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GLOBALISATION AND ECONOMIC PERFORMANCE IN DEVELOPING NATIONS: THE NIGERIAN EXPERIENCE

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Abstract

The study examines the effect of globalisation on the economic performance of developing nations with particular reference to Nigeria. The study employs the Ordinary Least Square (OLS) method to analyze the model adopted, in which Gross Domestic Product is used as a proxy to measure economic performance, and depends on the degree of openness, exchange rate, and foreign direct investment which are indices of globalisation. Annual time series data were collected from the Central Bank of Nigeria (CBN) Statistical Bulletin from 1980 to 2010. The study revealed that globalisation has a significant positive impact on the economic performance/growth of Nigeria. It recommends that the government should continually ensure a business-friendly environment to encourage foreign participation in investment. Also, the government should stimulate local production and diversify the nation's export base.

Keywords: Globalisation, Economic Performance, Ordinary Least Square, Gross Domestic Product, Nigeria

INTRODUCTION

Development in recent times has convincingly been linked to globalisation. It is widely believed that a country that fails to adopt globalisation may be far from development at the most efficient pace. Globalisation refers both to the integration of production facilities in different countries under the aegis or ownership of the multinational corporation and to the integration of product and financial markets facilitated by liberalisation (Alimi and Atanda, 2011). The long standing debate amongst scholars on the economic implications of globalisation on the economy of nations around the world continues to gather momentum on daily basis, most especially in the developing nations of the world unveiling variously thorough and radically revised assessment with peculiarity to the each nations.

Some of the protagonists of globalisation have based their submission on the notion that all countries of the world have equal tendencies of harnessing the gains from globalisation. However, the greatest concern about globalisation as identified by Awake (2002) is the ever-increasing gap between the haves and the have-nots. The process of globalisation has increased continually in the Nigerian economy and has led to constant changes in the economic structure. Obaseki (2000) identified that globalisation provide number of opportunities which include: increased specialisation and efficiency, economies of scale in production, and increased global welfare while the challenges include: the design of appropriate framework to ensure that domestic monetary management is not impaired, and that the domestic economy is not unduly destabilised owing to adverse developments in other parts of the world.

Regardless of the serious debate in the academics on the subject matter, no country in the world seems to be excluded from globalisation, such that developing nations around the world and Nigeria in particular have resulted in repealing old laws against new enactments which are aimed at supporting globalisation. This is done with the belief that globalisation will serve as a catalyst to their economic performance and will spontaneously boost the developmental process of their economy. This attitude may be attributed to the fact that developing nations believe in the ideology of developed nations as the ideal way out of underdevelopment.

It is therefore against the backdrop of the aforementioned assertions and views of early scholars that the need to assess the impact of globalisation on developing countries is vital, bringing evidence from the Nigerian economy. The need for the assessment is based on the plethora of arguments that have evolved on the concept over the years and the fact that the few studies on the topic in Nigeria have not reach a consensus on its effects see (Obaseki, 2000; Okey, 2005; Feridun, Olusi and Folorunso, 2006, Folorunsho, 2006; Loto, 2011, and Akor, Yongu and Akorga, 2012) to mention but a few. Therefore, there is the need for further similar study to establish the extent to which globalisation has affected economic growth and its implication on the developing countries with special inclination to the Nigerian economy. The article is sectioned as follows: literature review, research methodology, findings and discussion and lastly conclusion and recommendations

LITERATURE REVIEW

Review of recent empirical studies show quite an interesting scenario with various scholars viewing the impact of globalisation from different perspective. Folorunsho (2006) examined the effect of globalisation on economic growth in Nigeria using the error correction mechanism shows that both measures of economic integration (trade liberalization and financial integration) and all other orthodox determinants of economic growth such as private investment, public investment and debt –series are non-stationary and conclude therein that Nigeria could benefit from globalisation if its economy would fully integrate with the rest of the world. Dreher (2006) conducted an empirical study based on a panel data for 123 countries for the period 1970-2000 to affirm whether globalisation affects growth. The study concluded that globalisation is good for growth, and countries that are more globalised, experienced higher growth rates.

