Globalization and the Nigerian Financial Sector: a Quagmire or a Thoroughfare?

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Abstract

This paper examined the relationship between globalization and the performance of the Nigerian financial sector. Assets of the Nigerian financial sector were used as performance indicators of the Nigerian financial sector. The data used are Nigerian yearly data from 1985 to 2011. The data were analyzed using OLS statistical technique, Johansen's co-integration and error correction mechanism. We used Augmented Dickey-Fuller statistics to test for stationarity. Globalization variables are: degree of openness, foreign direct investment, portfolio investment flows, external debt flows, nominal exchange rate and gross capital formation. The results showed that the Nigerian financial sector had a positive relationship with globalization but this was statistically not significant. It is therefore recommended that for the Nigerian financial sector to optimally benefit from globalization, the recent bank re-capitalization and debt recovery exercise and monitoring of macroeconomic stability should be encouraged to gain confidence by investors in the financial sector.

Keywords: Co-integration, Financial Sector, Globalization, Nigeria, and unit root

1.0 Introduction

The world is now a global village. Activities of one national economy now affect the others. Although most people continue to live as citizens of a single country, they are influenced culturally, materially, psychologically, politically and economically by people living in other countries. Distance, national borders, etc, are no-longer barriers or limiting factors. The issue of one global economy is now the topic of discourse among peoples of the world both in developing and developed countries.

The awareness of a global economy especially in the 1980s by individuals, communities, businesses and governments around the world is made possible due to the advancement in technology, communication, transportation, information, integration of nation-states, international integration of markets and increased international trade. Globalization also involves the growth of multinational corporations (businesses that have operations or investments in many countries) and transnational corporations (businesses that see themselves functioning in a global market place).

The concept of globalization appears to be new due to the recent popularization by its advocates. Two reasons are given for the recent popularity of the concept. The first is the scale and speed with which it is occurring and the way technology (especially in communication and transportation) is changing the world. Second, it is now widely accepted that globalization is not just the latest fad but that the international environment is changing in profound ways and that the world is indeed becoming a global village (Ajayi, 2001). Also attributed to its popularity in recent times is the conscious effort of those with the ideology that it could be a panacea for the world economic disorder. Its supporters believe that with free-market globalization, investment funds can move unimpeded from where they are plentiful (the rich countries) to where they are most needed (the developing countries). Consumers can also benefit from cheaper products because reduced tariff makes goods produced at low cost from faraway places cheaper to buy. In the same vein, producers of goods gain by selling to a wider market.

In Nigeria, the term 'globalization' became pronounced through the adoption of the Structural Adjustment Programme (SAP) in 1986. The primary aim of SAP was to restructure and diversify the productive base of the economy. In addition, the SAP was designed to establish a realistic and sustainable exchange rate for the naira through trade and payment liberalization, tariff reforms and commercialization and privatization of public enterprises. An appraisal of this programme shows that it was a failure since it could not yield the expected results (Ikpeze, 1994).

This study concentrates on the economic aspect of globalization. Economic globalization according to Onah (2007) is "the increasing openness of national economy to international trade investment, migration, borrowing and lending, aid, economic policies, communications and other forms of cooperation by firms". The study laid more emphasis on the Nigerian financial sector. The financial sector is all wholesale, retail, formal and informal institutions in an economy offering financial services to customers, businesses and other financial institutions. The financial sector includes; banks, stock exchanges, and insurers, to credit unions, microfinance institutions and money lenders. Thus, financial globalization is referred to as the increasing global linkages created through cross-border financial flows.

