GLOBALIZATION AND BALANCE OF PAYMENTS IN NIGERIA

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Abstract

This paper examines the extent to which globalization influences the balance of payments in the Nigerian economy. The major objective is the empirical evaluation of the impact of globalization covering the period from 1980 to 2013, using data sourced from World Bank and various annual report issues of Central Bank of Nigeria (CBN). The Cointegration technique with its implied ECM was used to assess the data. The parsimonious ECM result shows that openness of the Nigerian economy through globalization has been beneficial to the balance of payments in Nigeria. The negative sign attached to import provides an indication that the high level of imports in Nigeria has been detrimental to the balance of payments in Nigeria. The result recommends amongst others, the maintenance of effective exchange rate policy, fiscal discipline, concerted efforts to reduce imports and the creation of enabling environment that would usher-in steady capital inflows expected from higher levels of foreign direct investment (FDI). In addition, the government is advised to increase the non oil exports and diversify the domestic productive base of the Nigerian economy so as to sustain a favorable balance of payments.

Keywords: Globalization, Balance of Payments, Openness, Foreign Direct Investment, Cointegration

INTRODUCTION

One the most fundamental goals Nigeria as a globalising nation strives to maintain is favourable balance of payments partly as an indication of a sustainable healthy economy. As a monetary measure of the values of exchanges of goods and services among nations, it is crucial in all discourses pertaining to international trade and finance and so the extent to which globalization influences it becomes very imperative. Globalisation as a phenomenon jettisoned by rapidly

liberalised economic reforms and intensification of cross-border trade, increased financial and foreign capital flows presupposes that globalization is beneficial to the extent that it can lead to increase in net capital flows, favorable balance of payments and economic growth.

Nigeria as a globalizing country amidst stiff competition and openness requires more pragmatic approaches to the revamping of the economic quagmires prevalent in the system. Nigeria is economically weak which can be attributed to the inadequacies in domestic capacity to boost the country's productivity, the monoculture export dependence, the unfavorable terms of trade as well as the excruciating debt burden yet cannot exempt her economy from the world's global drive. It is in this connection that Iyoha, (2003) observed that SAP had a negative effect on the economy making the economy weak in the global competition, the weak economy due to the inadequate domestic economy capacity, social infrastructure as well as the mono-dependency and unfavorable terms of trade in its export trade have been a hindrance to the full achievement of the benefit of globalization as a result of the negative effect of the economic situation on investment especially foreign investment. To further buttress this, the World Bank (2000) estimating the degree of trade openness in Nigeria showed that trade openness was 26.2% in 1960, this rose to 66.7% in 1991, 75.2% in 1997 and 89% in 2003 but fell to 45% in 2006. With this level of openness, the ration of FDI to GDP ratio has consistently been declining since despite the drastic cumulative increase in the global FDI flows. Appendix 1 shows that that the FDI to GDP ratio that was 7.3 in 1980 rose to 12.9 in 1986 but fell to 9.6 in 1993 and ebbed lower to 1.6 in 2006. This points out that despite the fact that the nominal value of FDI was on the increase, its contribution to GDP was falling. The figures of the FDI flow and the nature of Nigeria trade structure which is monoculture depending on oil, also shows that the FDI flow were only in the petroleum sector rather than the agricultural and the manufacturing sector that needs more of the technologies for the economy to reap much benefit from globalization .

In spite of these, globalization cannot be wiped out with rule of thumb; hence its emphasis remains persistent. Globalization is simply the characteristics of an economy under conditions of openness whereby all forms of restrictions and rigidity are kept at abeyance irrespective of levels of technology and development of the countries engaged in trade (Eriemo, 2010, 2014). It refers to the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-bother transactions in goods and services of international capital flows, and also through the more rapid and widespread diffusion of technology (IMF, 1997). The role foreign direct investment (FDI) plays along side with its complement; the portfolio investment in the cross-border transaction is enormous and unequivocally making balance of payment adjustments resolvable. Aside from the components of foreign direct investment (FDI), the share of imports and exports in overall output provides a

ready measure of the extent of globalization of the goods markets. Although foreign goods are available in every country nowadays, the rate of product market integration has not been the same for all countries. This constitutes a measure of openness, which is used to assess the ease of tariffs and quotas, more efficient communications, and falling transportation costs, alternatively as the weighted sum of merchandise imports and exports divided by the GDP (Slaughter and Swagel, 1997).

