Malawi. In addition to this, I would like to assess the geopolitical advantages emanating from deeper economic integration.

3.1 Population and Sample

Such a study is based on the targeted population of Zomba, Blantyre, and Lilongwe. These cities are the major cities of Malawi and the study would involve individuals aged from 18 to about 60 years. For each member of a population to have a known and equal chance of being selected, Probability sampling was used under which the simple random sampling technique was used in choosing the samples randomly from a group of individuals; the sample size of the study was 100 participants.

3.2 Data and Sources of Data

The present study utilizes annual time series data from the major cities of Malawi, namely Zomba, Blantyre, and Lilongwe, for the years 1975-2020. Data were used to estimate the relationship in Equation (2). These include data on real GDP growth, trade openness (the latter is defined as the ratio of the sum of exports and imports to GDP), and population growth, taken as a proxy for labor force growth from the World Bank's World Development Indicators (WDI). Foreign direct investment (FDI) and gross fixed capital formation (GFCF) ratios to GDP data were also applied, which were obtained from the United Nations Conference on Trade and Development (UNCTAD). The choice of the study period is related to the availability of data on trade and economic growth as such variables of interest. Economic growth is the dependent variable measured as log difference of gross domestic product per capita (GDP). I also included a set of control variables that are commonly used in growth equations.

Table 1. Demographic details of the Respondent

Demographic Profile	Frequency		Percentage
Age group	Men	Women	
Below 25	13	10	23
26-35	17	8	25
36-45	6	13	19
46-55	7	13	20
Above 56	6	7	13
Total	100		100
Qualification			
School completed	27	18	45
First Degree	17	17	34
Post graduate	7	9	16
Professional	2	3	5
Total	100		100
Designation			
Executive Level	4	4	8
Superior	10	12	22
Moderate	20	30	50
Minimal	10	10	20
Total	100		100
Experience			
0-5 years	17	13	30
6-10 years	22	18	40
11-15 years	7	13	20
More than 15years	7	3	10
Total	100		100

Source: Primary data

From the above table, we can see the profile respondents clustered according to the demographic details. This is very useful for analyzing and interpreting the data. Age-wise, a higher number of respondents-here, men-were found to be above 25 years. Majority of respondents were middle-level employees in terms of the designation with the largest number being employees reporting into 30 which were women. Likewise, other areas have also been collected and analyzed.

Control Variables

The change in macroeconomic policies through their modifications related to financial crisis, inflation rate, financial development, external debt, investment in human capital and physical capital, and institutional quality does affect growth performance; variations in such an effect will, therefore, be included in the growth equation because the variables will be used to get their effects of macroeconomic policy. The debate on the effect of inflation is on-going. While some studies claim that inflation positively affects the growth rate (Dornbusch, 1996), other studies assert that this effect is characterized by a nonlinear relationship (Fischer, 1993). By the way, inflation could be proxied by the rate of change in price levels.

In particular, the study uses the annual time series data from 1975 to 2020 to estimate the relationship in Equation (2). From Table 1, for the 45 years covered by this study, Malawi's real GDP growth rate has varied from a minimum of -10.24% to a maximum of 16.7%, with an average growth rate of about 3.9% per annum (p.a.). In contrast, the trade openness index would range from 42% to 91%, with an average of 60%. During the same period FDI

averaged well below 2% of GDP p.a. while GFCF averaged just over 19% of GDP p.a. The rate of population growth fluctuated between just over a quarter percent and 6% p.a., with an average growth rate of about 2.8% p.a.

Table 2: Summary of statistics

Variables	# of obs	Mean	Std. Dev	Minimum	Maximum
Real GDP growth	45	4.90	3.84	-9.24	17.73
GFCF/GDP	45	.50	.10	.419	.91
FDI/GDP	45	1.73	2.53	1.30	9.15
Population growth	45	19.28	6.57	12.60	37.44
Trade openness	45	2.84	1.20	.25	6.01

3.3 Theoretical framework

The present study has adopted the basic framework of endogenous growth theory, which conceives the technological change as a result from the actions of individuals rather than external factors to the economy. As Romer (1989) suggested, the general production function specifies itself as

$$Y_t = f(K_t, L_t, A_t) \tag{1}$$

Where Y_t signifies aggregate outputs at time t; is indicative of the economy's level of technology at time t; indicates the level of capital stock at time t; and L_t means the labor force at time t, which is determined by conditions such as the international issues like trade, among other factors (Grossman and Helpman, 1991).