Prasad et al (2003), argued that economic globalization could in principle help to raise the growth rate in developing countries through a number of channels. Some of these directly affect the determinants of economic growth (augmentation of domestic savings, reduction of the cost of capital, transfer of technology from advanced to developing countries and development of domestic financial sectors). Indirect channels, which in some cases could be even more important than the direct ones, include increased production capitalization owing to better risk management, and improvements in both macroeconomic policies and institutions induced by the competitive pressures or the "discipline effect" of globalization. How much of the advertised benefits for economic growth has actually materialized in the Nigerian financial sector? This is because Nigeria, as one of the developing countries in Africa, has experienced a lot of reforms since independence in 1960. More significant was the adoption of the IMF's Structural Adjustment Programme in 1986 by the Federal Government. The financial sector was not an exception. The financial sector was liberalized and deregulated which gave room for more banks and other non-bank financial institutions to be established (commercial banks, merchant banks, discount houses, finance houses, development banks, etc). The financial sector reform also allowed banks to set interest rates, substantially reduce central bank liquidity credit, and abolish administratively determined credit ceilings. The objectives of the financial sector deregulation were to move away from administrative control to market allocation of credit flows, provide higher returns to depositors and lower costs to borrowers by raising the degree of competition in the financial markets. It was also aimed at increasing savings mobilization, allocating financial resources more efficiently through increased reliance on the market mechanism and increasing the use of capital market instruments to raise equity capital and enhance the liquidity of shares.

During this period of liberalization and deregulation there had also been a high incidence of distress in the financial services industry. The financial institutions can no longer perform their primary role of lending and the naira has depreciated more than 5000 percent (Gbosi,1995). What is the cause? Why is the sector still backward despite the liberalization and deregulation exercise which began in 1986? The Indonesian banking reforms of 1983 worked. Other African countries like Benin, Botswana, Burkina-Faso, Cameroon, Mauritius, Mozambique, Senegal, Tanzania, and Uganda all achieved growth and also brought inflation to a single digit during 1999 and 2000 (Gondwe, 2001). Has globalization strengthened the Nigerian financial sector? Has globalization impacted significantly to the Nigerian commercial banks and the Nigerian stock exchange? What sector has it impacted most and what is the nature of the impact?

The objective of this study is to ascertain whether globalization has strengthened the Nigerian financial sector.

2.0 Theoretical Framework and Literature Review

2.1 Theoretical Framework

The theoretical framework of this study is the Porter's theory. This theory has one of its sources of competitive advantage as finance which is applicable to this study. Porter's theory is able to explain the strategies of competing firms domestically and internationally to enhance a nation's competitive advantage. Any nation that integrates with the world should also have the ability to absorb any negativity from such integration. This means that such negative effects would not be pronounced in the receiving economy.

Porter's theory of competitive advantage suggests that the pattern of trade is influenced by four attributes which include: factor endowments; domestic demand conditions; the presence of related and supporting industries; and firms' strategy, structure and rivalry. These attributes are called Porter's diamond because they constitute a nation's diamond of national advantage.

Porter argued that a nation which invests in advanced factors (sophisticated labour and technology) has domestic customers who are sophisticated and demanding, has suppliers or related industries that are internationally competitive and appropriate firm strategy and a vigorously domestic rivalry (a competitive market structure) will enhance a nation's competitive advantage.

2.2 Empirical Literature

Ikpeze (1994), while appraising the Structural Adjustment Programme (SAP), introduced in 1986, argued that, "regardless of what their objectives were, such policies represented financial repression and were liable to produce distortions in the economy." The basic distortion according to him was the real rates of interest which were driven below their equilibrium levels. These distortions according to him usually manifest themselves in the encouragement of financial disintermediation, capital flight, acquisition of inflation hedges rather than financial assets and excessive aggregate demand. All these distortions conspire to reduce the rate of growth of the economy.