Arising from the preceding concessions, it is noteworthy to emphatically stress that it has always been the goal of trading countries to obtain improved services and secure access to markets abroad, Nigeria being no exception to the rule. While the protagonists, led by the IMF group and Uruguay Round team view globalization as being an instrument of rapid economic and material expansion for all, characterized by foreign direct investment, economic openness and net capital flows that could translate into economic growth both in the developed and developing countries involved, the antagonists contend with doubts based on development policy implications that may arise from unequal distribution of the expected benefits and the fear expressed by most developing countries about the negative impact of globalization as is envisaged to engender fiscal deficit and balance of payments disability leading to the dependency syndrome. According to World Bank (2002), worldwide unemployment had been accompanying globalization since the 1980s in the European Union; about 45 million people were out of work in 2000 out of the total population of about 45 million, or about 10% of the entire population of the union or about 25% of its economically active population. About 10 million others are today working part-time in Western Europe and an increasing number of people are on dole or on one type of "begging" or the other, with women and youths being especially adversely affected. In Australia and New Zealand, about 70 percent of the women were unemployed, underemployed or retrenched in 2000; many who had left school, college or university among the young men are today without job or are working below their skill capacity.

The main research objective therefore is to empirically examine the extent to which globalization influences the balance of payments in the Nigerian economy as most previous studies on globalization skipped this focus and emphasized the phenomenon's relationships with economic growth, capital market performance, technology transfers etc. In specific terms, the study empirically evaluates the impact of globalization(albeit, the controversies that raged-on) on Nigeria's balance of payments in Nigeria as one of Africa's emerging economies with the relevant economic indicators from 1980 to 2013, the period marking the end of economic controls and the resurgence of intense economic liberalization. To achieve the desired results, the study was carried out using Cointegration technique with its implied ECM to assess the data for short-run and long-run equilibrium dynamics in Nigeria as her economy is caught in a "global

village web" with engagements in world's trade and its significant relationship with her balance of payment.

THEORETICAL AND EMPIRICAL UNDERPINING

At the theoretical front and from historical antecedence, no nation has ever triumphed economically without contacts with the outside world, thus taking a queue from the traditional theories on wealth creation and gains from trade by Thomas Malthus and David Ricardo respectively, contacts of nations with one another insulate abundantly. Expectedly, balance of payments brings to focus the result of economic relationships with other countries in trade, commerce and communication. At the front burner of globalization thesis is the popularly held view by (Rodrik, 1997), (Ajayi, 2000), (Onwuka, 2004), (Eriemo, 2014) and others that globalization is driven by powerful forces that cannot be halted or ignored. Thus in their consensus of opinion, the changes and development brought about by globalization are inexorable and largely irreversible and capable of influencing the nation's balance of payments, leading to economic growth paving to economic development.

In this regard too, Onwuka (2004) has noted that in discussing globalisation vis-a-vis Nigeria's development, two questions are pertinent. The first relates to the Washington consensus and the second concerns the wisdom of opening the economy to international monopoly capitalism. In addressing these questions, Onwuka stressed that we observe that the IMF/ World Bank and their owners 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 centre with its debt implications. Similarly Stewart (2002) maintains, that the capitalist's need to sustain the import capacity of peripheral economies in order to facilitate continued production and maximise profits at the centre explains why in the periphery countries raw material exports are more encouraged.

These imagined banes associated with globalization are not limited to Third World peripheral countries alone but are reportedly manifesting in the capitalist. For instance, Alden, (2012), sharing similar views with his contemporary, Robert Lawrence, pointed to the fact that globalization, to a large, has been the cause of income stagnation of the middle- class income earners and accounted for large scale income inequality and labour market displacement in the United States. This is against the original views of the protagonists of globalization that it breeds expansion in all ramifications. Notably, Giovanni, (1997) holds the contrary view that all financial expansions were eventually superseded by a new phase of material expansion. This, according to him occurs when profits are ploughed back into further expansion of trade and production more or less routinely, knowingly or unknowingly. The drive towards a country's economic well

being aptly measured in balance of payments surpluses is one of the most crucial considerations within the context of the global warming in the recent years.

