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Globalisation And Economic Growth: The Case Of Nigeria (1970-2010)

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ABSTRACT
Drawing from the experience of Nigeria, this study presents an analytical link between globalisation and economic growth. The Ordinary Least Squares (OLS) estimation technique was adopted for the study. Focusing on the economic aspect, it is observed that globalisation is a phenomenon entailing the increasing integration of goods, labour and capital markets across the globe. These have been facilitated by the improvement in technology and application of liberal economic policies. While those countries that have applied appropriate economic policy measures have benefited from globalisation, those that have not, have been marginalised. Nigeria has not fared well not only because of inappropriate policies but also owing to the fact that the international environment presents unequal opportunities. In order to improve its lot, Nigeria must devise strategies for negotiating better terms at the multinational setting. In addition, basic internal conditions necessary for globalisation to be beneficial to the country, must as a matter of necessity, be enshrined first. This is without prejudice to the need to pursue policies that would enhance exports, raise productivity and improve the welfare of the citizens.
KEY WORDS: Nigeria, globalisation, economic growth, gains, link.

1. Introduction

Globalisation (internationalisation) is a phenomenon that reflects increasing interaction among persons and institutions across the globe. These interactions permeate all facets of human endeavour. Thus, globalisation is multidimensional, spanning economic, political, cultural and social activities. The trend towards a more integrated global economy started in the early 1990s–immediately after the end of the cold war and the rapid liberalisation of emerging economies (that is, economies that made up the USSR). However, the rate at which this shift is occurring has been accelerating recently and has continued into the early years of this millennium (Hill, 2007). Its agents include among others, the following: World Trade Organisation formerly GATT, IMF, the World Bank, regional and political organisations such as Organisation of American States (OAS), African Union (AU) formally OAU, European Union (EU), West African Monetary Union (WAMU), and NATO.

Albeit the emerging global economy may create opportunities for Nigeria's economy, she has not fared very well. In line with this gloomy trend, the United Nations Development Programme (UNDP), by its Human Development Index (HDI), ranked Nigeria 158th (with an HDI value of 0.459), out of 177 countries in 2010. In buttressing this point, Jike (2003) argued that although the world might have become one small village because of advances in satellite and information technologies and remarkable advances may have been made in laser optic cell technologies, the benefits of these advances have not trickled down or provided the leverage for the transformation of majority of Nigerians.

The uneven and unequal nature of the present globalisation process is manifested in the fast-growing gap between the world's rich and poor people and between developed and developing countries, and in the large differences among nations in the distribution of gains and losses. For example, the UNDP Human Development Report, 1992, estimated that 20% of the world's population in the developed countries receives 82.7% of total world income, while 20% in the poorest countries receive only 1.4%. Similarly, the UNCTAD Trade and Development Report, 1997, shows "that since the early 1980s, the world economy has been characterised by rising inequality and North-South income gaps have continue to widen."

Although there are many researches that link globalisation and economic growth, such works are mainly descriptive in nature, hence devoid of the ability to measure the exact impact of globalisation on growth. In order to fill this research gap, the authors applied an econometric technique in the course of analysis. Specifically, the Ordinary Least Squares (OLS) estimation method was adopted in ascertaining how Nigeria has fared in her globalisation effort. This, the authors did by evaluating the performances of some macroeconomic variables in the economy from 1970-2010. To effectively do this, the study is decomposed into 5 sections. Following the introduction is section 2, which deals with some theoretical and empirical issues. Section 3 focuses on the benefits and challenges of globalisation. 4 contain the data source and method of study, 5 mirrors Nigeria in the context of globalisation, while section 6 concludes the paper.

2. Theoretical and Empirical Issues on Globalisation and Economic Growth

Economic exchange between man and nations predate the era of mercantilism (1500-1600AD). In Nigeria, it dates back to the 16th century when James Watt and his crew shipped 32 barrels of palm oil along with 150 elephant tusks and 589 sacks of pepper from Nigeria to England (NTJ, 1967). Apart from stressing inputs self-sufficiency at home (domestically), the mercantilists strategise that specie could be acquired with a "favourable balance of trade," that is, through earning foreign exchange by selling exports that brought in more money than was paid out for imports (Gunderson, 1976). This situation permitted only the king, his queens and the nobility to have access to major goods and services at the expense of a greater majority of the people.