Edward (1999), argued that as the globalization process has been engineered by corporate elites, and serves their interests, they have successfully conveyed the impression that globalization is not only inevitable but has been a great success. This is fallacious. Even ignoring for the moment its distributional effects, globalization has been marked by substantial declines in rates of output, productivity, and investment growth. Under the new regime of enhanced financial mobility and power, with greater volatility of financial markets and increased risk, real interest rates have risen substantially.   Khor (2000), observed that financial liberalization has contributed to severe financial turmoil and economic losses to several developing countries that have integrated into the global financial markets. Developing countries allowed private banks and companies to take foreign currency loans and also allowed the trading abroad of their local currency. Many developing countries were unable to defend themselves from the huge flows of international funds. Evangelos (2001) and Gondwe (2001) in their studies argued that globalization is a powerful engine of world prosperity, but its benefits have not been evenly distributed. Income disparities between rich and poor countries have increased. The persistence of abject poverty and other problems, including those posed by the volatility of international capital flows, have been a matter of serious concern. They also stressed that in sub-Saharan Africa, the income gap relative to the advanced economies has widened and per capita incomes in a number of countries have actually dropped, in absolute terms. There has also been an erosion of sub-Saharan Africa's share of world trade, even for its traditional commodity exports, while foreign direct investment in the region has generally remained at very low levels. Egai (2002), while working on the peculiarities of financing the development of the Nigerian Economy, observed that the insufficiently prepared economic liberalization policies in the sphere of finance and external economics, which are carried out in Nigeria on the recipes of the World Bank and International Monetary Fund (IMF) in essence, contributed to the permanent stagnation of the economy. Many sectors of the economy experienced and still wallow in severe crises. Gbosi (2004), studied the benefits of economic and monetary integration in West Africa, and concluded that developing countries have enjoyed the benefits of globalization by being integrated into the world financial and capital markets. He also observed that globalization has adverse effects which include; the accumulation of macroeconomic imbalances, marginalization of countries that failed to apply appropriate policies and destabilizing impact of rapid short-term capital inflows. Mishkin (2005), examined whether financial globalization is beneficial to developing countries by first examining the evidence on financial development and economic growth and concluded that financial development is indeed a key element in promoting economic growth. He then asked why if financial development is so beneficial, it often doesn't occur. He then went on to examine whether globalization, particularly of the financial kind, can help encourage financial and economic development and argued that it can. However, financial globalization does not always work to encourage economic development because it often leads to devastating financial crises. Phillips (1999) states, that the increasingly close international integration of markets in goods, services, finance, among other things, is a reality. But regrettably, according to him, Nigeria, as constituted today, does not stand a chance to derive significant net benefit from globalization. He says further that globalization is driven by the spread of liberalization, the push of rapid technological changes, the increasing speed of transportation and the rapid expansion of communication. So far, as he rightly puts it, Nigeria has been largely "allergic" to all these arrowheads of progress. But unfortunately, according to him, the world will not wait for Nigeria. He finally submits that some of the factors to push forward are true and complete democratization, a growing economy with strong and stable financial system, and a sound and solid productive sector, among others. Mitton (2006) argues that equity market liberalization gives firms in emerging markets access to new financing channel, increasing opportunities for investment and growth. Moreover, foreign investors tend to demand higher governance standards, which could have a positive impact on profitability, efficiency, and other measures of operating performance. In this empirical work, Mitton finds that firms with stocks that are open to foreign investors register higher levels of sales growth, investment, and efficiency, and lower leverage ratios.

This study observed that most of the previous studies did not concentrate on financial globalization with particular reference to the Nigerian financial sector. Although Ikpeze (1994) appraised the liberalization and

deregulation exercise he did not give an in-depth analysis on the financial sector. Others concentrated on sub-Saharan Africa, East Asian countries, Thailand, Russia and Brazil. We also observed that most of the studies used the political economy as their methodology and could not present their findings empirically. The few that used regression did not consider the problems of spurious regression results. Predictions made with such results may not be valid.

We, in our own stead, examined the impact of globalization on the Nigerian financial sector using sophisticated econometrics tools so as to avoid the problems of spurious regression results.

3.0 Methodology

Economic globalization is defined as the on-going process of greater economic interdependence among countries and is reflected in the increasing amount of cross-border trade in goods and services (Fischer, 2003). Obaseki and Ojo (1998) pointed out that an economy is liberalized and fully open to the extent that it is influenced by factors such as the strength of the domestic economy, the competitiveness of the external sector, the level of the exchange rate and domestic gross capital formation among other things. Therefore, one way to capture the openness of an economy is the total trade as a ratio of gross domestic product. We cannot wholly separate trade from investment because it is useful to note that there may be a complementary relationship between trade and financial openness. For example, if a country has severe trade barriers protecting some inefficient domestic industries, then capital inflows may end up being directed to such industries, thereby exacerbating the existing misallocation of resources. Thus, there is a concrete channel through which financial openness without trade openness could lower a country's level of efficiency. Therefore, the level with which a country trades with other countries, which this paper represents with degree of openness (DOP), the amount of foreign direct investment (FDI), the level of portfolio equity inflow (PI), debt flows (DF), nominal exchange rate (NER) and gross capital formation (GCF) are essential factors for measuring economic globalization.

