

An Appraisal of the Effects of Globalization on the Nigerian Economy

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The world has now been reduced to a global village; so much that what happens in one country now have almost instant ripples effect in other countries world over. This study is on the appraisal of the effect of globalization on the Nigerian economy. The study made use of secondary data sourced from the Central Bank of Nigeria statistical bulletin and the National Bureau of Statistics between 1986 and 2011. The model for the study has as its dependent variable the Gross Domestic Product (GDP) and its explanatory variables were Foreign Direct Investment (FDI) into Nigeria, Export and Import data. Using the Ordinary Least Square (OLS) multiple regression techniques; our study revealed that there is a strong positive relationship between the Nigerian Gross Domestic Product (GDP) and foreign Direct Investment (FDI). That is, the FDI has impacted on the Nigerian economy positively. However, the study further revealed that import has been growing over time though not at the pace of the GDP, whereas exports suggested that it has been significant over the period of study. The study, therefore recommended that efforts should be geared towards creating an enabling environment for FDI to thrive in the economy and that imported products that are produced locally should be discouraged from being imported to give room for local industry to thrive as well.

Key Words: Appraise, effects, globalization, economy

Introduction

The concept of Globalization gained prominence only recently, even though it has always been there over the years, but the attention it is commanding in world affairs today is unprecedented. Globalization has taking place for centuries and, with time, has accelerated, from the colonization of the inhabited parts of the world to the appearance of nations, from conquests to independent countries, from sailboats and caravans to steamboats, truck fleet and cargo planes, from trade in a few commodities to global production and distribution networks and to the present explosion of international flows services, capital, and information (Friedman, 2005).

Over the past two decades, world output has been expanding and many countries are benefiting from increased cross-border trade and investments. Many others suffer because economic regimes are inefficiently managed, and this weakness reduces their capacity to successfully compete globally (Schneider and Enste, 2002). International mobility of capital, resulting from advances in communications technology and liberalization of financial markets has intensified as the world economy witnesses the unleashing of market forces. Deregulation of domestic markets, their opening to competition, privatization and the retreat of the state from economic management are also features of the current global order.

However, this same process encourages rising inequality among nations. The liberalization of the world economy, for instance, has proceeded in such

a way that the growth prospects of developing countries are being undermined. Thus, while restrictions have been lifted on the freedom of capital and skilled labour to move to areas of high returns, the restrictions on the mobility of unskilled labour remain. Moreover, as developing countries have increased their capacity to produce and export manufactures, the developed countries have become active in promoting tariff peaks and escalations (UNCTAD, 2001a). Such measures can neither solve the South's development problems nor allow for a narrowing of the North-South divide. In this paper, we attempt an exploration of globalization and its implications for the growth process. The aim is to situate globalization in the context of Nigeria's development. To accomplish this task, the paper is separated into a number of sections. Apart from the introduction in section I, we have the statement of problem, the objectives of the study and the hypothesis to be tested, section II provides the literatures and an overview of trends in globalization. Section III addresses the methodology of the study to ascertain the impact of globalization on Nigeria's development while section IV contains the concluding remarks and recommendations.

Statement of Problem

It has become an axiom that the entire world has been reduced into a global village, so much that peoples of different countries are no more restricted or limited by their national boundaries to reach out

to other people in different part of the world to do business transactions with one another and other related matters across national boundaries without hindrances of space, time and geographical locations. Couple with the advancement in information and communication technology that has also placed information at the fingertips of as many that are inclined and are familiar the use of the computers and the internet service. This somehow have had ripples effect on Nigeria as the most populous black nation in the world with very vast, huge and large market potentials for the world to savour.

Objectives of study

The objective of this study is to appraise the effect of Globalization on the Nigerian economy

Research Hypotheses

Null Hypothesis: Globalization has not had any significant effects on Nigerian economy.

Alternative Hypothesis: Globalization has had significant effects on Nigerian economy.

Conceptual and Theoretical Framework

Globalization is an often-discussed but seldom-defined phenomenon. At a broad level, globalization is an increase in the impact on human activities of forces that span national boundaries. These activities can be economic, social, cultural, political, technological, or even biological, as in the case of disease. Additionally, all of these realms can interact (Stiglitz, 2006). At the most generic level, globalization is simply the shrinking of geographic space of politically defined borders that accelerates and magnifies flows of money, goods, people and culture around the world (Stiglitz, 2006).

