Research Paper

Effect of Globalization on Economic Development in Nigeria.

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ABSTRACT: *This study explored the link betweenglobalization and economic development in Nigeria. Specifically, this study is designed to determine the effect of actual flows, economic restrictions and trade intensityon realGDP in Nigeria between 1981 and 2015. The datasets were adapted from the Central Bank Nigeria Statistical bulletin and KOF country-specific indexes of globalization. A combination of Ordinary Least Squares and error correction model was relied upon for the empirical analysis of the time series. The Augmented Dickey Fuller procedure to unit root test showed that only trade openness is stationary at levels as its computed ADF statistics exceeds the associated critical value at 5 percent level. Thus, the null hypothesis of a unit root for trade openness was rejected at 5 percent level. However, other variables, actual flows, restriction index, real GDP and information flows become stationary upon first differencing. The Johansen cointegraton test showed that the series have long run associationship at 5 percent level. These findings are demonstrations that actual flows and restrictions contract economic growth in the short run, but create benefits by boosting economic growth in the long run. The negative net effects of globalization in the short run could be traced to the weak institutions and structural rigidities prevalent in the Nigerian economy. Information flows is robust in driving economic growth in both short and long run. On the average, actual flows and restrictions as well as information flows were robustly related to economic growth in Nigeria in the long run. In view of the findings, this study recommends that efforts should be directed towards building and sustaining strong institutions as well as provides macroeconomic foundations necessary for boosting the potentials of optimizing the net positive benefits of globalization in Nigeria.*
KEY WORDS: *Globalisation, Flows, Trade, Real GDP and Institutions*

I. BACKGROUND TO THE STUDY.

Globalization has continuously dominated policy and shaped international economic policies across the globe. Despite its long period of existence, globalization hascontinued to intensify in recent years and become a very important issue due to its preoccupation of development trends worldwide, especially the General Agreement of Tariff and Trade (GATT) and World Trade Organization (WTO). Conceptually, globalization embodies growing economic integration and interdependence of national, regional and local economies worldwide via improved cross flow of goods, services, technologies and capital. Additionally, globalization encompasses the linkingof economic decision making processes including consumption, investment and saving process across the globe. Thus, it provides a platform for viewing the world as a single market in terms of acquiring, utilizing and development of productive resource which means a single competitive market for all business transaction. Obadan (2006) argued that in economic aspect of globalization is at the forefront, thus, dominating policy debates unlikethe political, cultural, social and environmental aspects of globalization.In support of this, Akor et al (2012) are of the viewpoint that economic globalization enhances the advancement the bridging of gaps amongst countries across the globe. This makes the sharing of ideas, cultures, value and lifestyle efficient and cost-effective. Trade has remained one of the issues of concern, especially as it regards the economic ties existing amongst countries across the globe. These ties are described by UNCTAD (2010) to extend beyond transactions between goods and services and encompass advancement in knowledge and skill acquisition which improves development, capital and ideas, thus, promoting expansion and improvement of quality and quantity of output across the globe. In addition to the benefits that globalization creates, it is argued that the risks and uncertainties associated with globalization makes developing economies vulnerable in the global market as a result of their unfavorable nature of trade and balance of payment positions. It is worth

noting that the height attained by Nigeria in the dynamic and fast globalizing economy across the globe can be mirrored from the performance of some economic indicators. These indicators as outlined in Owolabi, 2005) comprise amongst other things the extent of her international trade and foreign direct investment, extent of integration into the international financialmarkets and the intensity of trade. In view of the growing level of globalization, it becomes imperative to explore its relative implication on economic development. Thus, this study is designed in this direction.