Some of the performance indicators in the financial sector include: total credit, level of investment, deposit liabilities, assets, profits, volume of transaction and market capitalization. The assets used as performance indicators in the financial sector were sourced from the monetary Authorities Accounts. These assets are; foreign assets claims on Federal government, State and Local government, claim on non-financial public enterprises, claims on non-financial private sectors, claims on deposit money banks, claims on other financial institutions and unclassified assets.

3.1 Model Specification

The openness model which captures the contributions of globalization to the Nigerian financial sector and which provides for financial integration is presented as follows:

$$FSP = f(DOP, FDI, PI, DF, NER, GCF) \cdots\cdots\cdots\cdots\cdots\cdots\cdots\cdots\cdots\cdots\cdots (1)$$

The OLS linear regression equation based on the above functional relation is:

$$FSP = b_0 + b_1 DOP + b_2 FDI + b_3 PI + b_4 DF + b_5 NER + b_6 GCF + \mu \cdots\cdots\cdots\cdots\cdots (2)$$

A priori expectations of signs of parameters are:

$$b_1 > 0, b_2 > 0, b_3 > 0, b_4 \gtrless 0, b_5 > 0, b_6 > 0$$

Where;

FSP	=	Performance of the Nigerian financial sector measured using assets as indicator
DOP	=	Degree of openness (total trade/GDP)
FDI	=	Foreign direct investment
PI	=	Portfolio investment
DF	=	Debt flows
NER	=	Nominal exchange rate

GCF =   Gross capital formation

μ =   error term

This model was used by Loto (2002) and Tamuno (2006). Loto used this model to assess globalization and economic development. She used GDP as her dependent variable and used total trade divided by GDP as index of openness, real exchange rate, money supply, and ratio of fiscal deficit/surplus over GDP, inflation and FDI as proxies. Also, in 2006, Tamuno used this model with little modification to study the performance of Nigeria's manufacturing sector under trade globalization. He used gross manufacturing output as performance index and gross capital formation, nominal exchange rate, degree of openness, interest rate and inflation as proxies of globalization. We adopted this model by introducing portfolio investment and debt flows to capture the impact of globalization on the financial sector, commercial banks and the Nigerian stock exchange.

The unit root and the Error Correction Model (ECM) are presented as follows.

Unit Root Model

$$\Delta FSP_t = \alpha_0 + \delta t + \alpha_1(L)FSP_t + \sum_{i=1}^{k} \beta_i \Delta L^i FSP_t + u_{1t} \qquad \cdot \quad \cdot \quad \cdot \quad (3)$$

$$\Delta\Delta FSP_t = \alpha_0 + \delta t + \alpha_1(L)\Delta FSP_t \sum_{i=1}^{k} \beta_i \Delta\Delta L^i FSP_t + u_{1t} \quad \cdot \quad \cdot \quad \cdot \quad (4)$$

$$\Delta DOP_t = \gamma_0 + \delta t + \gamma_1(L)DOP_t + \sum_{i=1}^{k} \theta_i \Delta L^i DOP_t + \epsilon_{2t} \qquad \cdot \quad \cdot \quad \cdot \quad (5)$$

$$\Delta\Delta DOP_t = \gamma_0 + \delta t + \gamma_1(L)\Delta DOP_t \sum_{i=1}^{k} \theta_i \Delta\Delta L^i DOP_t + \epsilon_{2t} \quad \cdot \quad \cdot \quad \cdot \quad (6)$$

$$\Delta FDI_t = \Phi_0 + \delta t + \Phi_1(L)FDI_t + \sum_{i=1}^{k} \Psi_i \Delta L^i FDI_t + \epsilon_{3t} \qquad \cdot \quad \cdot \quad \cdot \quad (7)$$

$$\Delta\Delta FDI_t = \Phi_0 + \delta t + \Phi_1(L)\Delta FDI_t \sum_{i=1}^{k} \Psi_i \Delta\Delta L^i FDI_t + \epsilon_{3t} \quad \cdot \quad \cdot \quad \cdot \quad (8)$$