Globalisation has different parts, such as globalisation of democracy, global ideological shift, global technological revolution particularly through information and communication technologies, globalisation of culture and the environment, and above all, globalisation of the economy (UNDP, 2001). Though there exists, different forms of globalisation, it is the economic dimension that is conceived as the heart or hallmark. In its simplest form, economic globalisation refers to "the integration of the domestic economies with the world economy and the inevitable consequential increase in economic interdependence of the countries through trade, financial and investment flows, factor movements and exchange." As asserted by Obadan (2003), while openness and markets constitute the platform of globalisation, trade, finance and investment, and entrepreneurs are the heart.

Economic growth on the other hand, is defined as the steady process by which the productive capacity of an economy is increased overtime to bring about rising levels of national income (gross national product or income). It is often measured by a percentage change in gross or real per capita national product (GNP). Several factors have been identified as causes of economic growth. These include advancement in technology, international trade or degree of openness (trade liberalisation) of the economy, human capital and education, foreign capital inflow and investment, sound macroeconomic policies and institutions, good government, physical capital formation, among others. From the foregoing, it is clear that globalisation and economic growth are related at least theoretically. Globalisation is often associated with less restrictive trade regimes and more openness of the economy with a concomitant increase in the volume of trade. The higher level of openness (variously measured) suggests better performance.

Basically, there are two theories, which provide the channel via which globalisation affects economic growth. First, is the *static allocation efficiency gains theory,* which suggests that greater openness yields unambiguously better economic performance in terms of a higher long-run rate of growth. This is because removal of trade barriers expands the feasible set of consumption possibilities by providing a more efficient technology to transform domestic resources into goods and services (see Martin, 1992). It also reduces other costs of a less open trade regime such as deadweight losses arising from domestic monopolies, costs arising from scale inefficiency, technology inefficiency and cost of rent-seeking and directly unproductive activities.
The second is the *new growth (endogenous growth) theory,* which suggests that a higher long-run rate of output can result from greater openness on technological change or through expansion in the size of market facing domestic exports thereby raising return to innovation and thus enhancing the country's specialisation. The new theory does not, however, predict any positive link between openness and increase in growth since growth can either be lowered by increased foreign competition or increased by import protection.

In recent times, there are two divergent views about globalisation. '*Globaphobia'* (fear of globalisation) has caused many anti-globalisation movements to spring up around the globe. One of the arguments of the 'globaphobes' (those against globalisation) is that most developing economies lack the technological know-how with which to exploit the advantages of openness or access to market (trade). They therefore reason that globalisation would not narrow the income inequality existing between them and the developed economies. Furthermore, many observers have skeptically viewed globalisation for many reasons. For instance, in the view of Aina (1997),

> *globalisation is not necessarily the positive happenings some authors would have us believe, rather, it is accompanied by economic crises carrying its own basketful of problems, which include problems of economic and social nature, ranging from the collapse of producer price to increase in unemployment and poverty.*

The reason for this perception as stressed by Khor (2001) includes the lack of tangible benefits to most developing countries from opening their economies, despite the well-publicised claims of export and income gains.

The '*globaphiles'* (those in favour of globalisation) hold a more sanguine view of the phenomenon, in the sense that it provides an opportunity for the developing economies to increase the welfare of their citizens. For instance, Alege and Ogun (2004) submit that "observers believe that free trade and interaction among nations of the world would push such economies towards higher levels of performance growth in output." Sachs and Warner (1995) have also argued that countries that were opened grew at a rate of 4.5% annually in the 1970s and 1980s while those that were closed barely managed to grow at a rate of 0.7%.

Nigeria ranks somewhere in the middle range in the comity of nations (Dreher, 2002). As pointed out by the World Bank (2002a) and DFID (2002), other African countries that have performed substantially in recent times are South Africa, Ghana, Uganda, Cote d'Ivoire, Mali, Rwanda and Zimbabwe. Together with Nigeria, these countries are referred to as "African globalisers."

3. The Benefits and Challenges of Globalisation

There are several benefits and challenges of globalisation. A few of these benefits and challenges are elucidated hereunder.