Obaseki (2000) examined the concept of globalisation and the place of Nigeria in the web of international relationships involving trade in goods and services and financial intermediation. The study put forth that Nigeria has not benefitted enough from globalisation owing to the undue dependence on crude oil exports, low manufacturing exports and the underdevelopment of the domestic financial markets. The study further suggested that for Nigeria to benefit maximally from globalisation, and escaped from being marginalised, accountability and transparency must be enthroned through good governance and the application of market-friendly policies. Feridun, Olusi and Folorunso (2006) examined the effect of globalisation on economic growth in Nigeria between 1986 and 2003 using error correction modelling (ECM). The result indicated that trade openness had significant positive effect while financial integration had insignificant negative effect on economic growth. The study concluded that Nigeria could benefit more from globalisation if its economy would fully integrate with the rest of the world.

Nnadi (2009) in a study of economic globalisation and its impact and sustainability for development in Nigeria, using a mixed method research combining quantitative and qualitative analysis between the period of 1999 to 2006 established that the dominant economic policy of the country needed to be changed if the problem of unemployment, poverty and inequality are to be alleviated, and also that social changes will yield positive result if political leaders respect and respond to the need of Nigerian citizens by controlling governments economic reform and implementing new programmes that will ensure that the citizens have access to better health, education and opportunities for success. Dollar and Kraay (2004) examined the effects of globalisation on the poor in the developing countries. They observed that over half of the developing countries have experienced large increases in trade and significant declines in tariffs. They also show evidence from individual cases and cross-country analysis that globalisation leads to faster growth and poverty reduction in poor countries.

Okey (2005) examined empirically whether or not globalisation contributes to economic growth in developing countries, drawing empirical lessons from Nigeria. The study adopted a multiple regression framework as its methodology with ordinary least squares. The empirical results showed that globalisation does not contribute to economic growth; openness has a negative impact on the Nigerian economy. The study concluded that the Nigerian economy is still fragile and ill prepared for the challenges of globalisation. Sarbapriya (2012) investigated the effect of globalisation on economic growth in India employing a granger causality approach. The regression results showed that private investment, openness and human resource development have significant positive impact on economic growth. Also, financial integration variable (capital inflow and capital outflow) has insignificant negative impact on economic growth while public investment has insignificant positive impact on economic growth. The co-integration test showed the existence of a long-run relationship among the variables. The Granger Causality test showed that the relationship between globalisation and economic growth in India is bidirectional.

Zhuang and Koo (2007) studied the effects of globalisation on economic growth, using a panel data approach. The sample covers 56 countries and a period of 14years, from 1991 to 2004. Their results showed that economic globalisation has a significant positive effect on the economic growth for all countries. Mihai and Anne-Marie (2011) analyzed the behaviour of the relationship between economic growth and globalisation in Romania, using an unrestricted vector autoregressive model for the period 1972-2006. The results showed that if countries tend to maximize economic growth, they must globalise the more.

Alimi and Atanda (2011) investigated the effect of globalisation on economic growth in Nigeria between 1970 and 2010 amidst cyclical fluctuations in foreign investments. The employed autoregressive model revealed that globalisation has positive and significant effect on economic growth in Nigeria, while the positive of business cycle on real output growth was insignificant. The study concluded that globalisation and cyclical movement in foreign investment have significantly enhanced economic growth in Nigeria. Adesina (2012) examined the negative effects of globalisation on Nigeria by focusing on its impact on science and technology and the environment. The study suggested that although globalisation presents many opportunities, it also exposes developing countries like Nigeria to many new challenges.

