

## Globalization and Economic Development: The Nigerian Experience and Prospects. 1980 - 2008

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### Abstract

*This paper investigates the impacts of globalization on Nigeria's Economic growth. It adopts the Mundel-fleming model of open macroeconomics based on the notion of one price. Trade, according to economic literature, may influence growth via catch-up, in addition to other causal links. The openness model that provides for some impetus for financial integration was estimated using Nigerian data and OLS regression analysis was also used in conjunction with other tests of stability. The regression results shows that the inflation rate is negative, exchange rate is negative, and also is openness indicator. Violation of the a priori expectation of these variables may not be far from the fact that their levels are not right. For example, the openness indicator which was calculated as total volume of trade divided by the GDP. If for example, the level of the numerator is low; the regression outcome could violate the a priori expectation. It has been established that the level of trade in Nigeria is low: The sign of the coefficient of the openness variable (for example) violated the a priori expectation. This was because, the level of trade in Nigeria fell short of the minimum level needed for the coefficient to be positive. Nigeria needs to improve on her trade with the rest of the world for the country to benefit from globalization. Also sound macroeconomic policies are needed to reinforce the globalization exercise for a better result. Fiscal discipline, coupled with good functioning financial framework are necessary tools for better results. Nigeria could also look beyond oil. Nigeria needs to get out of the mono-product type of business and research into other types of products that could be effectively and competitively sold in the international market.*

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**Keywords:** globalization, economic, development, cointegration analysis, trade, Nigeria

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### INTRODUCTION

For decades now, Nigerian has been experiencing disappointing performance in terms of growth in GDP and the general development of her economy. As a result, there is no improvement in the reduction of poverty level. In the 90's came the era of globalization which connotes external opening and increased role of markets domestically (i.e., the market economy). To the developing world, market economy is a modern way of turning the economy around. The essence of globalization is to move the economy towards external liberation, focusing on market-oriented economic system export-led strategy and stabilization of the economy. In Nigeria, it was the era of structural adjustment programme in collaboration with the IMF and World Bank. The governments in the developing world, believe that it is more desirable to globalize which simply means to open up the economy and penetrate the international markets.

The focus of this paper is on the race of globalization and the place of Nigeria in the race.

The paper has literature review and theoretical framework, methodology, analytical framework, empirical results, and conclusion and recommendations as its remaining sections.

### LITERATURE REVIEW

Over the past decade, globalization has been a pervasive trend in almost all economies. The world economy, according to Seunghee et al (1998), is becoming increasingly interdependent, deepening and intensifying international linkages, most notably in trade. Lawrence (1996) stressed that about 90 per cent of world nations are involved in regional economic arrangement, such as the European Union (EU), the North American Free Trade Agreement (NAFTA) and the Asia-Pacific Economic Corporation (APEC).

The integration of individual economies into the world economy, according to Machlup (1976) and Seunghee (1998), has progressed, forming new links between developed and developing economies. Globalization in developing countries has occurred largely as a consequence of moves towards external liberalization, part of broader shift to more market-oriented and export-led development strategies often in line with the stabilization and structural adjustment programmes of the IMF and World Bank (Motley, 2001). The ratio of world trade to GDP in nominal terms has been on a steady rise since 1987 in advance economies but this is not so in Nigeria. The volume of trade in Nigeria (i.e. total trade /GDP) from 1980 to 2008 is as contained in Table 1 and Figures 1 & 2

below. While there is improvement in the world trade during the globalization era, i.e. from the 1990s to the present day, the effect is yet to be felt in Nigeria.