3.1 Benefits of Globalisation

The literature is replete with supposed benefits of globalisation. The first important benefit is that globalisation promotes trade and exchange and hence, specialisation (Edwards, 1998; World Bank, 2000; Lawson and Baker, 2002). According to Raghavan (1999), Adam Smith way back in the 18th century, has demonstrated that specialisation leads to increased output, while *ceteris paribus,* increased output translates to improved welfare. Second, globalisation of capital is supposed to allow capital to move freely to places where it can get maximum returns (see Stulz, 1999; Obstfelt and Taylor, 2001; UNO, 2001). Such free movement of capital provides relief to investors to have access to funds beyond their countries of domicile and hence, do not have to be constrained by the size of the investment. What is more, both theoretical and empirical literature confirms that globalisation reduces the cost of capital.

Globalisation supposedly transforms the market for corporate control. A firm's management as submitted by Adegbite (2003) cannot afford an armchair attitude in the face of the stiff competition brought about by globalisation. As existing and potential shareholders bring about the activities of a firm's management under scrutiny and with the risk of takeover, management becomes more progressive, innovative and active. Globalisation also tames government's excesses–fiscal and monetary. Movement of both foreign investment and domestic funds from the 'culprit' country to other shores greets undue budget deficit or unnecessarily high inflation. This kind of flight of capital from an 'undisciplined' country forces governments to maintain both economic and political stability. Any excesses in regulation, tax rate, public expenditure, etc., drives away both domestic and foreign capital, especially foreign capital. Mobility of capital under globalisation permits new knowledge and new technologies to yield new commodities and services. By so doing, long-term value is thus created and retained for the new world.

3.2 The Challenges of Globalisation

As great as the benefits of globalisation are, its cost can be devastating. The first challenge of globalisation is that it constrains the ability of governments to control monetary and fiscal policies. When there is speculation against a currency, the central bank of such a country is helpless at curbing the speculation. As presented by Manuel (2003), such speculations have attacked the value of the Japanese yen in recent times. According to him, as power shifts from government to private operators (i.e. economic power) in the face of globalisation, fiscal resources of government are threatened (as government can neither tamper with any of its taxes indiscriminately nor spend it recklessly). Perceived or imagined excesses on the part of government can lead to tremendous capital flight. For a developing country like Nigeria that faces economic recession and needs to take policies such as budget deficit, etc., to deflate the economy, the fear of the reaction of international investors makes the country take the very opposite of the measures it needs to solve the problem, especially if such a developing country is internationally indebted and is under pressure from IMF and the World Bank.

Another serious problem with globalisation is that whenever a crisis occurs, the confidence and expectation of investors concerning a given economy can have devastating effects on the country's currency and the economy as a whole. Massive flight of capital from Nigeria to strong developed economies leads to what has been termed 'social darwinism'. Such flight of capital is usually accompanied by flight of other resources, thereby exacerbating the problem of the weak country and widening the gap between the rich and the poor countries (see Raghavan, 2003).

4 Data Sources and Method of Study

4.1 Sources of Data

The study employed cross-sectional data on GDP and some globalisation parameters i.e. openness, foreign direct investment (FDI), and Nigeria's participation as a source or recipient of international capital from the period 1970 to 2010. A total of 41 years were considered. The data were obtained from various issues of the Central Bank of Nigeria (CBN) statistical bulletin and the National of Bureau of Statistics (NBS).

4.2.1 Method of Study

The method of estimation adopted for this work is the Ordinary Least Squares (OLS).

4.2.2 The Model

The starting point of the model adopted for the study is the new growth theory. The theory suggests that "a higher long-run rate of output can result from greater openness on technological change or through expansion in the size of market facing domestic exports thereby raising return to innovation vis-à-vis specialisation and ultimately growth."

Thus**,** in specifying the model, emphasis is placed on whether globalisation proxied by the three variables (Foreign Direct Investment, openness and Nigeria's participation as a source or recipient of international capital) has any significant effect on economic growth, which is proxied by GDP.