Growth could come from aggregate output or from increases in the amount of capital stock, increases increases in the works force, and rises in the level of technology. Domestic or foreign investments in a country lead to an increase in its capital stock. Growth in the labor force is caused by population growth, increases in the country's labor force participation rate. Thus the general form of the growth equation is:

$$\text{Real GDP Growth}_t = g(\text{Trade Openness}_t, \text{FDI}_t, \text{GFCF}_t, \text{Labor Force Growth}_t) \tag{2}$$

The increase in foreign direct investment (FDI) and gross fixed capital formation (GFCF) leads to an increase in the country capital stock which theoretically brings about increase in output so FDI and GFCF are supposed to negatively affect real GDP. The growth in labor force does bring positive or negative influence on output depending on whether the economy has reached the state of diminishing return or not. For instance, if diminishing returns have been reached, then increase in the labor force will result in decrease in output. The effect of trade openness on growth is an empirical question. The effect of trade on economic growth thus depends on whether positive dynamic effect of trade exceeds negative dynamic ones. If then the net dynamic effects of trade are positive, it would follow that the trade openness would have a positive impact on economic growth.

RESEARCH METHODOLOGY

It was neoclassical with regard to growth model, the one on which a theory regarding investigation of these major cornerstones of economic development has already been laid down. Capital, Technology, labor are the main productive activities in the theory. To study the relationship of trade openness and economic growth, a structured questionnaire has been designed containing different evaluating factors and economic dimensions. The questionnaire was administered to different people throughout the country, most of who are engaged into different trading ventures. A stratified random sampling was used to select samples from the obtained population, which had a sample size of 100.

TIME SERIES PROPERTIES OF THE VARIALES

Having secured the data follows from the concern of determining the time series properties of each of the variables. This is very crucial in order to determine the appropriate specification of the model. In this study, we applied the modified Dickey-Fuller test statistic, namely DF-GLS, involving generalized least squares-detrending and the Phillips-Perron test. The DF-GLS approach is said to have improved statistical properties when contrasted with the ordinary augmented Dickey-Fuller test (SEE Elliott, et al. 1996). This decision to apply the Phillips-Perron test is founded mainly on its notoriety for being more efficient in small (ours) than in large samples. The test for unit roots for the model variables via DF-GLS and Phillips-Perron pay off the results presented in Table 2. The determination of the lag order is derived from the Ng-Perron (1995) sequential t-test criterion, which selects the appropriate lag order starting from the maximum lag and testing for significance on the coefficient of the highest lag. Results indicate that the time series for GDP growth and trade openness index is integrated of order zero or I (0) at the 1% level of confidence. Therefore, we conclude that GDP growth and trade openness are stationary. On the contrary, the share of FDI in GDP, share of gross fixed capital formation in GDP, and the rate of growth of population are all non-stationary and integrated of order 1, denoted by I (1).

Table 3: Tests for a unit root

	DF-GLS	PP	number of lags
Level variables:			
GDP growth	-7.490	-7.375	0
Trade openness index	-4.007	-4.270	0
FDI as a % of GDP	-3.298	-1.870	0
Gross capital formation as a % of GDP	-2.200	-2.421	0
Population growth	-2.159	-1.982	3
First difference variables:			
FDI as a % of GDP	-5.824	-6.099	0
Gross capital formation as a % of GDP	-5.802	-5.679	0
Population growth	-3.654	-2.672	3

The DF-GLS test has observed critical values for t as -3.770, -3.278 and -2.965 at levels of significance 1, 5 and 10%, respectively; while PP test has critical values of -3.655, -2.961 and -2.613 at the same levels of significance enumerated.