Table 1: Export, Import and Volume of Trade, 1980 – 2000

| YEAR | EXPORTS (₦ BILLION) | IMPORTS (₦ BILLION) | VOLUME OF TRADE T/Y |
|------|---------------------|---------------------|---------------------|
| 1980 | 14.9                | 9.1                 | 5.3                 |
| 1981 | 11.9                | 12.9                | -2.6                |
| 1982 | 8.6                 | 10.8                | -3.7                |
| 1983 | 7.9                 | 8.9                 | -2.1                |
| 1984 | 9.4                 | 7.2                 | 3.0                 |
| 1985 | 12.2                | 7.1                 | 6.8                 |
| 1986 | 8.4                 | 5.9                 | 4.1                 |
| 1987 | 28.2                | 17.9                | 17.7                |
| 1988 | 31.7                | 21.4                | 12.5                |
| 1989 | 63.2                | 30.9                | 32.5                |
| 1990 | 120.1               | 45.7                | 71.1                |
| 1991 | 132.4               | 89.5                | 63.5                |
| 1992 | 226.9               | 143.2               | 63.0                |
| 1993 | 244.5               | 166.1               | 52.7                |
| 1994 | 214.2               | 162.8               | 42.7                |
| 1995 | 868.4               | 755.1               | -1.8                |
| 1996 | 1376.9              | 562.6               | -1.9                |
| 1997 | 1247.6              | 845.7               | 0.0                 |
| 1998 | 819.8               | 837.4               | -7.8                |
| 1999 | 1189.0              | 862.5               | -3.1                |
| 2000 | 1945.8              | 963.0               | 7.0                 |
| 2001 | 1868                | 1358                | 10.08               |
| 2002 | 1750                | 1669                | 9.88                |
| 2003 | 3098                | 2296                | 14.81               |
| 2004 | 4620                | 2194                | 19.46               |
| 2005 | 6310                | 2496                | 24.9                |
| 2006 | 7325                | 4247                | 31.6                |
| 2007 | 8120                | 4350                | 32.7                |
| 2008 | 9495                | 4991                | 36.2                |

Note: Volume of Trade is computed as total trade/GDP

T = total trade, Y = GDP

Source: Computed from CBN Annual Report and Statement of Accounts (1980, 1985, 1990, 1995, 2000, 2005, 2007, 2008))

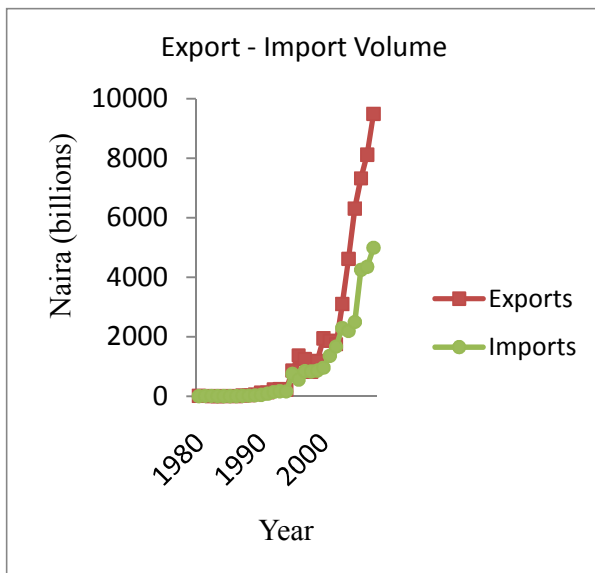


Figure 1: Trends in export and import of the Nigerian economy from 1980 – 2008.

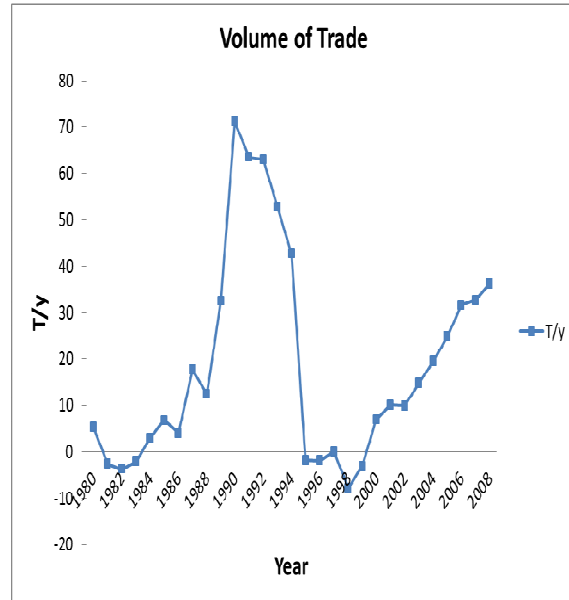


Figure 2: Trend in volume of trade in the Nigerian Economy between 1980 and 2008.