Globalization has deep historical roots. Although in popular accounts globalization is a recent phenomenon, historians recognize that, in some important respects, it is not new. Economic historians date the modern era of globalization to approximately 1870. The period from 1870 to 1914 is often considered to be the birth of the modern world economy. The first modern stage of globalization was followed by two additional stages, one from the late 1940s to the mid-1970s and another from the mid-1970s to the present (Friedman, 2005).

Globalization has changed the natures and qualities of the different economic dimensions of many nations of the world especially the third world countries drawing from their experiences with their colonial masters. It has in a way influenced their trade pattern, which is the mode of exchange of goods and services among countries. It has

influenced countries finances which involves the exchange of assets or financial instruments among countries. The aids granted, that are usually given in the form of transfer of loans and grants among countries, as well as technical assistance for capacity building. Likewise, is the migration of persons between countries either temporarily or permanently, to seek education and employment or to escape adverse political environments. Furthermore, is the transfer of ideas which are considered to be the broadest globalization phenomenon. They involve the generation and cross-border transmission of intellectual constructs in areas such as technology, management, or governance.

It is no gainsaying the fact that, all of the aforementioned are practically evident in the Nigerian economic system. This date back to the colonial and post-colonial eras and even up to this present period, the impact of globalization are still visible and widespread in different facets of the country in relation to her socio-political, cultural and economic spheres.

An Overview of Trends in Globalization

The world is fast becoming a global village, a metaphor that is often invoked to depict global interdependence and the increasing interaction among and the integration of economic activities of human societies around the world (Ajayi, 2001). In concrete terms, globalization is the intensification of cross-border trade and increased financial and foreign direct investment flows among nations, promoted by rapid advances in and liberalization of communication and information technology (Islam, 1999 and Aninat, 2002). Thus, globalization conjures the picture of a borderless world with greater economic integration that enhances the living standards of people across the globe.

Even then, globalization is not a novelty in the development process. On the contrary, the late 19th century was a period of dramatic integration of the world economy as evidenced by the rapid expansion in world trade, the founding of the Latin Monetary Union in 1865 and the emergence of the gold standard in 1878 (Onwuka, 1998 and O'Rourke and Williamson, 1999). Although the retreat into managed trade by the major trading countries between the first and second world wars dampened the outlook of global economic intercourse, the post-1945 multilateralism has virtually permeated all corners of the globe. Since 1990, increased economic cooperation has lifted the ratio of the growth of world export volume to the growth of gross world product to a range of 2.5-3 from an average of below 2 in the 1970s and 1980s (United Nations, 2001). Other benefits of globalization, which include exposure to new ideas and products, greater specialization and expanded opportunities for mergers and acquisitions, leading to growth in

size and power of corporations, their increased competitiveness and efficiency in the utilization of productive resources and major improvements in social development and human welfare are well documented in the literature (see, for example, Ayorinde, et. al. 1998; Rodrik, 1999; Sachs, 2000; Crafts, 2000; Masson, 2001; IMF, 2002 and Ocampo, 2003). The transnational corporations (TNC) with their intensive integration of production, distribution and services globally provide the impetus for this process. Between 1990 and 2001, for instance, their stock of outward foreign direct investments (FDI) increased from 1.7 trillion dollars to 6.6 trillion dollars and in 2001 alone their sales of 19 trillion dollars were more than twice as high as world exports that year (UNCTAD, 2002a).

No doubt, increased trade and investment flows help countries to develop more quickly as trade generates income and the flows enable them to increase their stock of productive capital without compromising their level of consumption. And when such flows are in the form of FDI, they often improve access to international best practices in terms of managerial, marketing and technical know-how, skill acquisition and institutional deepening. Moreover, the intangible assets of TNC such as knowledge, technology, management know-how and market access serve not only as essential link between national economies, but also as a catalyst for investment and enterprise competitiveness as well as complements to domestic development resources in recipient countries (UNCTAD, 2001b). Technology, policy and competition are the forces driving globalization. This is attested to, for example, by advances in computing technology, which enable traders to meet demand for financial instruments such as swaps and futures with relative ease, thus allowing them to better manage their risks. In addition, improved transportation such as the advent of containerization in land-and sea-based shipping has reduced both the handling requirements and transit time by more than two thirds. The second force is policy liberalization. With this, most governments have removed barriers to trade and controls on the movement of capital and services, thereby allowing market forces to play themselves out. The third force, which is heightened competition, compels firms to explore new ways of increasing their efficiency, including shifting some of their activities abroad to reduce costs (UNCTAD, 2002a).