$$\Delta PI_t = \lambda_0 + \delta t + \lambda_1(L)PI_t + \sum_{i=1}^{k} \varphi_i \Delta L^i PI_t + \epsilon_{4t} \qquad \cdot \quad \cdot \quad \cdot \quad (9)$$

$$\Delta\Delta PI_t = \lambda_0 + \delta t + \lambda_1(L)\Delta PI_t \sum_{i=1}^{k} \varphi_i \Delta\Delta L^i PI_t + \epsilon_{4t} \quad \cdot \quad \cdot \quad \cdot \quad (10)$$

$$\Delta DF_t = \psi_0 + \delta t + \psi_1(L)PI_t + \sum_{i=1}^{k} \pi_i \Delta L^i PI_t + \epsilon_{5t} \qquad \cdot \quad \cdot \quad \cdot \quad (11)$$

$$\Delta\Delta DF_t = \psi_0 + \delta t + \psi_1(L)\Delta PI_t \sum_{i=1}^{k} \pi_i \Delta\Delta L^i PI_t + \epsilon_{5t} \quad . \quad . \quad . \quad (12)$$

$$\Delta NER_t = \varsigma_0 + \delta t + \varsigma_1(L)NER_t + \sum_{i=1}^{k} \eta_i \Delta L^i NER_t + \epsilon_{6t} \quad . \quad . \quad . \quad (13)$$

$$\Delta\Delta NER_t = \varsigma_0 + \delta t + \varsigma_1(L)\Delta NER_t \sum_{i=1}^{k} \eta_i \Delta\Delta L^i NER_t + \epsilon_{6t} \quad . \quad . \quad . \quad (14)$$

$$\Delta GCF_t = \chi_0 + \delta t + \chi_1(L)GCF_t + \sum_{i=1}^{k} \varrho_i \Delta L^i GCF_t + \epsilon_{7t} \quad . \quad . \quad . \quad (15)$$

$$\Delta\Delta GCF_t = \chi_0 + \delta t + \chi_1(L)\Delta GCF_t \sum_{i=1}^{k} \varrho_i \Delta\Delta L^i GCF_t + \epsilon_{7t} \quad . \quad . \quad . \quad (16)$$

Where;
$$\epsilon_{it} \sim iid\ N(0,1)$$

$\alpha's, \delta's, \beta's, \gamma's, \theta's, \Phi's, \Psi's, \lambda's, \varphi's, \psi's, \pi's, \varsigma's, \eta's, \chi's,$ and $\varrho's$ are paprameters while t is time Δ and L are difference and lag operators respectively.

Error Correction Model

The error correction model is stated as:

$$\Delta FSP_t = \alpha + \sum_{i=1}^{p} \Gamma_i \Delta L^i DOP_t + \sum_{i=1}^{p} \chi_i \Delta L^i FDI_t + \sum_{i=1}^{p} \eta_i \Delta L^i PI_t + \sum_{i=1}^{p} \psi_i \Delta L^i DF_t$$
$$+ \sum_{i=1}^{p} \lambda_i \Delta L^i NER_t + \sum_{i=1}^{p} \varrho_i \Delta L^i GCF_t + \sum_{i=1}^{p} \Phi_i \Delta L^i ECM_t + \varepsilon_t \quad . \quad . \quad . \quad (17)$$

The ECM term measures the degree of adjustment to the long-run equilibrium. Other variables in this model are as defined above and are in their logarithmic form except the ECM.

3.2 Method of Analysis and Justification

This study employed descriptive statistics to analyze the trend and flows of the variables. Ordinary least square statistical technique is adopted because it is simple and gives the best linear unbiased estimates. Co-integration and error correction techniques are also used to estimate the models. This is because most economic time series data that exhibit strong trends are nonstationary and may lead to spurious relationship. This leads to coefficient of determination (R^2) tending to unity (i.e. very high R^2 approaching 1), or adjusted coefficient of determination (R^2), together with high auto-correlated residuals as indicated by low Durbin Watson (DW) statistic. In the same way, the standard significance test (measured by the traditional t-test) rejects the null hypothesis if no trend or no relationship exists between the series; hence there is a danger of accepting a close relationship between the series when they are almost independent. Therefore correct and appropriate specifications of time series models require that we determine whether the time series are stationary or nonstationary.