Fu-chen Lo et al (2000) stressed that growing networks of flows in goods and services, capital, finance, people and information are increasingly linking nations through the activities performed in their major urban centres. They went further by saying that the logic of globalization driven has privileged some regions and cities over others. The developed world and some developing and newly industrialized economies (NIEs), according to them, have benefited the advanced economy while many developing countries have been marginalized.

Yeung and Lo (1996) emphasized the important elements in the evolution of the global system as the expansion of trade, capital flow, (particularly direct investments) and a wave of new technologies. Akinbobola (2001) stressed that globalization of the Nigerian economy may foster a re-orientation of the domestic economy and re-direct the course of industrialization and technology development.

According to Obaseki (1999), globalization has both positive and negative effects, the positive effects or benefits are numerous but the most important ones include: increase specialization and efficiency, better quality products at reduced prices, economies of scale in production, competitiveness and improvement and increase managerial capabilities. He states further that although globalization has both positive and negative aspects, there is no doubt that it has improved global welfare. Globalization, according to him, penalizes countries that adopt the wrong macroeconomic and sectoral policies while enhancing the growth potentials of those that apply sound policies. As a result, countries must strive to adopt policies that are in consonance with the current reality of the rapid

integration of the world economies. Differences in macroeconomic, sectoral and structural policies have accounted for the varying degrees of benefits accruing to countries in the context of the rapid integration of goods, services and financial markets, and information systems across the globe.

Dicken (1992) in his own argument about the importance of globalization pointed out that, while the growth of trade and financial flows is linking the nations of the world, one of the dominating forces of the global integration is the rapid increase in inflows of foreign direct investment (FDI). According to him, the major channel of FDI is the transnational corporation (TNC). He also noted that "technology is without doubt, one of the most important contributory factors underlying the internationalization and globalization of economic activity.

Lo (1994), stressed that the world economy is facilitated by new information technologies, in which ideas, capital and people move rapidly and in large numbers. According to him, the new waves of technologies have created new growth markets in both developed and developing countries as outdated products and production processes decline in demand. Information technologies play a key role in increasing global integration and speeding economic transactions. Innovations and advances in information and transportation are but a few of the new wave of technologies that are enabling truly large-scale revolutionary change. Together, according to Lo (1994), they have helped to bring about a new "techno-economic paradigm" based on knowledge of intensive production. The benefits of globalization, no doubt, tend towards richer nations than poorer nations. The development in the Internet and related telecommunication technologies will make markets more transparent and continues to drive globalization process as they drive prices for long distance transactions down.

Ohmae (1990) stressed that increase in trade finance and investments have the effect of creating a "borderless" global economy. This "borderless" economy, according to him, has become a distinctive feature of the new global economic system and it symbolizes the inter-penetration of transnational economic activity among national economies. Philips (1999) stated 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 stressed 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 submitted that some of the factors to push forward are true and complete democratization of a growing economy with strong and stable financial system, and a sound and solid productive sector, among others.

### **THE THEORETICAL FRAMEWORK**

The concept of globalization has very sound theoretical framework (or underpinnings). The promotion of trade as the foundation of the wealth of nations was propounded by the mercantilist. This was before the emergence of Adam Smith's and David Ricardo's theses. The radical theorists later criticized the neo-classical model of economic growth. Looking at the present developments in the world economies, it has been proven that it is impossible for countries to separate or isolate themselves in a rapidly integrating world. Globalization has come to stay.

Trade theory as well as close and open economy macroeconomic theories have explained a great deal of the phenomenon that has overwhelmed the world. Over the past decade, globalization has been a pervasive trend in almost all economies. The world economy is becoming increasingly interdependent, deepening and intensifying international linkages, most notably in trade. The trade theorist advanced the thesis that trade was essential for the growth of nations. The argument of this school of thought does not favour autarky, where an economy is closed with little relations with the rest of the world. They believed that an economy should be opened.

