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# Tripartite Analysis of Financial Development, Trade Openness and Economic Growth: Evidence from Ghana, Nigeria and South Africa

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## ABSTRACT

This study examines the tripartite relationship between financial development, trade openness and economic growth in Ghana, Nigeria and South Africa for the 1980-2014 period. The study reveals a long-run causal relationship between financial development, trade openness and economic growth, thereby supporting finance- and trade-led growth hypotheses for Ghana, Nigeria and South Africa. Moreover, long-run causality from financial development and economic growth to trade openness is found for Ghana. In the short-run, there is evidence of causality from growth to financial development for Ghana, from trade openness to financial development for Nigeria and from growth and financial development to trade openness for South Africa. The findings of this study are robust to alternative proxies of financial development and various diagnostic tests. The study shows that financial development and trade openness can be deployed to accelerate growth, while growth and financial development can be used to promote trade openness. Additionally, trade openness spurs financial development. Therefore, a tripartite relationship exists between the three variables. Hence, interdependence between financial development, trade openness and economic growth is found and consequent policy recommendations are made.

## KEY WORDS:

Financial development, Trade openness, Economic growth

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## 1. Introduction

One of the greatest economic challenges currently confronting most developing countries concerns how to make economic growth more inclusive. Many developing countries in Africa, Asia and Latin America are

growing faster than most high-income economies in Europe, Asia and North America, but unemployment, income inequality and poverty rates have remained obstinately high in these regions despite their impressive growth (Central Intelligence Agency [CIA], 2014). Though some level of growth and strong average growth are necessary for poverty reduction, these are not sufficient conditions for economic development, as most people do not benefit equally from such growth. Ali and Son (2007) noted that economic growth can

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