1.1 Statement of the problem

      It has been argued in economic literature the external sector of the economy is very critical given that it provides opportunity for rapid growth. This is based on the economic ties that exist amongst different economies of the economies of the globe, especially through trade in merchandise and non-merchandise alike.However, the extent to which any economy reaps the benefits associated with this economic globalization depends, to large extent, on certain factors including, the elasticity of the supply and demand for the commodities in the globalized economic environment and the goodwill a country enjoys with other economies. Another aspect through which the effectiveness of globalization is mirrored is the technological advancement process. This defines the competiveness of the economy with regard in terms of goods and services being traded in the global market. There exists empirical evidence in support of the claim that in developing countries like Nigeria,globalization intensifies the state of joblessness, increases the rate of crime and forestalls the efforts geared towards diversifying the domestic economy. These have resulted to rising income gap and inclusion of more population in Nigeria into poverty. More developed economies tend to reap large benefits of globalization compared to their counterparts in the third world because they have the advantage of necessary economic and technological conditions whereas the later focus mainly on the export primary commodities. This suggests that the developing economies in Africa and other parts of the world seem to be at the risk of marginalization in their efforts to connect to the rest of the world through marginalization. Although globalization has been described as a source of wealth for many countries, it has also been identified as constraints to gainful employment, improved standard of living and poverty reduction in Nigeria.These have triggered further inquiry into the net-marginal effects of globalization the measures of economic development. Thus, this study is broadly designed to investigate the link between globalization and economic development in Nigeria. Specifically, the objectives include to: examine the effect of economic restrictions, actual flows and information flows on realGDP in Nigeria.

II. THEORETICAL AND EMPIRICAL LITERATURE
2.1 Classical and Neo Classical Theories

      The classical theories showed that globalization can promote economic development through the increment of savings investment and productivity of capital. The understanding of the trends of globalization is widened by the theoretical underpinnings. From the classical perspective, globalization is advanced by trade. The mercantilists were the first to emphasize on the benefits of trade as the key source of bedrock of the wealth of nations. This was followed by the proposition of Adam Smith's and David Ricardo's on the net-positive gains of international trade. The neo-classical theorists centered their arguments on development given that they are of the viewpoint that growth can be internalized. l of growth was later countered by the radical theorists on the inviolability of trade for ensuring the growth of nations. Emphasis on globalization seems to build assumption and empirical evidence that the linking of the domestic to the rest of the world offers opportunities for positive economic turnaround. The optimism continues to soar as more commodities are included into the volume of exports, thus, making available foreign earnings to the exporting country. As more countries continues to subscribe to globalization through the adoption of economic liberalization policies and improved technological change, the resultant outcome has been growth in trade, improved capital market powered mainly by capital inflows and FDI.

      Obadan (2010) is of the viewpoint that economic theory assumes that countries that embrace globalization seem to reap some benefits in the form higher growth rates than those that embrace autarky, especially trading with the rest of the world. Growth necessitated by globalization encompasses FDI. This is a pointer that FDI is one of the benefits that countries enjoy by linking their economy to the rest of theworld. FDI tends to boost growth which is consistent with traditional neo- classical growth models and the modern growth theories. The traditional growth model as proposed by Solow's growth model (1956) identifies FDI as an engine of economic growth. This is because it directly boosts the volume of investment and enhances the process of technological innovation amongst others. Contrary to the contributions of this theory to international macroeconomics, it has been criticized on the grounds that its assumptions are not completely realistic.

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2.2 Empirical Literature

Osabuohien (2007) investigated how globalization and governance affecteconomic growth in West Africa with a focus on Cote d'Ivoire and Nigeria. The data used for the empirical analysis were collected from IFS and Polity IV and spanned from 1960 to 2004. Stationarity and cointegration tests were relied upon for the pre-estimation diagnostics while parsimonious error correction model was used for the data analysis. From the results, it was found thatglobalization indicators are positively connected with the growth of the economy in both Cote d'Ivoire and Nigeria. The result also shows that the quality of governance and socio-political conditions contracts GDP in constant term.

Yusuf (2003) carried out thorough review of literature on the impact of globalisation on the economic development of Nigeria focusing mainly on the concepts of globalization and development as well as some components of Nigerian development. Owing to the results, the study concluded that Nigeria may be excluded reaping the benefits associated with linking her economy to the rest of the world which intensify the level of poverty rather promoting economic prosperity.