Global industrial restructuring in the 1990s was characterized by the increasing specialization of firms and their extensive outsourcing and networking strategies. Heightened global competition, growing technological complexities and evolving markets and consumer tastes are driving restructuring of firms of all sizes. The trend towards downsizing and focusing on core competencies is accompanied by growing alliances, mergers and other types of business networks with foreign partners.

### **ANALYTICAL FRAMEWORK**

This section outlines the basic structure of the model used in analyzing globalization and economic development in Nigeria. The section starts with a closed economy equilibrium model, then later opened up the economy to include international trade. In a closed economy, a state of equilibrium is when aggregate demand is equal to aggregate supply. For example, we assumed that equilibrium exists. The analysis could be restricted to either aggregate demand or supply. In this study, it is restricted to aggregate demand. The assumption here is that, aggregate demand is a function of the overall fiscal operations of the government, marginal productivity of capital, income, consumption, government

expenditure, money stock, the price level and interest rates (Ojo et al, 1998).

We know in economic literature that the marginal efficiency of capital is a reflection of the level and efficiency of investment. The two could be used interchangeably, i.e. investment could be used in place of marginal efficiency of capital.

Based on the assumption that total expenditure or absorption (A) is equal to aggregate demand, and representing total absorption by A, then the following equation holds

$$A^d = A \quad (1)$$

Where

$$A^d = \text{Aggregate demand}$$

$$A = \text{Absorption}$$

Equation (1) indicates that aggregate demand grows through absorption. This is a constraint on the economy. It limits the extent of growth of the economy. But when the economy is opened, additional savings from other countries could be harnessed for use for investment in the domestic economy. Open economy would also be able to demand through imports, the resources of other countries. Also, the country in question could export its resources to generate foreign currencies, which could be used for development purposes. From the above analysis, we can then extend equation (1) to include the foreign component. This will give

$$A^d = A = C_{ab} \quad (2)$$

Where  $C_{ab}$  = Current account balance

Current account improvement is a function of several factors of which the most important ones are:

- i. domestic absorption.
- ii. foreign absorption
- iii. real exchange

This is to say that aggregate demand is a function of both domestic and foreign influences or factors. Based on the assumption that equilibrium exists, we could define aggregate output or supply for an open economy as follows:

$$Y = A + C_{ab} + T_r N_{fi} \quad (3)$$

Where

$$Y = \text{Aggregate growth rate of output}$$

$$T_r = \text{Transfers}$$

$$N_{fi} = \text{Net Foreign Indebtedness}$$

Equation (3) could further be extended. According to Obaseki (1999: 68), portfolio balances could be added to the external component of output. Adjustments in portfolio would take account of changes in yield arising from interest rate differentials, and the notion that ultimately, the difference between the yield on domestic and foreign investments would be reduced, if not equalized, has made countries to adopt policies towards achieving competitiveness.

The Mundel-Fleming model of open macroeconomics is based on the notion of one price. It has been argued extensively in economic literature

that the more open an economy is, the higher the rate of economic growth. Some authors have hypothesized that trade may influence growth via catch-up, in addition to other causal links. Obaseki and Ojo (1998) pointed out that an economy is liberalized and fully opened 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, domestic gross capital formation, among other things. The openness model which captures the trade aspect of globalization and which provides some impetus for financial integration could be represented as follows:

$$Y = f(t/y, r, m_g, f/y, In) \quad (4)$$

$t/y > 0, r > 0, m > 0, f/y < 0, In < 0$  where

Y = Growth rate of output or GDP

t/y = Index of openness (total trade /GDP)

r = Measure of real exchange rate

$m_g$  = Measures of real growth rate of money

supply

f/y = Ratio of fiscal deficit /surplus over

GDP

In = Inflation

A positive sign is expected from the index of openness variable and real exchange rate while negative signs are expected from money supply variable, ratio of fiscal deficit /surplus over GDP and inflation. The outcomes are based on a priori expectation. To capture the total economic effect of globalization, FDI and a dummy variable that will capture political stability will be incorporated into the openness model as explanatory variables. This is because trade and investment and the stability of the environment cannot be wholly separated. If the environment is hostile, harsh and unstable business may not flourish.

$$Y = f(t/y, r, m_g, f/y, In, FDI, \varepsilon) \quad (5)$$

$\varepsilon > 0$

$FDI_g > 0$

Where: FDI = foreign direct investment

$\varepsilon$  = dummy variable to capture political

stability

0=unstable period, 1= peace period

The variables are used in their log forms except political stability and ratio of fiscal deficit/surplus over GDP that are used in their natural forms.