Having established this link, the model is therefore specified as follows:

$$GDP = f(GLOB) \quad (1)$$

With $GLOB = f([IM+EX]/GDP,\ CUB/GDP,\ FDI/GDP) \quad (2)$

Substituting equation (2) into (1) gives a multivariate relationship as follows:

$$GDP = f([IM+EX]/GDP,\ CUB/GDP,\ FDI/GDP) \quad (3)$$

With a multiple linear relationship as:

$$GDP = \beta_0 + \beta_1(IM + EX)/GDP + \beta_2 CUB/GDP + \beta_3 FDI/GDP + \varepsilon \quad (4)$$

Where:

GDP = Gross Domestic Product
IM = Import
EX = Export
(IM + EX)/GDP = Openness (participation in international trade)
CUB = Current Account Balance
CUB/GDP = Nigeria's participation as a source or recipient of international capital
FDI = Foreign Direct Investment
FDI/GDP = Penetration of foreign capital into the Nigerian economy
CUB/GDP = Nigeria's participation as a source or recipient of international capital
β_0 = the intercept or constant term
$\beta_{1 \ldots\ldots} B_3$ = parameter estimates associated with the influence of the selected components of globalisation on economic growth (GDP)
ε = stochastic error term, which captures all the other globalisation parameters exempted from the model but which impact GDP.

For estimation purpose, equation (4) is further specified as follows:

$$GDP = \beta_0 + \beta_1 OPEN + \beta_2 INTRP + \beta_3 PFCAP + \varepsilon \quad (4')$$

The parameters are as explained above. From (4'), *a priori* expectation or expected behaviour of the independent variables is: OPEN > 0; INTRP > 0; and PFCAP > 0, signifying a positive relationship between GDP and the three parameters.

5 Empirical Results and Discussion

Table 1: OLS Estimation Results

Dependent Variable: GDP	
Variable	**Coefficient**
Constant	14752875
	(6.268641)
	[2353441]
OPEN	898896.8
	(0.669366)
	[1342908]
INTRP	-54999907
	(-4.038498)
	[13618903]
PFCAP	-73344182
	(-3.607378)
	[20331713]
R-squared	0.53
Adjusted R-squared	0.48
S.E. of regression	6246235.
Sum squared resid	1.44E+15
Log likelihood	-697.6191
F-statistic	9.128299
Prob (F-statistic)	0.000118
Mean dependent var	4263569.
S.D. dependent var	7924655.
Akaike info criterion	34.22532
Schwarz criterion	34.39250
Hannan-Quin criter.	34.28620
Durbin-Watson stat	0.344205

Note: ( ) = t values and [ ] = standard errors

5.1 Discussion of Results

Using the annual data, equation (4') was estimated. Table 1 shows the results of the Ordinary Least Squares (OLS) estimation. Overall results, as measured by the R^2, indicates that the globalisation equation performed fairly well. Specifically, the results reveal that trade openness has a significant impact on GDP. Contrary to *a priori* expectation, Nigeria's participation as a source or recipient of international capital has no significant impact on economic growth. Similarly, the extent of penetration of foreign capital into Nigeria also has no significant impact on economic growth. This is in tandem with Ojo's 1999 submission that the flow of capital in general (foreign direct or otherwise) to LDCs has been skewed in favour of high income countries (mainly North America, Europe, Japan and East Asia newly industrialising countries) and against the developing countries including Nigeria.

6.1 Recommendations

The study was intended to empirically ascertain the extent of economic growth in Nigeria in relation to certain globalisation parameters. In spite of the positive GDP growth rates recorded from 1999 to 2010 however, only one of the globalisation parameters (trade openness) has a significant impact on economic growth, meaning that Nigeria has not fared well in her globalisation effort. The negative impact exhibited by GDP, in relation to the other parameters signifies that the positive GDP growth rates may have been influenced by other growth-inducing factors. Toeing the line of Archibong (2007)–who refers to these factors as "pre-conditions of globalisation," it is strongly recommended that for Nigeria to benefit from her globalisation effort, the following pre-conditions among others need to be enshrined first.

These pre-conditions include:

(1) The existence of a virile banking system that lubricates the economic processes through effective financial intermediation.

(2) The existence of high premium on enthronement of knowledge, performance and merit (meritocracy).

(3) Liberal system, openness and democratic practice (all in governance).

(4) Virile private sector, motivated by moderate profit i.e. privatising in a proper manner.

(5) Virile citizenry that keeps the government on its toes (not sycophants).

(6) The economy must be growing so as to benefit maximally from globalisation.

(7) The enthronement of specific measures such as: stable macroeconomic policies that improve internal balance, ensure external sector viability and increase the overall rate of economic growth, etc.