Balance of Payments which is the systematic record of economic and financial transactions for a given period between residents of an economy and non-residents (the rest of the world) involve the provision and receipts of real resources and changes in claims on, and liabilities to, the rest of the world. Thus the balance of payments includes all external visible and non-visible transactions of a country during a given period, usually a year. It represents a summation of country's current demand and supply of the claims on foreign currencies and of foreign claims on its currency. A country's balance of payments is said to be in surplus (equivalently, the balance of payments is positive) by a specific amount if sources of funds (such as export goods sold and bonds sold) exceed uses of funds (such as paying for imported goods and paying for foreign bonds purchased) by that amount. There is said to be a balance of payments deficit (the balance of payments is said to be negative) if the former are less than the latter. A BOP surplus (or deficit) is accompanied by an accumulation or otherwise of foreign exchange reserves by the central bank. It noteworthy to emphasize at this juncture that under a fixed exchange rate system, the central bank accommodates those flows by buying up any net inflow of funds into the country or by providing foreign currency funds to the foreign exchange market to match any international outflow of funds, thus preventing the funds flows from affecting the exchange rate between the country's currency and other currencies

Issues connected with history of balance of payments seem to present its genealogy in the following manner. First is Pre-1820: mercantilism, followed by free trade from 1820–1914. Then it grew from 1914–1945 as de-globalization era followed by the Bretton Woods between 1945–1971 and a pause in 1971–2009 marking the transition, otherwise known as the Washington Consensus or Bretton Woods II with 2009 and later as post Washington Consensus characterized by Competitive devaluation after 2009. One of the driving forces in this connection is openness which is the share of imports and exports in overall output providing a ready measure of the extent of globalization of goods markets. Although foreign goods are available in every country nowadays, the rate of product market integration has not been the same for all countries. This constitutes a measure of openness, which is used to assess the ease of tariffs and quotas, more efficient communications, and falling transportation costs. It is the weighted sum of merchandise imports and exports divided by the GDP (Slaughter and Swagel, 1997). Another is Foreign Direct Investment (FDI), which according to Sodersten (1981) is an investment in a foreign country where the investing party (corporation, firm) retains control over the investment. A direct investment typically takes the form of a foreign firm starting a subsidiary or taking over control of an existing firm in the country in question. Its counterpart is portfolio

investment. With portfolio investments, no such control is exercised. Here the investor lends his capital in order to get a return on it, but he has no control over the use of that capital.

Foreign Direct Investments(FDI) have become increasingly important in the world economy especially among the Third Worlds, that is, the Less Developed Countries(LDCs), characterized by incessant demands for foreign capital inflows and technology transfers from the More Developed Countries(MDCs). They have always attracted a good deal of attention and given rise to heated controversy; this, perhaps, is not astonishing in a world of nationalism. The classical economists argue that free capital flows allow countries with limited savings to attract financing for productive domestic investment. This promotes trade and high rate of return, encouraging savings and investment that brings about faster economic growth. The main distinction of direct investments is that the investor retains control over the invested capital; direct investments and management go together. The flows of capital – debt, portfolio, equity, as well as direct and real estate investment between one country and others are recorded in the capital account of its balance of payments. Outflows include residents' purchases of foreign assets and repayment of foreign loans; inflows include foreigners' investments in home-country The Classical Economists argue that international capital mobility allows countries with limited savings to attract financing for productive domestic investment projects, that it enables investors to diversify their portfolios, that is spreads investment risk more broadly, and that it promotes inter-temporal trade – the trading of goods in the future. In turn, higher rates of return can encourage savings and investment that deliver faster economic growth.

There seems to be paucity of works carried out on the thrust of this paper that is globalization and balance of payments. Empirical works evidenced so far diverge, tending to verge on closely related issues as causality the analysis between trade and economic growth/development and the challenges of openness but not specifically on BOP as exemplified in (IMF, 1998), (Ndiyo & Ebong, 2003), (Edo, 2004), (Eriemo, 2010; 2014), (Iyoko & Eboheime, 2009). In IMF (1998) a study of four emerging market economies namely, Argentina, Mexico, Philippines and Thailand found out that from the beginning of rapid globalization of capital markets in the late 1980s until mid 1990s, capital flows have either caused or interacted with current account deficits and recommended external balance restoration through strengthening financial reforms and surveillance of the financial system.