Consequent upon the above, the variables were subjected to a unit root test to determine their time series characteristics. Unit root test is basically required to ascertain the number of times a variable has to be differenced to arrive at stationarity. According to Maddala (1992), testing for unit root is a formalization of the Box Jenkins approach of differencing the time series after a visual inspection of the correlogram.

The method of testing for unit roots in this study is the Augmented Dickey-Fuller (ADF) test, because it adjusts appropriately for the occurrence of serial correlation. The analysis of and testing for unit roots naturally leads to the theory of co-integration (Iyoha and Ekanem, 2002). This is because, basically, co-integration deals with methodology of nonstationary time series variables and the idea rests on the thesis that even though two time series may not themselves be stationary, but a linear combination of non-stationary time series are said to be co-integrated if the residual term is stationary (Iyoha and Ekanem, 2002). Usually, for co-integration, the two time series have to be of the same "order", that is, they should be stationary after the same number of differencing.

The theory of co-integration according to Granger (1981) and Engel and Granger (1987), addresses the issue of integrating short-run dynamics with long-run equilibrium. Basically, the theory demonstrates that if two variables are co-integrated, it implies that there is meaningful long-run relationship between them. The short-run dynamics can be described by the Error Correction Model (ECM).

The data for this study were obtained from Central Bank of Nigeria Statistical Bulletins, National Bureau of Statistics, Securities and Exchange Commission, Journals, Books, Magazines and various write ups. The data used in this study are yearly time series data for the period of study, 1985-2011. The data were converted to rates by differencing for uniformity sake and are interpolated to 88 data points.

4.0 Discussion of Results

The results of the unit root test shown in table 1 indicate that all the variables are non-stationary. Conducting Augmented Dickey-Fuller (ADF) test for change in variables indicates that all the variables are integrated of order one I(1) that is, they need to be differenced once to attain stationarity. However, the long-run relationships among the variables were examined using Johansen co-integration test. Table 2 showed the Johansen's co-integration results. The Johansen's co-integration results indicated six co-integrating equations. The existence of six co-integrating equations at 5 percent significance level indicates long-run relationship between the variables. These co-integrating variables are performance of the financial sector (FSP), external debt flows (DF), degree of openness (DOP), foreign direct investment (FDI), gross capital formation (GCF) and nominal exchange rate (NER). Table 3 indicates that the coefficients of the degree of openness (DOP) at levels, external debt flows, nominal exchange rate and gross capital formation are positive. Foreign direct investment and portfolio investment flows had negative coefficients. Furthermore, the error correction term (ECM) has the correct a priori sign. The existence of a well specified error correction model indicates how agents adjust to their anticipated changes, in this case about 8 percent on the average. The nature of the distribution of the error term indicates that it is stationary. This means that the combinations of dependent and the explanatory variables are co-integrated. A priori expectations about the signs of the parameters were met in all the variables except external debt flow (DF) and portfolio investment flows (PI). The variables are not significant at 5 percent level except foreign direct investment and nominal exchange rate. There is overall significance of our model since the value of F statistic is 3.56. This means that globalization has a positive relationship with the Nigerian financial sector. There exists no serial correlation as the value of our Durbin-Watson statistics is 2.25. The value of our R^2 is 0.44 which indicates that 44 percent of the total variation of financial sector performance is explained by degree of openness (DOP), foreign direct investment (FDI), portfolio investment flows (PI), external debt flows (DF), nominal exchange rate (NER), and gross capital formation (GCF).

Table 1: Unit root test result using ADF procedure for model 1

Variable	LEVEL	1ST	2ND	LAG	Order of Integration
FSP	-2.122894	-5.82476	-10.11612	2	I(1)
DOP	-2.339778	-6.445861	-9.891338	2	I(1)
FDI	-1.897522	-5.663681	-9.672357	2	I(1)
PI	-2.811551	-5.823392	-9.783661	2	I(1)
DF	-2.392157	-5.894520	-10.05565	2	I(1)
NER	-0.939807	-7.604461	-9.971904	2	I(1)
GCF	-1.846957	-6.055891	-10.26345	2	I(1)
ECM	-5.703088				I(0)
Critical Values					
1%	-3.5092				
5%	-2.8959				
10%	-2.5849				