(8) Applicability of appropriate incentives to increase the output and productivity of the real sector of the Nigerian economy to enable it face the challenges of globalisation.

(9) Good governance is essential to ensure that transparency and accountability are the bedrock of public administration.

(10) Nigeria should focus her globalisation strategy on foreign ties with her immediate neighbours. That is, West African countries in sub-Saharan regional arrangements in the first instance.

6.2 Conclusion

This study assessed the impact of globalisation on Nigeria's economic performance. It was aimed at proving that openness, Foreign Direct Investment (FDI) and Nigeria's participation as a source or recipient of international capital, bring about economic growth. However, it was discovered that only openness impacted GDP positively. Both theoretical and empirical evidences proved that Nigeria has not fared very well in her globalisation effort. Based on the findings, it was assumed that other factors (pre-conditions) of globalisation might have been responsible for economic growth in Nigeria. It was therefore stressed that for Nigeria to gain meaningfully from her globalisation effort, she has to properly apply the factors.

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Appendix 1

Table 1: Extent of Nigeria's Participation in International Trade [1970-2010 (₦m)]

Year	IM	EX	IM+EX	GDP at Current Market Price	IM+EX/GDP = Openness
1970	756.4	885.4	1641.8	5203.7	0.32
1971	10789.0	129.4	2372.3	6670.9	0.36
1972	990.1	1434.2	24224.3	7208.3	0.34
1973	1224.8	2278.4	3503.2	10990.7	0.32
1974	1737.1	5764.8	7532.1	18298.3	0.41
1975	3721.5	4925.5	8647.6	21558.8	0.40
1976	5148.5	6751.1	11899.6	27297.5	0.44
1977	7093.7	7603.7	14724.4	32747.3	0.45
1978	8211.7	6064.4	14276.1	36083.6	0.40
1979	7472.5	10836.8	18329.3	43150.8	0.42
1980	9095.6	14186.7	23282.3	50848.6	0.46
1981	12839.6	11023.3	2386.9	50749.1	0.47
1982	10770.5	8206.4	18976.9	51709.2	0.47
1983	8903.7	7502.5	16406.2	57142.1	0.29
1984	7178.3	9088.0	16266.3	63608.1	0.26
1985	7062.6	11720.8	18783.4	72355.4	0.26
1986	5983.6	8920.6	14904.2	73061.9	0.20
1987	17861.7	30360.6	48222.3	108885.1	0.44
1988	21445.0	31192.8	522638.5	145243.3	0.36
1989	30860.2	57971.2	88831.4	224798.9	0.40
1990	45719.9	109886.1	155604.0	260636.7	0.60
1991	87020.2	121535.4	208555.6	324010.0	0.64
1992	145911.4	207266.0	353177.4	54980.8	0.64
1993	166100.4	218779.1	384870.5	697090.5	0.55
1994	162788.8	206059.2	368848.0	914940.0	0.40
1995	755127.7	950661.4	1705789.1	197740.0	0.86
1996	562626.6	1309543.4	1872170.0	2823900.0	0.66
1997	845716.6	1241662.7	2087379.3	2939650.0	0.71
1998	837418.7	751856.7	1589275.4	2881310.0	0.55
1999	860525.3	1189006.5	2051531.8	3352650.0	0.61
2000	69232.8	2287400.3	2979633.1	4980943.0	0.60
2001	124024.3	2006498.9	3346740.2	5639865.0	0.58
2002	1669890.5	1749964.1	3411985.4	6912381.3	0.49
2003	2295890.5	3098184.9	5394075.4	8487031.6	0.64
2004	2193967.0	4620085.2	6814052.2	1141066.9	5.97
2005	2496423.7	6310247.9	8806671.6	14572239.1	0.60
2006	2345195.3	5465166.5	7810361.5	18564594.7	0.42
2007	2420809.5	5887707.7	8308516.5	20657317.7	0.40
2008	2383002.4	5676437.1	8059439.0	24296329.3	0.33
2009	2481905.9	5782872.4	8183977.8	24794238.6	0.33
2010	2392454.2	5729254.8	8821708.4	29205782.9	0.30

Source: CBN Statistical Bulletin, Various Issues
National Bureau of Statistics, Various Issues