Ndiyo and Ebong (2003 carried out a study on the challenges of openness in developing economies evidenced from Nigeria using VAR model on time series data from 1970-2000 on such indicators as growth rate of output (GDP), openness, foreign direct investment (FDI), external reserves (EXTR), foreign exchange rate (FEIR), net foreign indebtedness (NFI), fiscal deficit (FDEF), average world prices (WPNCE) and Balance of payments (BOP). the study

reveals a negative influence of openness exchange rate, fiscal deficit, average world prices and balance of payments on economic growth while external reserves, net foreign indebtedness and foreign direct investment exert a positive impact. It also revealed that the share of trade in GDP has a depressing effect on economic growth in line with the finding by Ekpo (1995).These results show credence to the dependency theory, perpetuated in Nigeria by trade deficit and exchange rate disability

Subscribing to globalization thesis, Edo (2004) in a study the effects of globalization on the Nigerian economy, reported favourable results using VAR modelling on financial and the external sectors variables concludes that the financial sector performed significantly well in facilitating globalisation in Nigeria, but superseded by the external sector with the foreign exchange market contributing positively but relatively low in comparison.

On another note, Iyoko & Eboreime (2009) investigated the causal relationship between globalization (characterized by FDI and openness) and economic growth using co-integration techniques on time series data in Nigeria. The result of the study shows a unidirectional causality between FDI and Growth with FDI Granger causing growth while there was no causality between openness and growth, rather, openness Granger causes external debt in Nigeria.

Also, Eriemo (2010), adopted the co-integration and error correction mechanism using the Johansen's ML-ARCH method to determine which variables connected with trade and globalization significantly impact on Nigeria's economic development. The study reported OPEN, BOP and PDUM variables exerted negative impacts on gross output, GDP but are also statistically significant. This tends to show that openness, balance of payments and the deregulation policy variable do not impact positively on output, but are statistically significant in explaining output. However, the hypothesis that Nigeria's engagement in the world's trade has no significant relationship with her balance of payment was well- supported by the study since BOP and PDUM exhibited negative relationships to adjust to long-run disequilibrium through the ECM revealing that BOP has a depressing effect on development, common to developing countries.

METHODOLOGY

Over the years, the link between external trade and economic development has been a subject of theoretical and empirical discourse. Thus the basis for this model is the pure trade theory, exchange rate theory and the balance of payments theory which have been formalized in the various versions of the Keynesian open macroeconomic models as extended by Mundell (1960, 1963) and Fleming (1962). This analysis simply shows that the overall effect of external trade on

economic development depends not only on the volume of trade (imports and exports) but also on what happens in the foreign exchange market, and in the goods and money markets. Thus, a proper mix of trade and exchange rate policies, fiscal and monetary policies are essential ingredients for rapid economic growth from balance of payments in the economy. Following from this the model to be estimated is specified below:

$$BOP = b_1 + b_1 \, IMP + b_2 \, EXPT + b_3 \, OPEN + b_4 \, FDI + Ut$$

$$b_1, b_2, b_3, b_4 > 0$$

Where:

BOP = Balance of payments

TMP = Total Imports

OPEN = Openness of the Nigerian economy

FDI = foreign direct investment

Ut = error term

The data covered the period between 1980 and 2013. This period include the pre-structural Adjustment Programme. (SAP), SAP and the post SAP period. The data were collected from various issues of the World Bank indicators for Nigeria and various issues of the central Bank of Nigeria.

The Cointegration technique with its implied Error Correction Model was used for the study. The analysis commenced with the unit root test. The Augmented Dickey Fuller (ADF) unit root test which corrects for serial correlation in the model will be use. This is followed by the Cointegration technique. The Johansen technique was used because it has the advantage of allowing more than one Cointegration test. The over parameterize ECM and the parsimonious ECM result will be estimated. The parsimonious ECM result will be obtained by deleting insignificant variables from the over parameterize ECM result. The Akaike information criterion and the Schwarz criterion will be used to select the appropriate lag length. The various diagnostic tests will permit us to estimate the variance decomposition.

EMPIRICAL RESULTS AND FINDINGS

The first stage of the analysis is the assessment whether the variables are stationary or not and their order of integration. This was done with the Augmented Dickey- Fuller (ADF) unit root test. The ADF is preferable to the Dickey- Fuller (DF) since it amongst others, corrects for serial correlation in the variables. The result of the ADF unit root test is shown next (Table 1).

Table 1: Summary of ADF Unit Root Test

Variables	Level data	1st difference	1% CV	5% CV	10% CV	Order of Integration
OPEN	-3.32..	-1.67	-3.66	-2.96	-2.62	I (0)
IMP	1.23	-3.61..	-3.66	-2.96	-2.62	I (1)
FDI	1.25	-4.85.	-3.66	-2.96	-2.62	I (1)
EXPT	1.36	-4.85.	-3.66	-2.96	-2.62	I (1)
BOP	-1.34	-7.53.	-3.66	-2.96	-2.62	I (1)

Note: CV stands for critical value

The result of the ADF unit root test shows that all variables except openness were stationary after the first difference. That is they are I(1). The openness was stationary at the levels because it is a ratio variable. This permits us to estimate the Cointegration test (Table 2). The Johansen methodology was used to estimate the existence of a long run relationship among the variables. The Johansen methodology has an advantage over other methods because amongst others, it allows for more than one Cointegration equation.