Axel (2003) looked how overall index and sub-indexes of globalization affect the growth of 123 economies between 1970 and 2000. The dimensions of globalization covered by study the include economic, social and political integrations. Panel data on each of these indexes were collected over the sampled period. It was uncovered that globalization drive growth during the sampled period, but the extent of growth achieved is inadequate in reducing the level of poverty as expected based on the a priori expectation.

Aremo et al. (2010) looked at how globalization influences the structure of development in Nigeria with particular emphasis on employment, a proxy for labour force utilization in Nigeria.The study utilized ADF based unit root test and cointegration test in examining the time series properties of the data and long run relationship among thevariables respectively. In addition to these test tests, Error Correction Methodology was applied to estimates both the short run and long run dynamic adjustments in the employment model. The results indicate that globalization policy is capable of inducing negative influence on employment in both shortand long run.This finding necessitated the recommendation for the public sector to adopt policy mix in addressing the negative implications of globalization on employment generation in Nigeria.

Loto (2011) developed an Ordinary Least Squares (OLS) method to capture the net-effects of globalization on the growth of the Nigerian economy. The model followed the Mundel-Fleming framework. In addition to the OLS, some pre and post-estimation tests were carried out. It was discovered from the regression results that the rate inflation and exchange rate as well as measure of openness negatively influence growth in Nigeria. The study however, concluded that the outcome of the estimation is traceable to the poor measures of the variables used for the estimation.

III. RESEARCH METHODOLOGY

The study adopted the quasi-experimental research design. Data required were time series data which consist of economic restrictions, actual flows and information flows, trade opennesand realeconomic growth in Nigeria GDP of the Nigerian economy within the period of 1981 - 2015. Data for this study were collectedfrom the CBN statistical bulletin and the NBS (2014).

3.1 Model Specification

This study adopted a multivariate model to explore the link between globalization and real GDP. The measures of globalization in this study were the sub-indexes of economic and social globalizations as outlined in the KOF globalization index. Specifically, actual flows, restrictions and information flows were the key sub-indexes of socio-economic globalization used as regressors in the model while real GDP is utilized as a proxy for economic development. The functional relationship between the outlined dependent and explanatory variables is formalized as:

$$RGDP = f (ACF, RTS, IFO, OPN) \qquad (3.1)$$

The representation of equation (1) in a log-linear is as follows:

$$InRGDP_t = h_0 + j_1 InACF_t + j_2 InRTS_t + j_3 InIFO_t + j_4 InOPNF_t + u_t \qquad (3.2)$$

Where: RGDP, ACF, RTS, IFO and OPN are real GDP, actual flows, restrictions, information flows and trade openness respectively. In is the natural logarithm notation. J_0 and j_1- j_2 are constant terms and coefficients of the explanatory variables. The hypothesized signs of the estimates of the explanatory variables based on economic theory are: $j_1 > 0$, $j_2 < 0$ and $j_3 > 0$ and $j4 > 0$.

The short run behavior of the regressors and the speed at which the model converges to equilibrium is estimated using error correction mechanism and the model is formalized as follows:

$$\Delta InRGDP = m_0 + \sum_{i=1}^{n} v_1 \Delta InRGDP_{t-i} + \sum_{i=1}^{n} v_2 \Delta ACF_{t-i} + \sum_{i=1}^{n} v_3 \Delta InRTS_{t-i} + \sum_{i=1}^{n} v_4 \Delta InIFO_{t-i}$$

$$+ \sum_{i=1}^{n} v_5 \Delta OPN_{t-i} + \varphi ECM_{t-1} + e_t \qquad (3.3)$$

Where: RGDP, ACF, RTS, IFO, OPN and In are as explained in equation (3.1)

m_0 = constant term

$v_1 - v_5$ = short-run parameter estimates of the lagged explanatory variables, n = lag length , Δ = first difference operator, φ= Coefficient of the ECM and e_t = Stochastic error term.