However, not every nation is a full member of the global village. The developed countries use their competitive advantage to boost their share of world trade and finance, and so largely benefit from globalization (Khor, 2001 and UNCTAD, 2003a). On the other hand, developing countries are losing out as they experience a worsening of existing imbalances and distortions in the global economy (Collier and Dollar, 2001). This view is shared by

Zuma (2003) who argues that the unequal distribution of political, economic and military power has meant that whilst globalization created immense opportunities of wealth for some, it has produced two contrasting global villages: one which is indeed prosperous, rich and democratic for a few who live in it, and the other, in which the majority are poor, alienated and marginalized with hardly any voice to determine their own destiny.

It has become obviously clear that there are actually two villages in the global economy. One, is the developing countries which are mainly primary commodity producers and exporters. In 1985, they accounted for 61.2 per cent of primary products traded globally. Although this dropped to 56 per cent in 2000, this drop cannot compensate for the 68.2 per cent of manufactures based on natural resources or 66.8 per cent of manufacturers not based on natural resources that developed countries exported that year. The shares of developing countries in these categories of manufactures that same year were 26.6 per cent and 30.8 per cent respectively. In the case of FDI inflows, developed nations increased their share from 64.4 per cent during 1990-1995 to 68.4 per cent in 2001, whereas the share of developing countries fell from 33 per cent to 27.9 per cent during the same period.

Moreover, industrial countries protect their markets, particularly in sectors in which developing countries have a recognized comparative advantage like textiles, clothing and footwear. Agriculture is also heavily protected usually in the form of subsidies, driving world prices down and hurting farmers in developing countries the more. The estimate of economic losses from agricultural protection in developed countries is around 150 billion dollars yearly, about 50 billion dollars of it in lost exports for developing countries (see McGuirk, 2002 & Lankas, 2002).

While responsibility for global economic reform is ceded to the International Monetary Fund and the International Bank for Reconstruction and Development (IMF/World Bank), the policies of these agents of globalization, controlled by the highly industrialized countries, have failed to narrow the gap between the richest 20 per cent of humanity and the poorest 20 per cent, which doubled between 1950 and 2000 (O' Rourke, 2002). Free trade and market forces, canvassed by globalization, are not closing this gap. Instead, they have contributed to widening it because after the Tokyo and Uruguay Rounds of trade liberalization in the 1980s and 1990s, the developing countries have ended up with 3 per cent more trade deficits and 2 per cent less economic growth in 2000 in comparison with the 1970s (Erb-Leoncarallo, 2000). The economic internationalization process while not removing national sovereignty subordinates domestic economies to global market conditions (Kwanashie, 1998). The transmission of shocks this

entails can alter the prospects of growth particularly in uncompetitive economies. In this respect, the economic fortunes of developing countries are hostage to the forces of globalization. The East Asian financial crisis of 1997/1998 testifies to this assertion as the contagion, which followed affected the growth of many of them (UNCTAD, 1999; Bresciani et al., 2002).

As we acknowledge the peculiar economic circumstances of developing countries, we also share the view canvassed by Onimode (2003) that the desirable policies for them even in the context of globalization are those that promote self-reliance. This becomes imperative after the fact that globalization increases their dependence on foreign capital and the attendant exploitation impedes their growth, aggravates their poverty and intensifies their marginalization in the global economy. The message from these concerns is that globalization is more than the free interplay of market forces since economic questions cannot be divorced from social issues. That being the case, the foundation of globalization has to be strengthened with broadly shared values and practices that would also reflect the needs of developing regions, so that all countries could benefit from the globalization process.