Akor, Yongu and Akorga (2012) x-rayed the effects of globalisation on the Nigerian economy with a thrust overview of its features, positive and negative effects to the economy. The study identified that Nigeria has not benefited enough from globalisation owing to the undue dependence on crude oil exports, low manufacturing exports and the underdevelopment of the domestic financial markets. Loto (2011) investigated the impacts of globalisation on Nigeria's economic growth from 1980-2008. The regression results showed that inflation rate, exchange rate and openness have negative effect on the economy. The study suggested that Nigeria needs to improve on her trade with the rest of the world for her to benefit from globalisation.

It can be seen from the above empirical reviews that the effects of globalisation on economy growth or performance are inconclusive especially in the developing countries, Nigeria inclusive. It therefore implies that more studies are required to validate or refute the findings of the previous ones. This is another justification for this study.

RESEARCH METHODOLOGY

Model Specification, Estimation Technique and Hypothesis

As stated earlier, this study seeks to determine the impact of globalisation on Nigeria economy performance. The model adopted for this study can therefore be stated in functional terms as

GDP = f (DOP, EXGR, FDI) .... (1)

Where:

GDP=Gross Domestic Product

DOP=Degree of Openness

EXGR=Exchange Rate

FDI=Foreign Direct Investment

The adopted variables are selected based on conventional knowledge about them. Gross Domestic Product is known conventional as a good and generally acceptable measure of economic performance/growth. Degree of Openness is selected based on the fact that it measures the level of trade liberalisation of a country. The level of a country's trade integration can best be determined by the degree of openness. Exchange rate is a measure of financial liberalisation and the level of integration among countries and thereby adopted as globalisation variable to measure the financial integration aspect of globalisation. Foreign Direct Investment measures the flow of investment and interrelation amongst countries. It is expected to show the extent of foreign participation in investment in the Nigerian economy.

A country that globalises her economy is expected to have more inflow of foreign investment in her economy; hence, this justifies the reason for its selection.

The model can be presented in a simplified manner and in mathematical terms as in below

$GDP = \beta_0 + \beta_1 DOP + \beta_2 EXGR + \beta_3 FDI + \mu$ .... (2)

Where:

β_0 = Intercept of the model/constant; $\beta_1 - \beta_3$ = Regression Parameters

μ = error term

The data adopted are transformed into logarithm form in the process of analysis to avoid spuriosity of result that may occur as a result of the difference in the term of measurement of the variables adopted. The 'a priori' expectation is as follow; $\beta_1, \beta_2, \beta_3 > 0$, this implies that all the explanatory variables are expected to have a positive impact on the economy. The econometric technique of the Ordinary Least Square (OLS) analysis was applied because it has Best, Linear, and Unbiased Estimators (BLUE) properties. The study hypothesised that globalisation does not significantly affect the economic growth of developing nations, taking the Nigerian case.

Data Related Issue

The data adopted covers the period between 1980- 2010. This period is chosen base on the fact that it covers the economic policy of structural adjustment programme (SAP) which ushered in financial liberalization and deregulation which are key indices and measures of globalisation in Nigeria. It is also noted that Nigerian has always being highly involved in international transactions since the advent of SAP. Data were sourced from the Central Bank of Nigeria Statistical Bulletin.

FINDINGS AND DISCUSSION

The result of the Ordinary least square (OLS) regression analysis is summarised in the table.

Table 1: The OLS regression result of GDP on DOP, EXGR and FDI

Variable	Coefficient	T-Statistics	Standard Error	Probability
C	5.183847	1.247403	4.155710	0.0003*
DOP	-0.232145	0.394664	- 0.588208	0.5613
EXGR	0.618631	0.134277	4.607117	0.0001*
FDI	0.609573	0.140649	4.333998	0.0002*

R^2 = 0.9549166 **Adj. R^2 =** 0.949907 **F- Statistics =** 190.6290

Dependent Variable = GDP

**denotes significance at 5% significance level*

The table 1 above explains in summary the relationship that exists between the dependent variable (Gross Domestic Product (GDP)) and the indices of globalisation. From the table, it could be inferred that the dependent variables show a positive constant coefficient of 5.183847 which implies that if all explanatory variables are held constant, the Gross domestic Product has the tendency of increasing by 5.183847units