## METHODOLOGY

### Sources of Data

The data used for this study were sourced from:

1. CBN Annual Report and Statement of Accounts (various issues)
2. CBN Statistical Bulletin (various issues)
3. FOS Annual Abstract of Statistics (various issues)

A regression model using OLS method was estimated and the data spreading from 1980 – 2008. Other tests were also performed to test for the stability of the variables

**Types of Data**

- Y* = growth rate of GDP in the Nigerian economy
- t/y* = total trade in the Nigerian economy divided by the GDP of the economy
- r* = real exchange rate, *m* = money supply
- f/y* = fiscal deficit or surplus divided by GDP
- In* = inflation rate
- FDI* = foreign direct investment in Nigeria

**EMPIRICAL FINDINGS**

The openness model that captures the trade aspects of globalization and also provides some impetus for financial integration was estimated using simple multiple regression analysis. Since in the literature, it has been shown that the regression analysis through OLS could be spurious, it is very important to check the variables used of stationarity. The long-run stability of the variables used was tested by making use of the unit root test, cointegration and the error correction models. The cointegration test was performed to detect whether the variables moves along the same path. The error correction test was also performed to detect the speed of adjustment to equilibrium in case of sudden shock. The scope of the study was 1980 – 2008. The estimated equation (5) for the study is stated as:

$$Y=f(t/y, r, mg, f/y, in, fdi, \epsilon) \tag{5}$$

**The Time Series Characteristics of The Variable**

Before running the OLS regression, it is important to be sure that the variables used are stationary. In order to know this, the study adopted the Augmented Dickey Fuller (ADF) 1989 unit root test. The regression equation for the test is of the form

$$\Delta X_t = \alpha_0 + \alpha_1 X_{t-1} + \alpha_2 \Delta_{t-1} + \alpha_3^t + e_t$$

The test on the coefficient of  $X_t - 1$  in the regression equation is the test for the unit root. The Mackinnon critical values give the critical values for the determination of the order of integration. The null-hypothesis of the existence of a unit root is given as:

$$H_0: X_{t-1} (1)$$

The values of the Mackinnon and the ADF test statistics are compared and decisions either to reject or accept are taken.

Equation (5) was estimated to test for the impact of globalization on economic growth in Nigeria. Table 2 .presents the results of the unit root test for all the variables used.

Table 2: Unit Root Test

| Variable    | ADF Value At Level | Mackinnon Critical Value 1% | No. of Lags |
|-------------|--------------------|-----------------------------|-------------|
| <i>DY</i>   | -5.163138          | -3.7076                     | 0           |
| <i>DT/Y</i> | -6.416304          | -3.7204                     | 0           |
| <i>DR</i>   | -5.621743          | -3.7204                     | 0           |
| <i>DMG</i>  | -4.933504          | -3.7076                     | 0           |
| <i>DIN</i>  | -4.868957          | -3.7076                     | 0           |
| <i>DFDI</i> | -4.379236          | -3.7076                     | 0           |
| <i>DF/Y</i> | -5.754599          | -3.7076                     | 0           |
| <i>DUM</i>  | -5.361903          | -3.7076                     | 0           |

After comparing the ADF value against the Mackinnon critical value at 5% and 1% respectively, it was confirmed that all the variables were stationary at levels. The test for Johansen cointegration was also performed. These are shown in the tables below.