Globalization and Nigeria's economic development

Globalization is a very uneven process with unequal distribution of its benefits and losses. This imbalance leads to polarization between the developed countries that gain, and the developing countries that lose out (Obadan, 2001). In this regard, the place of Nigeria in the globalization agenda requires some in-depth study. To begin with, Nigeria is economically weak due to inadequate domestic economic capacity and social infrastructure needed to boost the country's productivity, growth and competitiveness. Secondly, the economy is made weaker by mono-cultural dependency and unfavourable terms of trade in its export trade as well as excruciating debt and debt service burdens. And thirdly, before 1986, economic regimes were regulated and the country pursued expansionary fiscal and monetary policies in its development efforts (Obadan, 1998). These problems were exacerbated by political instability and corruption. As a result, investment choices were distorted, which eroded the confidence especially of foreign investors.

Following the globalization trend, Nigeria has been liberalizing its economy. But the real sectors have had to function under conditions of unstable macroeconomic management, inadequate technology and credit facilities. These have proved to be an obstacle to strengthening the productive base, especially of agriculture and industry, in order to make them export-oriented. Thus, in spite of the

openness of the economy, external trade performance has not been encouraging and worthwhile.

A study by Onwuka and Eguaveon (2003) reveals that oil exports dominate Nigeria's foreign trade, accounting for more than 80 per cent of exports between 1985 and 2001. Food, agricultural raw materials and manufactures accounted for only 1 per cent of total export in 1990, but this fell to 0 per cent in 2000. In between that period, the country never exported ores and metals (World Bank, 2002). As a mono-cultural exporter, over 80 per cent of Nigeria's exports is made up of crude petroleum. But instability in the world oil market sometimes negatively affects oil exports, leading in such circumstances to declines in foreign exchange earnings. This partly explains the country's recourse to external funding in order to meet its developmental challenges.

But external borrowing exposes Nigeria to indebtedness, which reached 29.8 billion dollars in 2002. The servicing of this debt depleted the national treasury by 1.2 billion dollars out of 10.7 billion dollars foreign exchange earned that year (Central Bank of Nigeria, 2002). Even more worrisome is the ratio of this debt to gross domestic product (GDP) and export earnings. In 1985, the total debt stock was 710 billion naira, which corresponded to 1 per cent and 6 per cent of GDP and export earnings respectively. In 2001, the country's external debt had risen to 3.2 trillion naira, which was 56 per cent of GDP and 633 per cent of export earnings.

Financial market liberalization also exposes the country to volatility and shocks. Yet, access to credits is granted to the country under strict conditionality. Moreover, the shortfalls in servicing Nigeria's debt have led Export Credit Guarantee Agencies (ECGA) to suspend insurance cover for export of goods, services and investment to the country. Nigerian importers are also required to provide 100 per cent cover for all their order. As such, they are placed at competitive disadvantage to those who have access to ECGA covers and import credit facilities (Debt Management Office, 2001). This situation exacerbates the pains of the external debt and hampers the inflow of foreign resources needed for the stimulation of investment and growth. FDI inflows to Nigeria amounted to 588 million dollars in 1990. This rose to 1,079 million dollars in 1995, but declined to 930 million dollars in 2000 (UNCTAD, 2002b). Worldwide FDI in 2001 were 823.8 billion dollars and Nigeria attracted only 1.1 billion dollars or 0.13 per cent of that amount.

Although global FDI declined to 651.2 billion dollars in 2002, Nigeria increased her share to 0.19 per cent of such investments as she attracted 1.3 billion dollars of FDI that year (UNCTAD, 2003b). However, that share is meagre and it is explained by the peripheral position of the country in the financial

and profit calculations of industrialized nations and the country's marginalized status within the orbit of modern capitalism.

In discussing globalization vis-à-vis Nigeria's development, two issues deserve consideration. The first relates to the Washington consensus and the second concerns the wisdom of opening the economy to international monopoly capitalism. In addressing these issues, we observe that the IMF/World Bank and their Western collaborators are satisfied with the peripheral role of Nigeria as an exporter of raw materials, especially crude petroleum, to and importer of manufactured goods from the West. In this connection, Stewart (2002) maintains that the capitalist need to sustain the import capacity of peripheral economies in order to facilitate continued production and maximize profits at the center explains why in the periphery countries raw material exports are encouraged. In that event foreign exchange receipts are low; this makes external loan contraction inevitable for social and economic development. Nigeria is no exception to this rule. But then, contracted debts due for repayment, which the country cannot actually pay, are only being reprogrammed, not written off because their continued servicing helps to maintain financial stability at the center.