It is expected that increase in actual flows and information flows will stimulate economic growth in Nigeria will increase in restrictions is expected to contract economic growth.

3.2 Estimation Techniques

The estimation techniques utilized in this study is a combination of Ordinary Least Squares (OLS) and Error Correction Model (ECM). The choice of the OLS stems from the assumptions of Gauss-Markov theorem that the OLS is the best linear unbiased estimator (BLUE). Additionally, the Error Correction Model (ECM) is used to ascertain the short-run dynamics of coefficients of the lagged explanatory variables and the speed at which the model converges to equilibrium in the long-run. The ECM is equally helpful in taking care of the shortfalls that characterize time series data. More importantly, some diagnostics tests were conducted to validate the reliability of the estimated models for macroeconomic prediction. The pre-estimation diagnostics tests include the ADF approach to unit root test proposed by Dickey and Fuller (1981) and cointegration test. The Augmented Dickey-Fuller (ADF) is utilized for this test and the formular is stated as:

$$\Delta P_t = d_0 + d_1 P_{t-1} + \sum_{i=1}^{r} \omega_i \Delta P_{t-i} + v_t \qquad (3.4)$$

Where: P= variables included in the model

d_1 and ω_i= coefficient of the variables

r = maximum lag length

Δ= First difference operator

v_t = stochastic error term

The test for cointegration was conducted to check whether there exists long-run relationship among the variables under investigation. The Johansen multivariate procedure to cointegration is employed to determine the number of cointegration equations.

This studyalso employs some diagnostics tests involving Breusch-Godfrey serial correlation LM test, normality test and stability test for the coefficients of the regressors .

IV. RESULTS
Table4.1 Basic Descriptive Statistics

	RGDP	ACF	RTS	IFO	OPN
Mean	30723.60	55.53171	26.79400	33.55229	0.560286
Median	22332.87	58.46000	27.25000	30.73000	0.610000
Maximum	69023.93	71.10000	60.62000	57.61000	0.880000
Minimum	13779.26	30.85000	4.270000	22.31000	0.220000
Std. Dev.	17308.63	11.66883	20.81130	9.790506	0.148611
Skewness	0.948702	-0.799426	0.197607	0.745134	-0.612303
Kurtosis	2.519243	2.571339	1.404946	2.464541	2.910059
Jarque-Bera	5.587266	3.995951	3.938072	3.656938	2.198800
Probability	0.061198	0.135610	0.139591	0.160659	0.333071
Observations	35	35	35	35	35

Source: Author's estimation using E-views 9

4.1 Estimation of the Static MultivariateModel
The static regression model is estimated using OLS method. The result is summarized in Table4.2

Table4.2 Static Regression Result

Dependent Variable: LOG(RGDP)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(ACF)	0.511712	0.169997	3.010119	0.0053
LOG(RTS)	0.207251	0.042611	4.863794	0.0000
LOG(IFO)	1.109248	0.141933	7.815297	0.0000
LOG(OPN)	0.094623	0.121733	0.777300	0.4431
C	3.767470	1.016109	3.707742	0.0008
R-squared	0.939385	Mean dependent var		10.19444
Adjusted R-squared	0.931303	S.D. dependent var		0.519951
F-statistic	116.2317	Durbin-Watson stat		0.509681
Prob(F-statistic)	0.000000			