Given that some theoretical variables in the model are I (0) and other I (1), thus autoregressive distributive lag model ARDL was viewed as appropriate. The ARDL model, usually termed ADL, has been considered for several decades to model the relationship between the economic variables in a single-equation time series such as that which this study has utilized. The difference from the Johansen cointegration method, the ARDL method allows I (0) and I (1) variables in a common estimation model (Pesaran et al, 2001). The ARDL model is also relatively more efficient than other specifications in case of small and finite sample data series and produces unbiased long-run estimates. The model that has been utilized in the present study is given below as:

$$RGDPG_t = \gamma_0 + \sum_{i=1}^{m} \lambda_i (RGDPG)_{t-i} + \sum_{i=0}^{n} \phi_i' \cdot X_{t-i} + \nu_t \quad (3)$$

Where:

1. γ_0 \gamma_0 γ_0 represents the intercept term.

2. λ_i \lambda_i λ_i and ϕ_i' \phi_i' ϕ_i' are coefficients associated with the lagged values of RGDPG and the explanatory variables, respectively.

3. X_{t-i} X_{t-i} X_{t-i} represents the set of independent variables (like trade openness, foreign direct investment, etc.).

4. ν_t \nu_t ν_t is the error term.

where rgdpg stands for real GDP growth rate, Z is a 4×1 vector that contains variables for trade openness, FDI as percentage of GDP (i.e., FDI/GDP), gross fixed capital formation as percentage of GDP (i.e., GFCF/GDP), and the rate of growth of population (RGP), and ε is the white noise. The δ's are the short-run coefficients while β's are the long-run coefficients. For demonstration purposes, I have assumed that the variables in Z have the same lag order n, but this does not necessarily have to be the case in practice.

Before proceeding with the estimation of the ARDL model, Granger causality tests were done to estimate causality direction. Tests of Granger causality with stationary variables are shown in Table 3 below. According to the Granger causality Wald tests, there is a bi-directional causality relationship between the GDP growth variable and that of the trade openness index. Both the null hypotheses, that trade openness does not Granger cause GDP growth and that GDP growth does not Granger cause trade openness, are rejected in this case. However, based on the statistical significance of the individual coefficients of the lagged variables (results not reported here but available upon request), the tests suggested that trade openness causes GDP growth ahead of GDP growth causing trade openness. The same Granger causality Wald test rejects the null hypothesis that as a group trade openness, foreign direct investment, gross fixed capital formation and population growth do not cause GDP growth anymore as shown in Table 3, which also shows Wald tests of Granger causality between the rests of the variables.

Table 4: Granger causality Wald test

Dependent Variable

	Causal Variable (lag order = 4)					
	Rgdpg	Openness	Δ(FDI/GDP)	Δ(GFCF/GDP)	Δ(PGR)	All
Rgdpg	-	0.023	0.648	0.303	0.739	0.039
Openness	0.027	-	0.070	0.627	0.030	0.002
Δ(FDI/GDP)	0.965	0.295	-	0.951	0.957	0.847
Δ(GFCF/GDP)	0.175	0.000	0.003	-	0.005	0.000
Δ(RGP)	0.152	0.060	0.007	0.003	-	0.003

Note: Figures reported are p-values of Wald statistics. The lag order is determined based on AIC.

MODEL SPECIFICATION AND ESTIMATION

In order to determine the appropriate version of the ARDL model for estimation, the Pesaran-Shin-Smith (2001) ARDL bound testing procedure was applied to evaluate the presence of a long-run relationship between GDP growth and the explanatory variables. The bound test for the null hypothesis of no levels relationship yielded the F-statistic of 8.997 and t-statistic value of -6.249. Accordingly, the null hypothesis at the 1% level of significance was rejected. The bound test suggests a relationship among the level variables. Thus, error correction (EC) form of the ARDL would be the appropriate application. In this study, the EC form of the ARDL model is as follows.

$\Delta(RGDPG_t) = \gamma_0 - \theta(RGDPG_{t-1} - \zeta X_{t-1}) + \sum_{i=1}^{m-1} \kappa_{RGDPGi} \Delta RGDPG_{t-i} + \kappa' \Delta X_t + \sum_{i=1}^{n-1} \kappa_{Xi} \Delta X_{t-i} + \epsilon_t$ (4)

Where:

1. γ_0 \gamma_0γ_0 is the constant term.

2. θ \theta$\theta$ and ζ \zeta$\zeta$ are coefficients associated with the lagged dependent variable and explanatory variables, respectively.