But globalization can be of immense benefit to Nigeria and so could help the country's development. The enabling framework would include measures to ensure the entry of Nigeria's non-oil exports into the core markets without discrimination. In this regard, the diversification of domestic production is imperative. The unsustainable debt, which weighs the country down economically also needs to be tackled with faster and deeper debt relief by developed nations, while expanded development cooperation with them would strengthen the productive base of the Nigerian economy. The international financial architecture also requires to be broadened and deepened through global solidarity that would see increased inflows of foreign investments into the country. This accomplished, globalization would contribute to enhancing the living standards of Nigerians as the country joins the League of Nations enjoying the benefits of that process.

Research Methodology

Data sources

Based on the nature of the study, data collection sources were secondary in nature. The study sourced data from Statistics Bulletin of the Central Bank of Nigeria (CBN), Federal Office of Statistics (FOS) and Annual Abstract of Statistics of the National Bureau of Statistics (NBS) for about 42 years covering the period between 1970 and 2011.

Model Specifications

In specifying our model, our dependent variable is the annual time series data of the Gross Domestic Product (GDP) as proxy for Nigeria economy for the period between 1986 and 2011, while our explanatory variables are the annual time series data of the Foreign Direct Investment (FDI) and imports into the country and exports to other countries as an offshoot of the effect of globalization covering the period between 1986 and 2011 as well. Therefore, our Ordinary Least Square (OLS) multiple regression model can be specified as thus;

$$GDP = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + U$$

Where,

GDP = Gross Domestic Product (GDP)

X₁ = Foreign Direct Investment (FDI)

X₂ = Total Imports into Nigeria

X₃ = Total Exports to other countries

U = The stochastic error term

Research Technique

As such, we shall make use of the Ordinary Least Square (OLS) multiple regression technique to estimate the values of the parameters B₀, B₁, B₂ and B₃. Besides, we will use the student's t-values obtained to determine the statistical significance of the parameter estimates and the test of goodness of fit for the model using the R² technique. This will enable us to know the percentage of variations between the dependent variable and the explanatory variables. Then, the F-statistic test to determine the overall significance of the multiple regression models and the Durbin-Watson test for the presence or absence of autocorrelation.

Presentation of Results

Our Ordinary Least Square (OLS) simple regression results are as presented below:

$$GDP = -5.87E+08 + 7310.04 FDI + 551.02 IMP - 393.20 EXP$$

$$S.E (1.37 E+08) (90.98) (304.55) (105.02)$$

$$t -4.29 80.35 1.81 -3.74$$

$$R^2 = 0.99, F-stat = 3438.59 (0.00), DW = 0.73 N = 26$$

Discussion of Results

The empirical results generated from the estimation as presented above are quite revealing and in fact instructive. It was found that the GDP has a positive but significant relationship with FDI, implying that the FDI has impacted greatly on the Nigerian economy given the period of study. Obviously speaking, this is true to apriori and theoretical propositions as well. However, imports have a positive but non-significant relationship with GDP; implying that over time as the economies grows,

import has been on the rise as well, although not significant but it was sufficient to explain the dependency nature of the Nigerian economy.

With regards to exports, we observed that there was a negative but significant relationship between GDP and exports, implying that the exported products are possibly not growing at the pace of the GDP, especially the non-oil exports. The R^2 suggested that our model has explained about 99% variation between the dependent and the independent variables, the F-statistics of 3438, means that in the overall our model is very significant and the Durbin Watson value of 0.7 suggested the presence of positive autocorrelation.

Conclusion

Market openness seems to be one of the emphases of globalization and as a result the profit-seeking market economy has spread globally and in the process demonstrated its efficiency and dynamism. This global outlook has been made possible by progressive dismantling of barriers to trade and capital mobility, fundamental technological advances and steadily declining costs of communication, transportation and computing. The integrative logic of globalization, therefore, seems inexorable and its momentum is irresistible. But the opportunities of this global system of interaction remain highly concentrated among the industrialized countries to the exclusion of the majority of developing nations. There is also anxiety that the sovereignty of states is at stake as globalization appears to question their rights to independent decision-making.