Source: Author's estimation using E-views 9

The result of the static regression in Table 4.2 showed that the coefficients of actual flows, information flows and trade openness associated with positive signs. Both actual and information flows are highly significant in explaining changes in economic growth. A percentage increase in actual flows leads to 0.51 percent increase in economic growth. Again, a percentage increase in information flows boosts constant GDP by 1.109 percent. Although trade openness has a positive link with economic growth, it is statistically insignificant in explaining changes in economic growth. This suggests that the adoption of an outward trade policy is not enough to stimulate the process of growth in the Nigerian economy. The result further showed that restriction as sub-index of economic globalization has significant positive relationship with real gross domestic product during the study. This finding conflicts with the theoretical expectations, but satisfies the statistical criteria. The coefficient of determination (0.939) indicates that the regressors collectively explained 93.9 percent variations on real gross domestic product. It was also found from the probability value (0.000) of the f-statistic that the overall model is highly significant, thus indicating that the explanatory variables are collectively important in explaining changes in economic growth over the period studied. However, the Durbin-Watson statistic (0.50) indicates that the model is serially correlated. This suggests amongst other things that series may not be stationary at levels.

4.2 Unit Root Test
The time series properties of each of the variables are examined through unit root test. The test at levels was supplemented by the first difference test. The results are showed in Table 4.3

Table 4.3 Results of the ADF unit root test on the series

ADF UNIT ROOT TEST							
Variables	Levels			First Difference			
	ADF test stat	Test critical value (5%)	Inference	ADF test stat	Test critical value (5%)	Inference	Order of integration
Log(RGDP)	-2.219	-3.55	NS	-3.602	-3.55	S	I(1)
Log (ACF)	1.779	-3.55	NS	-7.404	-3.55	S	I(1)
Log (RTS)	-1.270	-3.55	NS	-3.648	-3.55	S	I(1)
Log (IFO)	-1.948	-3.55	NS	-3.8522	-3.55	S	I(1)
Log(OPN)	-4.758	-3.55	S	-2.717	-3.55	NS	I(0)

Source: Authors computation using E-views 9
NB: NS and S respectively imply non-stationary and stationary at levels. I(0) and I(1) denote integrated of order zero and one respectively.

Table 4.3 shows the stationarity test results. From the results, only trade openness is stationary at levels as its computed t-statistic exceeds the associated critical value at 5 percent level. Thus, the null hypothesis of unit root for trade openness is rejected at 5 percent level. However, the other variables such as actual flows, restriction index, real GDP and information flow become stationary upon first differencing. It howver, follows from the findings the order of integration for trade openness is zero while the other variables are integrated of order one. Considering the fractional integration of the series, the Johansen cointegration test methodology was employed to determine whether or not the series were cointegrated.

4.3 Cointegration Test

The Johansen cointegration approach is used in examining whether the variables can move together in the long run.This is helpful in validating the outcome of the unit root test. Basically, the null hypothesis of no cointegration was tested at 5 percent level. The result is displayed in Table 4.4.

Table 4.4:Outcome of Johansen Cointegration Test

Series: LOG(RGDP) LOG(ACF) LOG(RTS) LOG(IFO) LOG(OPN)				
Trace test				
Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.814672	109.1396	69.81889	0.0000
At most 1 *	0.571002	56.88507	47.85613	0.0057
At most 2 *	0.448880	30.64966	29.79707	0.0398
At most 3	0.314054	12.17978	15.49471	0.1485
At most 4	0.015814	0.494155	3.841466	0.4821
Max-Eigen test				
Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.814672	52.25452	33.87687	0.0001
At most 1	0.571002	26.23541	27.58434	0.0736
At most 2	0.448880	18.46988	21.13162	0.1133
At most 3	0.314054	11.68563	14.26460	0.1230
At most 4	0.015814	0.494155	3.841466	0.4821

Source: Author's Computation Using E-views 9
*NB: * indicates rejection of the null hypothesis at 5 percent level*

The Johansen cointegration test result in Table 4.4 indicates that the Trace-test shows three cointegratin equations while the Max-Eigen test indicates that one cointegrating equation exists in the model. Based on the foregoing, the null hypothesis of no cointegrating equation was rejected at 5 percent level. Hence, there exists long run relationship among the series. Having established that the variables can move together in the long run, the relationship among the series is represented as an error correction mechanism as proposed by Engel and Granger (1987).