Source: author's calculation using E-views

Table 2: Johansen Co-integration test results for Model 1

Eigenvalue	Likelihood Ratio	5 Percent Critical Value	1 Percent Critical Value
0.413619	220.6559	124.24	133.57
0.402259	176.3517	94.15	103.18
0.385416	133.6401	68.52	76.07
0.347065	93.23485	47.21	54.46
0.294023	57.85380	29.68	35.65
0.286198	28.95544	15.41	20.04
0.011643	0.972039	3.76	6.65

Source: author's calculation using E-views

Table 3: Error Correction Result for Model 1

Dependent Variable: DLOG(FSP)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.046402	0.112781	-0.411439	0.6821
DLOG(DOP)	0.087049	0.550086	0.158246	0.8748
DLOG(DOP(-1))	-0.020673	0.637733	-0.032416	0.9742
DLOG(FDI)	-0.269941	0.141645	-1.905758	0.0612
DLOG(FDI(-1))	-0.085843	0.147072	-0.583678	0.5615
DLOG(PI)	-0.111197	0.083350	-1.334099	0.1869
DLOG(PI(-1))	-0.074982	0.087074	-0.861123	0.3924
DLOG(DF)	0.127554	0.143130	0.891177	0.3762
DLOG(DF(-1))	0.041553	0.144421	0.287719	0.7745
DLOG(NER)	1.023400	0.495209	2.066603	0.0428
DLOG(NER(-1))	0.266098	0.533193	0.499065	0.6194
DLOG(GCF)	0.360024	0.224629	1.602753	0.1139
DLOG(GCF(-1))	0.178472	0.229575	0.777403	0.4398
ECM(-1)	-0.084483	0.065343	-1.292913	0.2007

R-squared	0.437784	Mean dependent var		0.007317
Adjusted R-squared	0.314800	S.D. dependent var		1.146541
S.E. of regression	0.949070	Akaike info criterion		2.902514
Sum squared resid	57.64700	Schwarz criterion		3.352409
Log likelihood	-99.64931	F-statistic		3.559665
Durbin-Watson stat	2.248189	Prob(F-statistic)		0.000248

Source: author's calculation using E-views

5.0 Conclusion and Recommendations

On the basis of our analyses and findings, the following conclusions could be drawn about the relationship between globalization and the Nigerian financial sector in the short- and long-run.

To a large extent, the Nigerian financial sector has positive relationship with globalization. In the long-run FDI contributed positively to the Nigerian financial sector. The Johansen co-integration results showed that the variables used for estimation have long-run relationship.

Finally, our results conform to Porter's theory. The Nigerian financial sector had positive impact but very insignificant which means that it is not strong enough to compete with their foreign counterparts. The relationship between globalization and the Nigerian financial sector although positive it is not a thoroughfare.

Based on our findings, we hereby give the following recommendations:

(i) The government should encourage external trade but with caution. The bank and insurance industry's re-capitalization and debt recovery exercise in an attempt to strengthening the financial sector should be encouraged to gain confidence of investors in the financial sector.

(ii) The government should create an enabling environment (tax holidays, social infrastructure, etc) that would encourage a steady flow of foreign direct investment. FDI is a sin qua non for development especially in the financial sector. Monitoring macro-economic stability may help to build the confidence of foreign investors on the security of their investments in Nigeria.

(iii) Foreign loans by government at all levels should be discouraged except for projects that are self-sustaining in nature. External debts burden affects negatively, the performance of the financial sector.

(iv) Adequate sensitization programmes should be carried out by government on the need to embrace a good banking culture. A situation whereby people store money in their bedrooms means depriving the financial sector the needed liquidity. Where this scenario abounds, all the targets of monetary base are a mere mirage and any planning done with them cannot achieve the intended targets.

(v) The exchange rate is very vital in determining the financial sector performance. Both in the short-run and in the long-run results, the nominal exchange rate was positive influencing the performance of the financial sector positively. Therefore, government should create the enabling environment to stabilize the exchange rate.

(vi) It was also observed that gross capital formation played a promising role in determining financial sector performance, therefore it should be encouraged.

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