Table 2: Summary of Johansen Cointegration Test Result

Date: 03/13/15 Time: 22:08				
Sample(adjusted): 1983 2013				
Included observations: 31 after adjusting endpoints				
Trend assumption: Linear deterministic trend				
Series: LBOP LEXPT LFDI LIMP OPEN				
Lags interval (in first differences): 1 to 2				
Hypothesized		**Trace**	**5 Percent**	**1 Percent**
No. of CE(s)	**Eigenvalue**	**Statistic**	**Critical Value**	**Critical Value**
None **	0.761988	91.35081	68.52	76.07
At most 1	0.565701	46.85240	47.21	54.46
At most 2	0.306776	20.99770	29.68	35.65
At most 3	0.253919	9.639249	15.41	20.04
At most 4	0.017861	0.558682	3.76	6.65
*(**) denotes rejection of the hypothesis at the 5%(1%) level				
Trace test indicates 1 cointegrating equation(s) at both 5% and 1% levels				
Hypothesized		**Max-Eigen**	**5 Percent**	**1 Percent**
No. of CE(s)	**Eigenvalue**	**Statistic**	**Critical Value**	**Critical Value**
None **	0.761988	44.49841	33.46	38.77
At most 1	0.565701	25.85470	27.07	32.24
At most 2	0.306776	11.35845	20.97	25.52
At most 3	0.253919	9.080567	14.07	18.63
At most 4	0.017861	0.558682	3.76	6.65
*(**) denotes rejection of the hypothesis at the 5%(1%) level				
Max-eigenvalue test indicates 1 cointegrating equation(s) at both 5% and 1% levels				

Table 2….

Unrestricted Cointegrating Coefficients (normalized by b'*S11*b=I):

LBOP	LEXPT	LFDI	LIMP	OPEN	
-0.550294	2.972762	0.185115	-3.405974	4.307183	
0.265839	-6.431915	2.250193	4.864075	1.868596	
0.131786	-2.177043	-1.395068	2.842817	1.834453	
-0.331920	-2.765127	-0.406623	3.441548	0.139448	
-0.069899	0.362144	0.187076	-0.608147	-2.761456	
Unrestricted Adjustment Coefficients (alpha):					
D(LBOP)	1.653358	-0.756299	-0.780675	1.469618	-0.009531
D(LEXPT)	0.138303	0.039706	-0.003771	-0.021433	0.037407
D(LFDI)	-0.057319	-0.098248	0.078654	0.017626	-0.000226
D(LIMP)	0.113746	-0.075819	-0.027216	-0.071988	0.025460
D(OPEN)	-0.597958	-0.007462	-0.236368	0.111362	0.050400
1 Cointegrating Equation(s):	Log likelihood	-98.77950			
Normalized cointegrating coefficients (std.err. in parentheses)					

The result of the Johansen Cointegration test shows one cointegrating equation at both the trace statistic and the max- Eigen statistic. This indicates a long run relationship among the variables. This permits us to estimate the over parameterize and parsimonious ECM.

The over parameterize ECM include two lags each of the independent variables and the result of the over parameterize ECM is shown below:

Table 3: Summary of Over parameterize ECM Result

Dependent Variable: DLBOP				
Method: Least Squares				
Sample(adjusted): 1983 2013				
Included observations: 31 after adjusting endpoints				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
DLEXPT	0.013075	0.006303	2.074484	0.0459
DLEXPT(-1)	3.789672	4.386716	0.863897	0.3997
DLEXPT(-2)	1.650280	4.754755	0.347080	0.7328
DLFDI	-3.994561	5.494995	-0.726945	0.4772
DLFDI(-1)	0.466654	0.111772	4.175055	0.0003
DLFDI(-2)	-2.904917	5.509539	-0.527252	0.6048
DLIMP	-6.237825	5.825262	-1.070823	0.2992
DLIMP(-1)	-3.154248	4.829447	-0.653128	0.5224
DLIMP(-2)	-0.844961	0.300682	-2.810148	0.0089
OPEN	0.536584	1.174125	0.457008	0.6535
OPEN(-1)	0.721014	0.304142	2.370651	0.0242
OPEN(-2)	0.581647	2.737348	0.212486	0.8343
ECM(-1)	-0.491024	0.209697	-2.341593	0.0316
C	-2.082032	3.514625	-0.592391	0.5614
R-squared	0.636938	Mean dependent var		0.279998
Adjusted R-squared	0.606361	S.D. dependent var		6.141382