Table 3: Johansen Cointegration Test

| Eigen Value | Likelihood Ratio | 5% Critical Value | 1% Critical Value | Hypothesized No. of Ce (S) |
|-------------|------------------|-------------------|-------------------|----------------------------|
| 0.973005    | 269.5323         | 156.00            | 168.36            | None                       |
| 0.871799    | 172.0052         | 124.24            | 133.57            | At most 1                  |
| 0.784453    | 116.5429         | 94.15             | 103.18            | At most 2                  |
| 0.680193    | 75.10938         | 68.52             | 76.07             | At most 3                  |
| 0.625302    | 44.32838         | 47.21             | 54.46             | At most 4                  |
| 0.335548    | 17.82426         | 29.68             | 35.65             | At most 5                  |
| 0.220429    | 6.786868         | 15.41             | 20.04             | At most 6                  |

\* (\*\*) denotes rejection of the hypothesis at 5% (1%) significance level. L. R. test indicates 4 cointegrating equations at 5% significance level. Looking at the likelihood ratios as compared to the critical values at 5%, the hypothesis of no cointegrating or the existence of at most one cointegrating vector was rejected. The result shows that there are four cointegrating equations (vectors) in the set of normalized cointegrating vectors.

Table 4: Unnormalized Cointegrating Coefficients

| <i>Y</i>  | <i>TY</i> | <i>R</i>  | <i>MG</i> | <i>IN</i> |
|-----------|-----------|-----------|-----------|-----------|
| -0.067510 | 0.020062  | -0.000745 | -0.016247 | -0.009652 |
| 0.038075  | 0.003326  | -0.004322 | 0.005841  | 0.005817  |
| -0.129997 | -0.002010 | 0.004648  | -0.001073 | 0.006951  |
| 0.044686  | -0.009176 | -0.003981 | -0.005256 | -0.000358 |
| -0.043358 | 0.005766  | 0.000815  | -0.000740 | 0.007373  |
| -0.014996 | -0.007569 | -0.004510 | 0.030121  | -0.009357 |
| 0.076046  | 0.004121  | -0.003845 | 0.007383  | -0.001044 |
| 0.010852  | 0.002874  | 0.002636  | 0.006039  | -0.003037 |

The test revealed the existence of equilibrium condition that keeps the variables in proportion to each other in the long-run. The outcome of the results prompted the setting up of a parsimonious error correction model (ECM).

**INTERPRETATION AND DISCUSSION OF RESULTS**

The study modeled the Nigerian economy by making use of time-series data from 1980 -2008 to analyse the effect of globalization on economic growth in Nigeria using the openness equation. The coefficient of the multiple determination stood at 0.65847 (66%). This means that the explanatory variables accounted for 66% of the total change in the dependent variable ( $\Delta X_t$ ). This is a good fit. The test for the presence of autocorrelation as represented by the Durbin Watson statistics was found to be within the normal bound at 1.87. The results of the error correction where the growth in GDP is the dependent variable, which was estimated by OLS regression that was based on the cointegrating vector is shown in the table below .

TABLE 5: PARSIMONIOUS ECM

*Dependent variable D(Y, I)**Method: Least Squares**Sample (Adjusted): 1982: 2008**Included Observations: 27 after adjusting Endpoints*