3. X_t X_{t}X_t$ represents the vector of independent variables (e.g., trade openness, foreign direct investment, etc.).

4. κ_{RGDPGi} \kappa_{\text{RGDPG}_i}κ_{RGDPGi} and κ_{Xi} \kappa_{X_i}κ_{Xi} are coefficients for the lagged changes in RGDPG and the independent variables.

5. ϵ_t \epsilon_tϵ_t is the error term.

Where rgdpg and **Z** are as defined in Equation (3). B's are long-run coefficients. α is the speed of adjustment that measures how quickly the dependent variable reacts to deviations from the equilibrium relationship in one period, say one-year. The coefficients φ_{rgdpgi}, φ_{Zi} and φ are for lagged changes in the dependent variable, lagged change in the explanatory variables and non-lagged change in explanatory variables. The coefficients φ's account for short run fluctuations.

In order to establish the appropriate version of the ARDL model for purposes of estimation, the Pesaran-Shin-Smith ARDL bound testing procedure (2001) was applied to evaluate the presence of long run relationship between GDP growth and its explanatory variables. The bound test for the null hypothesis of no long-run level relationships produced the respective F-statistic of 8.997 and t-statistic value of -6.249. Therefore, the null hypothesis was rejected at 1 percent level of significance. The bound test, therefore, indicates that there exists a relationship among the level variables; therefore, the most appropriate application would be the error correction (EC) form of the ARDL model. The following is the EC form of the ARDL model in this study.

$\Delta(rgdpg_t) = c_0 - \alpha(rgdpg_{t-1} - \beta Z_{t-1}) + \sum_{i=1}^{m-1} \varphi_{rgdpgi} \Delta rgdpg_{t-i} + \varphi' \Delta Z_t + \sum_{i=1}^{n-1} \varphi_{Zi} \Delta Z_{t-i} + u_t$ (5)

Where rgdpg and Z are as defined in Equation (3). β's are the long-run coefficients. α measures how quickly the dependent variable will adjust to deviations in the equilibrium relationship, which would be reflected over a period, such as a year. The coefficients φrgdpgi, φZi, and φ are for lagged changes in the dependent variable, lagged change in the explanatory variables, and non-lagged change in explanatory variables, respectively. The coefficients φ's account for short run fluctuations.

ESTIMATES FOR THE LONG RUN RELATION

Long-run estimates suggest that controlling for other factors, trade openness has an oscillating impact on the economic growth of Malawi; that is, an increase in the trade openness index will harm growth in the present period, trigger growth the following year, again undermine growth the year after, thereby generating a net negative growth effect. Estimates also indicate that FDI and GFCF have a significantly positive net effect on satisfactory growth in the Malawian economy. These findings correspond with the work by Herzer et al (2008) and Mahende and Odhiambo (2014) for FDI and Bond et al (2010) for GFCF. Population growth and labor force growth are not significantly contributing to the growth of Malawi's output. This may signal the already abundant nature of labor in Malawi.

ESTIMATES FOR THE SHORT RUN RELATION

The effects imply that increasing trade openness index leads to a decrease in short-term GDP growth, holding all other factors constant. This stands in line with some of the findings by Musila and Yiheyis (2015), who found that trade-policy-induced openness had an adverse effect on economic growth in Kenya. There are possible sources which can explain the impoverishing growth of Malawi. First of all, Malawi is specializing in the production and export of mainly tobacco, sugar, and tea which have declining world prices over time. In contrast, Malawi imports the capital goods that are required for accelerating the rate of economic growth, but their prices remain stable over time. That is to say, Malawi has to export more of her primary commodities to maintain the same level of capital imports. Secondly, Malawi's imports consist quite largely of communication equipment, which are not intermediate inputs within her production process. Thirdly, the production of tobacco, sugar, and tea offers very little dynamic benefits, whether by innovations or a trained labor force in the country.