Degree of Openness (DOP) shows a negative coefficient of -0.232145. This means that a unit increase in the Degree of Openness leads to a 0.232145 units' reduction in the value of GDP. This is contrary to theoretical expectation. The behaviour exhibited by this variable is consistent with the findings of Okey, 2005; and Lotto, 2011. However the negative relationship of DOP to GDP is not statistically significant. Meanwhile, the Exchange rate (EXGR) shows a positive coefficient of a 0.618631, implying that a unit increase in the value of Exchange rate causes a 0.618631 units increase in the value of GDP. Also, the coefficient of Foreign Direct Investment (FDI) shows a positive coefficient of a 0.609573, this implies that a unit increase in the value of (FDI) results into a 0.609573 unit increase in the value of GDP. The relationship and signs of the EXGR and FDI are in line with the theoretical and 'a priori' expectations.

The coefficient of multiple determination (R^2) shows a very high value of 0.954916, implying an approximate value of 95.5% percent of the behaviour of GDP is explained by DOP, EXGR and FDI while the remaining 4.5% is explained by factors outside the model. This is further supported by the adjusted value of R^2 that shows an approximate value of 95%. In the test for the goodness of fit, the model is greatly significant in explaining the behaviour of globalisation, showing F-statistic of utmost significance.

Consequent to the above result, it is evident that the variables that were used as proxy to capture globalisation showed the expected results, except Degree of Openness that showed a contrary result. The implication of the above finding is that the performance of Nigerian economy captured by her GDP decreased with respect to her trade openness though not significantly, but increased with respect to increase in the exchange rate and the level of foreign direct investment in the country. The statistical significance of both exchange rate and foreign direct investment implies that they are good determinants of economic growth. The result of this study corroborates the studies of Dreher (2006) panel study of 123 countries; Zhuang and Koo (2007) study on 56 countries; Dollar and Kraay (2004) study on developing countries; Sarbapriya (2012) study on India; Mihai and Anne-Marie (2011) study on Romania and the following studies on Nigeria: Folorunsho (2006) and Alimi and Atanda (2011).

CONCLUSION AND RECOMMENDATIONS

No country is an island on its own, therefore, it can be adjudged that all countries of the world are globalised. The globalised nature of the world implies that countries are integrated to one another, therefore suggesting economic interdependence among nations irrespective of the level of economic development. The focus of this study has been to determine the effect of globalisation on the economic performance/growth in the developing countries with special focus on Nigeria.

Employing the Ordinary Least Square (OLS) method in its analysis, it could be deduced that globalisation significantly affects the Nigerian economy due to the fact that the proxies for globalisation explains a very large proportion in changes in her GDP. Although, the degree of openness which is expected to have a positive impact on the economy; showed an insignificant negative impact. A major reason for the negative impact of degree of openness could be said to be the import-dependent nature of the Nigerian economy. This signifies the need to aggressively promote exports thereby generating revenue from foreign nations. However, exchange rate and foreign direct investment were in consonance with the expected result. Both positively impacted on the economy significantly therefore suggesting that increase in exchange rate allows for economic progress and increased foreign participation in investment in Nigeria engenders economic growth. Overall, the integration of Nigeria with the rest of the world has been beneficial to her economy at large.

In view of the findings of this study, the following policy recommendations to further enhance the effect of globalisation on the Nigerian economy should be noted: Government should continually ensure a business-friendly environment to encourage foreign participation in investment which inevitably promotes economic productivity and growth. Also, government should effectively manage exchange rate so as to avoid the Naira depreciating against other currencies especially key currencies in the world market. Finally, Government should stimulate local production and diversify its export base so that the nation can participate actively in the world market.

Further studies should seek to evaluate how globalisation affects the country's financial structure and adopt a methodological approach that can reveal the interdependency of globalisation and economic growth. Furthermore, other macroeconomic variables such as interest rate, export and import ratio to GDP and other measures of globalisation should be considered in subsequent studies, and if possible, quarterly data should be used.

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