| <i>Variable</i>             | <i>Coefficient</i> | <i>Std. Error</i>              | <i>T-statistics</i> | <i>Prob.</i>     |
|-----------------------------|--------------------|--------------------------------|---------------------|------------------|
| <i>D(T/Y, 2)</i>            | <i>-0.01958</i>    | <i>-0.04864</i>                | <i>-2.98</i>        | <i>0.0391</i>    |
| <i>D(R2)</i>                | <i>0.11930</i>     | <i>0.025873</i>                | <i>4.6109</i>       | <i>0.0001</i>    |
| <i>D(MG, 1)</i>             | <i>0.13600</i>     | <i>0.03432</i>                 | <i>3.9627</i>       | <i>0.0021</i>    |
| <i>D(IN, 1)</i>             | <i>-0.332200</i>   | <i>0.081157</i>                | <i>-4.0933</i>      | <i>0.0003</i>    |
| <i>D(FDI, 1)</i>            | <i>0.48722</i>     | <i>0.205006</i>                | <i>2.377651</i>     | <i>0.0651</i>    |
| <i>D(f/y, 1)</i>            | <i>0.144803</i>    | <i>0.071192</i>                | <i>+2.03397</i>     | <i>0.0742</i>    |
| <i>D(DUM, 1)</i>            | <i>3.53259</i>     | <i>1.381619</i>                | <i>+2.556850</i>    | <i>0.0198</i>    |
| <i>FCM (-1)</i>             | <i>-1.132984</i>   | <i>0.236881</i>                | <i>-4.782931</i>    | <i>0.0001</i>    |
| <i>R-squared</i>            | <i>-0.658474</i>   | <i>Mean dependent Variable</i> |                     | <i>-0.03333</i>  |
| <i>Adjusted R-Sq.</i>       | <i>-0.506685</i>   | <i>S.D. dependent Var</i>      |                     | <i>3.493510</i>  |
| <i>S.E. of regression</i>   | <i>-2.453715</i>   | <i>Akaike info criterion</i>   |                     | <i>-5.326231</i> |
| <i>Sum squared residual</i> | <i>-108.3729</i>   | <i>Schwarz criterion</i>       |                     | <i>-4.338085</i> |
| <i>Log likelihood</i>       | <i>-57.07285</i>   | <i>F-statistics</i>            |                     | <i>-0.004649</i> |
| <i>Durbin Watson</i>        | <i>-1.869484</i>   | <i>Prob(f-stat)</i>            |                     | <i>0.0001</i>    |

The ECM coefficient carries the correct sign and it is also statistically significant even at 10% level, with the speed of convergence to equilibrium of 113% of the past years deviation from equilibrium. This adjustment is essential for maintaining long-run equilibrium in order to reduce the existing disequilibrium over time. The regression result shows that the inflation rate is negative, so also is the openness indicator. This shows that these variables are negatively related to the growth of the economy. While the negative sign of inflation is welcomed and followed the a priori expectation that a lower inflation rate will promote stability and raises the standard of living of the people by increasing the purchasing power of their monies. The exchange rate sign needs to be carefully interpreted. The sign of the exchange rate indicator could be negative or positive for economic growth to take place. This has to do mainly with the state of the productive base of the economy, and their positions in the international market. If a firm or an economy is already in the international market, the firm will benefit from the upward movements of the exchange rate as against the domestic currency simply because, the demand for their products will increase especially if the products in question are price elastic. But, if a firm or nation is yet to be fully integrated into the international market, the cost of entering the market when there is upward movement against the domestic currency might be too high to bear, especially if the firm is import dependent.

The a priori expectation of the openness variable is expected to be positive, which shows that the higher the level of trade, the better is the economic growth. But for the Nigerian economy, the regression result of the coefficient is negative. This variable could take on any sign. This depends on the level of trade between the nation in question and other nations. A high level of trade will result in positive growth, which will give a positive relationship between trade

and economic growth, i.e. a positively signed coefficient. But in the case of Nigeria, the relationship is negative which shows that the volume of her trade with other nations is still very low. The political stability and FDI (Foreign Direct Investment) and money supply are positively related to economic growth. These three variables are positive and significant in explaining economic growth. The political stability of a country is closely related to building investors confidence in such a country. Peace and stability are necessary conditions for the activities of business men.

It will also determine to what extent a country could attract foreign direct investment for development. Recent years in Nigeria have witnessed a growing enthusiasm for FDI especially during last regime. While FDI, either through purchase or the establishment of new production facilities (i.e. green field" investment), may contribute to capital formation and to export earnings, its wider contribution to technological change and growth of the economy may be limited if, for example, the FDI is virtually an enclave activity and not well integrated into the rest of the economy.

Based on the outcome of our regression equation, one could conclude that Nigerian might find it difficult to benefit effectively from globalization. A lot still needs to be done for Nigeria to integrate properly into the world market. This means that Nigerian needs to put in place, sound macroeconomic policies towards financial and exchange rate stability. As rightly put by Obaseki (1999), the broad strategy to ensure that countries benefit from the gains of globalization and ward-off its threats is to apply market-friendly growth-oriented policies in a stable macroeconomic environment. Poor policies according to him will be rewarded by marginalization in the global arena. The coefficient of fiscal deficit to surplus over GDP is positive but not significant. A negative relationship is

expected. If there is indiscipline in government spending, it will sure affect economic growth adversely. The fiscal deficit must be kept to its bearest minimum, since this could taunt growth.