IV. RESULTS AND DISCUSSION

This study investigated the influence of trade openness on economic growth in Malawi using annual time series data for the years 1975-2020. The analysis incorporated foreign direct investment (FDI) as a percentage of GDP, gross fixed capital formation (GFCF) as a percentage of GDP, and population growth as a proxy for growth in the labor force as control variables. Since the study had stationary (I (0)) and non-stationary (I (1)) variables that were cointegrated, the estimation method used was the Error Correction form of the ARDL model. Contemporary trends showing the integration of economic growth have opened doors to trade. The results display a somewhat conflicting outcome on the incidence of trade openness on GDP growth. The results further indicate that in the short term, trade openness negatively impacts GDP growth in short swings but oscillatory effects on growth in long run. Specifically, it means that in the long run, an increase in trade openness lowers growth in the present period but will increase it in the next period and again dampens growth in the following period, being of negative net effect. The results also illustrate that the investment, more in particular gross fixed capital formation, has a positive and significant effect in speeding up economic growth in Malawi.

From the findings, several implications emerge that might act as reports for policy formulation. One, for trade to act as an engine of economic growth, Malawi requires to avoid the dependency of basic primary commodity exports in the few categories and diversify its production and export base into manufactured goods. Second, continued efforts to improve macroeconomic stability are paramount for enhancing Malawi's growth performance. From the results, investment short run and long run matters for economic growth in Malawi. Hence macroeconomic policies to enhance investment, especially locally sourced, must get prioritization. Also, attracting FDI will be crucial for GDP long-term growth. This study has investigated trade openness vis-a-vis the growth of the aggregate economy. However, international trade is generally known to influence different sectors in different ways through the reallocation of resources. Modeling the sectoral impacts of trade openness for Malawi is a topic of future interest for research.

V. CONCLUSION

Trade openness has long been established as a potent truck to growth: through efficient resource allocation engendered by export-oriented policies, attraction of foreign direct investment, provision of advanced technology for domestic production, economic and financial integration, and enhancement of total factor productivity are but a few mechanisms that come to mind. In line with theoretical postulations, the present study sets out to investigate whether trade openness is a friend to or foe of economic growth in the short and long runs. Using the ARDL bounds testing approach, the present study finds that gross capital formation and the trade index foster the sustained economic growth in both short-run and long-run contexts. Besides, Leamer (1995) and Vamvakidis (2002) discussed that proper implementation of economic and trade policies enables an economy neutralize external shocks and the benefit from trade openness. In order for trade to substantially affect economic growth, Turkey should be putting more emphasis on financial development. The latter not only necessitates economic growth through capital formation but also spurs trade activity through cheaper financial resources; foreign direct investment attraction and advancement of technology will also benefit in this process. Grossman and Helpmann (1991), Young (1991a, 1991b) and Rivera-Batiz (1991) highlight the role of human capital in economic development. Trade is therefore a pathway for economic growth with spillover effects and diffusing advanced technologies from the developed world.

Our findings confirm positive and strong complementarily relationship between trade openness and gross capital formation in accelerating economic growth in the short and long run. This shows that human capital plays a vital role in economic growth. The extent of economic growth attracted through trade openness and financial development depends on human capital availability in the country especially skilled ones. The government should emphasize developing human capital, the financial sector, and trade through an appropriate economic and trade policy directed toward sustained long run economic growth.

Furthermore, Western countries and their multinational corporations exploit poorer countries' economies; therefore, there is a need for developing countries, particularly in Africa, to strategize for breaking out of the dependency trap. Support import-substitution strategies, as recommended by older structural economists, with developing economies closed off and protected until their modern industries could compete in global markets with advanced industrialized countries. We propose trade openness and export promotion as foreign currency earners generated by export revenues. The perspective is further supported by the tenet that any development strategy oriented away from the domestic market is more favorable in the long run. The conviction that such programs would generate demand for unskilled labor-and, therefore, unskilled wages-enhanced this outlook.

On grounds of specific sub-regional data and trade flows (imports and exports), the regions hold comparative advantage (that is, exporting goods that the rest of the world needs and gradually upgrading its industry in step with changes in endowment structure to make its economy competitive in exports in the sub-regions). Imports are to be discouraged apart from in case of the Northern Africa subregion to encourage domestic production of consumption goods instead. The governmental policies and initiatives should focus on macroeconomic stability and the maximization of savings and investments, setting markets in allocating resources, and establishing committed, credible, and capable governments. Further, marketing goods via E-trade platforms should be availed to policymakers and governments for achieving maximum sustainable growth.

AREA FOR FURTHER STUDY

A further study can be conducted on the trade openness and its direct connection to economic growth and how to eliminate the barrier between the two criteria's in developing countries specifically in Malawi.

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