Appendix 2

Table 2: Nigeria's Participation as a Source or Recipient of International Capital [1970-2010 (₦m)]

Year	CUB	GDP at Current Market Price	CUB/GDP
1970	- 50.0	5203.7	0.00
1971	- 229.4	6670.9	0.03
1972	-322.7	7208.3	0.04
1973	52.7	10990.7	0.00
1974	4671	18298.3	0.00
1975	42.6	21558.8	0.01
1976	- 2584.0	27297.5	0.03
1977	- 647.5	32747.3	0.21
1978	- 1157.4	36083.6	0.25
1979	9427.3	43150.8	0.19
1980	13057.9	50848.6	0.15
1981	19970.3	50749.1	0.11
1982	7980.9	51709.2	0.12
1983	6752.3	57142.1	0.14
1984	8234.3	63608.1	0.10
1985	10738.9	72355.4	0.15
1986	8006.6	73061.9	0.21
1987	17138.2	108885.1	0.26
1988	31586.1	145243.3	0.11
1989	59112.0	224798.9	0.16
1990	79810.1	260636.7	0.17
1991	51969.8	324010.0	0.16
1992	93680.5	54980.8	0.17
1993	- 3414.7	697090.5	0.04
1994	- 52304.6	914940.0	0.05
1995	- 186084.6	197740.0	0.09
1996	240180.0	2823900.0	0.08
1997	36033066.0	2939650.0	0.12
1998	- 330108.7	2881310.0	0.11
1999	- 330108.7	3352650.0	0.09
2000	706977.0	4980943.0	0.14
2001	269309.7	5639865.0	0.05
2002	488143.4	6912381.3	0.07
2003	378726.6	8487031.6	0.04
2004	433435.0	1141066.9	0.37
2005	406080.0	14572239.1	0.02
2006	419757.9	18564594.7	0.02
2007	412919.4	20657317.7	0.02
2008	416338.7	24296329.3	0.01
2009	414629.0	24794238.6	0.01
2010	415483.9	29205782.9	0.01

Source: CBN Statistical Bulletin, Various Issues
National Bureau of Statistics, Various Issues

Appendix 3

Table 3: Extent of Penetration of Foreign Capital into the Nigerian Economy [1970-2010 (₦m)]

Year	FDI	GDP at Current Market Price	FDI/GDP
1970	1003.2	5203.7	0.20
1971	1322.8	6670.9	0.20
1972	1571.1	7208.3	0.22
1973	1763.7	10990.7	0.16
1974	1812.1	18298.3	0.10
1975	2287.5	21558.8	0.11
1976	1339.0	27297.5	0.09
1977	2531.4	32747.3	0.08
1978	2863.2	36083.6	0.08
1979	3153.1	43150.8	0.07
1980	3620.1	50848.6	0.07
1981	3757.9	50749.1	0.07
1982	5382.8	51709.2	0.10
1983	5949.5	57142.1	0.10
1984	6418.3	63608.1	0.10
1985	6804.0	72355.4	0.09
1986	9313.6	73061.9	0.13
1987	9993.6	108885.1	0.09
1988	11339.2	145243.3	0.08
1989	10899.6	224798.9	0.05
1990	10436.1	260636.7	0.04
1991	12243.5	324010.0	0.04
1992	20512.7	54980.8	0.04
1993	66787.0	697090.5	0.10
1994	10714.6	914940.0	0.08
1995	119391.6	197740.0	0.06
1996	122600.9	2823900.0	0.04
1997	128331.9	2939650.0	0.04
1998	152409.0	2881310.0	0.05
1999	154188.1	3352650.0	0.05
2000	157535.0	4980943.0	0.03
2001	160882.2	5639865.0	0.03
2002	179208.6	6912381.3	0.02
2003	181045.4	8487031.6	0.02
2004	184071.1	1141066.9	0.02
2005	185924.7	14572239.1	0.01
2006	184997.9	18564594.7	0.01
2007	185461.3	20657317.7	0.01
2008	185229.6	24296329.3	0.07
2009	185345.5	24794238.6	0.07
2010	185287.5	29205782.9	0.06

Source: CBN Statistical Bulletin, Various Issues
National Bureau of Statistics, Various Issues

Appendix 4
Graph showing trends exhibited by the various globalisation parameters