### SUMMARY

The paper investigated the impact of globalization on economic growth in Nigeria between 1980 and 2008. The study adopted the Mundel Fleming model of open macroeconomics based on the notion of one price. Trade, according to economic literature may influence growth vis catch-up, in addition to other causal links. The openness model that provides for some impetus for financial integration was estimated using Nigerian data and OLS regression analysis complemented by unit root, cointegration and error correction was used. The results shows that the inflation rate is negative, exchange rate is negative, and also is openness indicator. Violation of the a priori expectation of these variables may not be far from the fact that their levels are not right. For example, the openness indicator which was calculated as total volume of trade divided by the GDP. If for example, the level of the numerator is low; the regression outcome could violate the a priori expectation. It has been established that the level of trade in Nigeria is low: The sign of the coefficient of the openness variable (for example) violated the a priori expectation. This was because, the level of trade in Nigeria fell short of the minimum level needed for the coefficient to be positive. Nigeria needs to improve on her trade with the rest of the world for the country to benefit from globalization. Also sound macroeconomic policies are needed to reinforce the globalization exercise for a better result. Fiscal discipline, coupled with good functioning financial framework are necessary tools for better results. Nigeria could also look beyond oil. Nigeria needs to get out of the mono-product type of business and research into other types of products that could be effectively and competitively sold in the international market.

### CONCLUSION AND RECOMMENDATIONS

It has been established that the indicator of openness is negative. This violates the a priori expectations. This shows that the Nigerian economy is not benefiting yet form globalization. Many reasons could be advanced for this outcome, among which are:

- i. The low level of trade to total GDP. This shows the absence of the Nigerian products in the international market.
- ii. The Nigerian economy is yet to be fully opened up and integrated into the global market.
- iii. The country is yet to develop more products that could compete effectively in the international market in order to increase the

level of output/trade with the rest of the world.

The foreign direct investment variable exerts a positive influence on economic growth. This outcome is expected. Foreign direct investment is very crucial for economic growth especially in the developing countries. The degree to which a nation could attract investments from other nations depends on certain factors which needs to be addressed for the continuous flow of FDI into the country.

Nigeria must face the challenges of globalization. For a country to belong to the race, major changes and restructuring are very necessary. Nigeria must develop the internal structure and the willing to adopt those policies that brought about the benefits from globalization. Nigeria as a nation, needs to correct internal distortions and also create the environment for market-oriented policies to be effective.

Kwanashe (1999) stresses that Nigeria is still very weak internally such that the level of poverty remains unacceptable despite its huge natural resources. This statement is true. Nigeria is richly endowed. But most of the natural resources remain untapped. The domestic resources must be mobilized. Nigeria must purpose macroeconomic policies that are not inflationary, but competitive to attract investment.

The productive sector of the economy needs to be made competitive, efficient and strong. Nigeria needs to attract foreign direct investments. This could be achieved by putting in place enabling environment for foreign direct investments. These include good infrastructural facilities, stable government and good and functioning financial framework to support, among others.

Based on the outcome of the regression analysis, it has been established that with the present situation and policies adopted to stabilize the economy in Nigeria, the country stands a good chance of benefiting from globalization. Nigeria must look beyond the mono-product type of business (oil sector) and research into other sectors for new products of international standard. Above all, there must be accountability and transparency in every quarter. Our local resources needs to be fully tapped (local sourcing of new materials). The strategies and policies adopted in Nigerian to be moderated, in order to reduce the adverse effect of globalization. These policies and strategies include:

- i. Stable macroeconomic policies.
- ii. Appropriate supply-increasing policies to develop the productive sectors of the economy to provide a cushion for the monetization/sterilization of rapid inflow.
- iii. Development of the capital market before opening it to international competition.

- iv. Strengthening the banking and financial system.
  - v. Good governance.
  - vi. Policy complementarity to improve growth and enhance gains from globalization.
- Efforts must be geared towards achieving reasonable performance in all policy areas.

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