Creating an inclusive global market is the major challenge of globalization. In this respect, the industrialized nations must choose between a global market driven only by calculations of profit and one, which offers prosperity to all countries through the instrumentality of global economic solidarity. That solidarity is needed with developed nations opening their markets, providing deeper and faster debt relief and giving more and better-focused development assistance to developing countries. As the "market juggernaut" is rolling at full steam, new pragmatic approaches to development challenges, consistent with interdependent actions are equally needed in order to bridge the North-South divide and place globalization at the service of justice and prosperity for all nations.

Nigeria supports the economic openness that globalization preaches and bears its burdens. But the authority of the Nigerian state in economic management has to be strengthened as a bulwark against the notion that entirely unfettered markets are indispensable for development to occur. Such an ideological conceit if not questioned could weaken efforts at domesticating globalisation for economic development in the country. The East Asian "tigers"

have not followed blindly the prescriptions of the Washington consensus since their governments play important economic roles than the Western nostrums advise (Stiglitz, 2000).

The Nigerian government can benefit from that experience as the country pursues development within the context of globalization.

Recommendations

We therefore recommended the followings:

That enabling environment should be created to attract more foreign direct investment seeing that according to our study it has greatly impacted on the GDP positively. i.e. FDI has boosted the Nigerian economy to a large extent.

That the need for the diversification of the economy from a mono and oil-dependent economy should not only be paid lip-service to; rather it should be developed into a policy framework for implementation and execution so as to broaden and develop other key sectors of the Nigerian economy like industrial, agriculture, mining, etc.

That those goods that are been produced by local industries need not be imported into the economy. These give the local industries unfair competition with their foreign counterparts.

There is also the need for value re-orientation so as to discourage amongst the citizens the desire for foreign made goods at the expense of locally made ones.

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Appendix

Table 1. Annual Time Series Data for the Nigerian Gross Domestic Product (Gdp), Foreign Direct Investment (Fdi), Imports and Exports (1986 – 2011)

YEARS	GDP	FDI	IMPORT	EXPORT
1986	69147.00	9313.600	8368.500	14904.20
1987	105222.8	9993.600	28208.60	48222.30
1988	139085.3	11339.20	28435.40	52638.50
1989	216797.5	10436.10	55016.80	88831.40
1990	267550.0	12243.50	106626.5	155604.0
1991	312139.7	20512.70	116858.1	211023.6
1992	532613.8	66787.00	201383.9	348762.9
1993	683869.8	70714.60	213778.8	384399.5
1994	899863.2	119391.6	200710.2	368848.0
1995	1933212.	122600.9	927565.3	1705789.
1996	2702719.	128331.9	1286216.	1872170.
1997	2801973.	152410.9	1212499.	2087379.
1998	2708431.	154190.4	717786.5	1589275.
1999	3194015.	157508.6	1169477.	2051486.
2000	4582127.	161441.6	1920900.	2930746.
2001	4725086.	166631.6	1358180.	3226134.
2002	6912381.	178478.6	1512695.	3256873.
2003	8487032.	249220.6	2080235.	5168122.
2004	11411067	324656.7	1987045.	6589827.
2005	14572239	481239.1	2800856.	10047391
2006	18564595	552498.6	3412177.	10736857
2007	20657318	387261.3	4381930.	12502078
2008	24296329	399841.9	5921450.	15695961
2009	24712670	441271.3	5934356.	16563782
2010	3.40E+10	5234383.	5985326.	17352639
2011	3.75E+10	5673950.	6735268.	18675213

Source: CBN statistical bulletin and national bureau of statistics

Table 2. E-views Software results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-5.87E+08	1.37E+08	-4.288852	0.0003
FDI	7310.038	90.97752	80.34993	0.0000
IMP	551.0151	304.5449	1.809306	0.0841
EEXP	-393.1997	105.0203	-3.744035	0.0011
R-squared	0.997872	Mean dependent var		2.76E+09
Adjusted R-squared	0.997582	S.D. dependent var		9.73E+09
S.E. of regression	4.78E+08	Akaike info criterion		42.95076
Sum squared resid	5.04E+18	Schwarz criterion		43.14432
Log likelihood	-554.3599	F-statistic		3438.594
Durbin-Watson stat	0.734287	Prob(F-statistic)		0.000000

Dependent Variable: GDP

Method: Least Squares

Date: 07/21/13 Time: 19:53

Sample: 1986 2011

Included observations: 26