			Table 3…
S.E. of regression	6.121819	Akaike info criterion	6.764048
Sum squared resid	637.1033	Schwarz criterion	7.411655
Log likelihood	-90.84274	F-statistic	21.14773
Durbin-Watson stat	2.175908	Prob(F-statistic)	0.000000

$R^2 = 0.62$, AIC = 6.76, SC = 7.41, DW = 2.18

The parsimonious ECM was gotten by deleting the insignificant variables from the over parameterize ECM. The Akaike Information Criterion (AIC) and the Schwarz Criterion (SC) as well as economic theory will be used to select the appropriate lag length. The result of the parsimonious or preferred ECM result is shown below:

Table 4: Parsimonious ECM Result modeling: DLBOP

Dependent Variable: DLBOP				
Method: Least Squares				
Date: 03/13/15 Time: 21:52				
Sample(adjusted): 1983 2013				
Included observations: 31 after adjusting endpoints				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
DLEXPT	0.270705	0.023242	11.64714	0.0000
DLFDI(-1)	0.013075	0.006303	2.074484	0.0459
DLIMP(-2)	-0.466654	0.111772	-4.175055	0.0003
OPEN(-1)	0.379025	0.176881	2.142827	0.0413
ECM(-1)	-0.502588	0.183431	-2.739931	0.0112
C	-1.697841	2.121146	-0.800435	0.4310
R-squared	0.673176	Mean dependent var		0.279998
Adjusted R- squared	0.627812	S.D. dependent var		6.141382
S.E. of regression	5.735499	Akaike info criterion		-6.503212
Sum squared resid	822.3988	Schwarz criterion		-6.780758
Log likelihood	-94.79979	F-statistic		24.87924
Durbin-Watson stat	2.171639	Prob(F-statistic)		0.000000

$R^2 = 0.67$, AIC = -6.03, SC = -6.78, DW = 2.17

The result of the parsimonious ECM shows that the openness of the Nigerian economy to the outside world has a positive impact on the balance of payments in Nigeria. This provides indication of the benefits of globalization on the BOP in Nigeria. The result shows that import has a negative and significant impact on the BOP. This indicates that the high level of imports in Nigeria through global or international trade has been detrimental to the BOP position of

Nigeria. This is perhaps one of the negative consequences of globalization on the Nigerian economy. The result shows further that export has a positive and significant impact on the level of economic growth, an indication that increment in export capacity through global trade has the potentials of improving the balance of payments position in Nigeria. The level of foreign direct investment has a significant and positive impact on the BOP, an indication that a considerable presence of foreign investors matters positively for the BOP in Nigeria. The significance of the ECM which is negatively signed provides an indication of a satisfactory speed of adjustment. It indicates that about 50 percent of the errors are corrected each period. The diagnostic checks were carried out on the variables revealed the following results:

Table 5: Summary of Diagnostic Check Results

	Jarque -bera		
Jarque-bera	1.04	Probability	0.60
	Brevsch – Godfrey Serial Correlation Im test		
Statistic	2.02	Probability	0.09
	White Heteroskedasticity		
F – Statistic	0.48	Probability	0.88

The Jarque-bera normality test indicates the validation of the null hypothesis that the residuals are normally distributed. The Brevsch-Godfrey serial correlation test rejects the presence of serial correlation in the residual. The white heteroskedasticity test indicates that the errors are homoskedastic. The results of the Cumulative Sum of Recursive Residuals (CUSUM) and the Cumulative Sum of Recursive Residuals (CUSUMQ) are shown in figures 1 and 2 below:

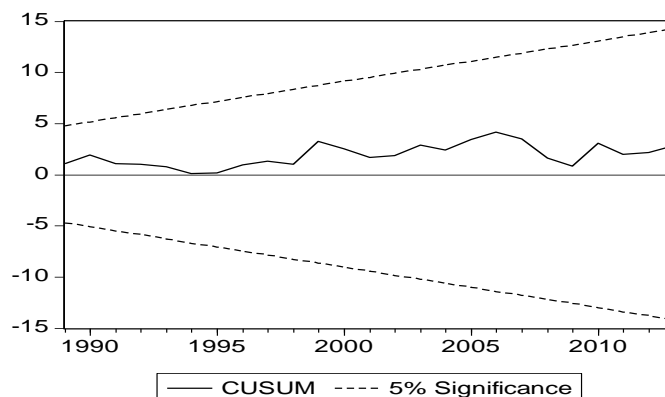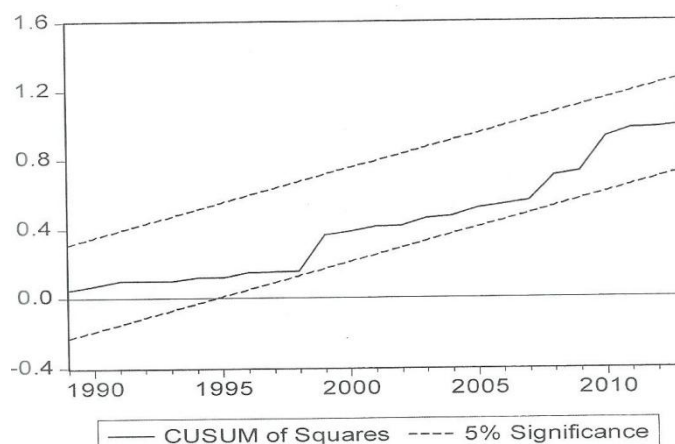Figure 1: CUSUM Stability test

Figure 2: CUSUMQ Stability test

The result of both the CUSUM and CUSUMQ indicates residual stability since both the CUSUM and CUSUMQ lines fell in between the 5 percent lines in both cases. Since the model passed the diagnostic checks, the stage is thus set for the variance decomposition analysis. The result of the Cholesky variance decomposition is shown below:

Table 6: Cholesky Variance Decomposition

Period	S.E.	LBOP	LEXPT	LFDI	LIMP	OPEN
Variance Decomposition of LBOP:						
1	4.491138	100.0000	0.000000	0.000000	0.000000	0.000000
2	5.587981	70.78127	2.102744	0.909345	13.51369	12.69296
3	7.357215	52.66273	13.46388	6.463397	8.353622	19.05637
4	8.167620	56.67159	11.39787	6.420721	9.947281	15.56254
5	8.548638	59.40644	10.46063	5.920072	9.124123	15.08874
6	9.112785	58.78341	9.620265	5.371775	8.233715	17.99083
7	9.705958	59.88909	9.300005	4.910689	8.072526	17.82769
8	10.42589	54.78574	12.64866	5.961860	9.495246	17.10850
9	10.97665	57.71118	11.78393	6.279142	8.671505	15.55424
10	11.28536	58.82385	11.19792	5.946293	8.271576	15.76037
Variance Decomposition of LEXPT:						
1	0.380987	1.225015	98.77499	0.000000	0.000000	0.000000
2	0.691062	0.444681	76.48869	3.840506	0.083965	19.14216
3	0.832860	1.759971	75.44397	3.118435	0.088014	19.58961
4	0.989201	1.498063	78.30837	3.730678	0.175049	16.28784
5	1.072154	2.061089	78.93470	4.001512	1.081085	13.92162
6	1.151628	1.786759	77.95678	3.468530	1.545318	15.24261
7	1.259332	1.541117	78.21830	3.315123	1.530491	15.39497
8	1.381365	1.280893	78.82864	3.629774	1.329061	14.93163
9	1.449168	1.381998	79.60088	3.735451	1.322861	13.95881
10	1.519461	1.259219	79.30664	3.517276	1.491427	14.42544

Variance Decomposition of LFDI:					Table 6….
Period S.E.	**LBOP**	**LEXPT**	**LFDI**	**LIMP**	**OPEN**
1 0.253806	0.002849	4.335877	95.66127	0.000000	0.000000
2 0.394427	1.196529	5.396537	89.60707	0.390497	3.409364
3 0.548788	1.787292	5.012660	88.95813	0.201737	4.040180
4 0.672612	1.956851	4.488465	90.42331	0.165910	2.965463
5 0.769870	2.175032	3.631229	91.72533	0.145861	2.322547
6 0.857830	2.612283	3.179194	91.56472	0.274982	2.368824
7 0.942424	2.678649	2.992196	91.65594	0.232593	2.440619
8 1.033409	2.988897	3.292125	91.18464	0.273219	2.261120
9 1.110124	2.896816	3.107402	91.76670	0.239064	1.990019
10 1.173058	2.994268	2.864149	91.96214	0.243641	1.935807
Variance Decomposition of LIMP:					
Period S.E.	**LBOP**	**LEXPT**	**LFDI**	**LIMP**	**OPEN**
1 0.345874	4.451335	51.21134	1.725420	42.61191	0.000000
2 0.622855	1.923990	46.40490	1.990682	30.63347	19.04696
3 0.722036	1.974845	52.09040	1.481354	29.18865	15.26475
4 0.915861	3.031288	58.51928	1.933825	21.17453	15.34108
5 1.021057	3.181400	56.72804	2.056507	24.59284	13.44121
6 1.114915	3.058855	57.24549	1.725435	23.78193	14.18829
7 1.212462	2.590308	58.21096	1.886258	24.57893	12.73355
8 1.306254	2.310826	58.81206	1.772761	23.53675	13.56760
9 1.379376	2.087063	59.11569	1.719057	24.12777	12.95042
10 1.470474	1.982504	59.64437	1.706232	23.18129	13.48561
Variance Decomposition of OPEN:					
Period S.E.	**LBOP**	**LEXPT**	**LFDI**	**LIMP**	**OPEN**
1 0.889524	14.12726	15.52858	5.055673	0.459556	64.82893
2 1.022324	28.45476	11.96234	4.094427	3.572468	51.91601
3 1.080241	25.78213	17.78321	5.899171	3.357381	47.17811
4 1.274860	37.02458	15.15933	4.250789	9.691915	33.87339
5 1.333361	34.41785	14.72870	4.226323	8.866348	37.76078
6 1.432667	34.39083	17.53533	7.188955	7.685069	33.19981
7 1.486781	35.53652	17.33245	7.364853	7.186587	32.57959
8 1.539081	38.51808	16.19989	6.923678	7.941002	30.41735
9 1.582667	37.82875	16.28168	6.789345	7.763450	31.33677
10 1.631481	40.59663	15.62630	6.812737	7.473356	29.49097
Cholesky Ordering: LBOP LEXPT LFDI LIMP OPEN					

Shocks to BOP explained 100 percent of changes to itself in the 59 percent in the last period. Shocks to export explained 13 percent of changes in the BOP in the third period and this reduced to about 11 percent in the last period. Shocks to import explained about 14 percent in the last period. Shocks to openness explained about 13 percent of changes in the BOP in the second period which increased to 18 percent in the seventh period and fell to 16 percent in the last period. Shocks to BOP explained 2 percent of changes in the level of export in the 5th period and this reduced to 1 percent in the last period. Shocks to import explained about 6 percent of

changes in BOP in 4th period and reduced to 2 percent in the last period. The shocks to BOP explained about 2 percent of changes to foreign direct investment in the 4 period and this increased to about 3 percent in the last period. Shocks to BOP explained about 14 percent of changes in openness in the first period which increased to about 41 percent in the last period. This is probably due to the spate of globalization. The negative results on the effect of globalization were attributed to the economic situation in the countries under the study. It further points out that the level of development of a country in terms of her domestic financial system and other factors determines the flow of globalization and its benefits.

CONCLUSION

From the foregoing, globalization with its implied openness and cross-border transactions in trade, communication and transportation has brought about significant improvement on the global economy in certain respect. In particular, Nigeria's balance of payments witnessed dramatic but significant changes following the liberalization of the Nigerian economy through globalization as her balance of payments in this period under study was quite appreciable. The result shows that high level of imports in Nigeria due to globalization has been detrimental to the balance of payments. The result shows too that the inflow of foreign direct investment that resulted from globalization has been beneficial to the balance of payments in Nigeria. Thus, overall, the result indicates that globalization matters for good performance in the assessment of Nigeria's balance of payments. The study recommends a reduction in import bills and enhancement of exports capacity increased through sustained currency devaluation and production for exports. The secondary inward looking development policy is therefore advocated to encourage the manufacture of goods locally for self-sufficiency needs through the import-substitution industrialization (ISI) policy. Finally, the government should do more to attract foreign investors into the country.

However, this study is limited by in scope to the empirical verification of globalization on balance of payments in Nigeria using only the most potent indicators of trade in goods and services namely openness, exports, imports and foreign direct investment. Perhaps there could be the dire need in exploiting such other variables as external sector tariff, foreign exchange rate, and external reserve to defend the controversial but nebulous concept, globalization.

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