4.4 Estimation of Error Correction Model

The general-to-specific approach was employed in estimating the error correction model. Basically, the ECM provides the dynamic coefficients of the regressors and lagged dependent variables as well as the speed at which short run deviations in the system were reconciled to maintain a stable state. The over-parameterized ECM was transformedto parsimonious ECM by gradual elimination of the insignificant coefficients to achieve a robust outcome. The parsimonious ECM is summarized in Table 5.

Table 4.5: Parsimonious ECM

Dependent Variable: DLOG(RGDP)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
DLOG(RGDP(-1))	0.109871	0.165328	0.664566	0.5139
DLOG(RGDP(-2))	-0.196674	0.130472	-1.507403	0.1473
DLOG(ACF(-2))	-0.095268	0.044583	-2.136872	0.0451
DLOG(ACF(-3))	-0.046504	0.045475	-1.022635	0.3187
DLOG(RTS(-1))	-0.062972	0.037985	-1.657795	0.1130
DLOG(RTS(-2))	-0.099471	0.040969	-2.427990	0.0247
DLOG(IFO)	0.245294	0.070738	3.467615	0.0024
DLOG(OPN(-2))	0.034582	0.022648	1.526944	0.1424
DLOG(OPN(-3))	0.067830	0.025754	2.633790	0.0159
ECM(-1)	-0.102065	0.039465	-2.586184	0.0176
C	0.066367	0.011006	6.030213	0.0000
R-squared	0.705956	Mean dependent var		0.051977
Adjusted R-squared	0.558934	S.D. dependent var		0.034677
S.E. of regression	0.023030	Akaike info criterion		-4.432641
Sum squared resid	0.010607	Schwarz criterion		-3.923807
Log likelihood	79.70594	Hannan-Quinn criter.		-4.266774
F-statistic	4.801709	Durbin-Watson stat		1.906806
Prob(F-statistic)	0.001403			

Source: Author's Computation Using E-views 9

Table 4.5 presents the parsimonious ECM. It was uncovered that the second lags of sub-indexes of economic globalization, actual flows and restrictions have significant negative effects on economic growth. A

percentage increase in actual flows and restrictions reduces GDP by 0.196 and 0.0994 respectively. The effects of actually flows on real gross domestic product deviated from the theoretical expectations while the relationship between restrictions and real gross domestic product are consistent with the a priori expectations. The result further reveals that the contemporaneous value of information flows as a sub-index of social globalization ispositively related to economic growth during the period under consideration. Specifically, 1 percent increase in information flows stimulates GDP at constant level by 0.245 percent. This finding conforms to the a priori and statistical criteria. Similarly, the third lag of trade openness is significant in explaining changes in economic growth. The coefficient of determination (0.705) indicates that 70.5 percent of the systematic variations in economic growth are jointly explained by the explanatory variables. This finding is very satisfactory as it shows that the R-squared exceeds the 50 percent benchmark, thus indicating the regression line is good for forecast. The probability value (0.001) of the F-ratio reveals that the explanatory variables are jointly significant in explaining changes inreal gross domestic product. This is indicative that globalization is important in predicting changes in economic growth in Nigeria. The error correction coefficient has the expected negative sign and significant at 5 percent level with an adjustment speed of 10 percent. This is suggestive that it will relatively take a long period for the short run deviations in the system to converge to long run equilibrium position.

4.5 DiagnosticsTests
In this study,serial correlation, normalityand stability tests were employed to examine the reliability of the parsimonious ECM for macroeconomic prediction and policy formulation. The outcome of the tests is reported in Table 6 and figure 4.1 respectively.

Table 4.7 Diagnostics Tests Results

| Type of test	Test statistic	P-value
Breash-Godfrey LM test	X^2 - statistic	0.9534
Normality test	Jarque-Bera statistic	0.6230

Source: Estimated by the Author

The diagnostics tests for the series are summarized in Table 4.6. The Breusch-Godfrey serial correlation LM test was employed to test the null hypothesis of no serial correlation against the alternative hypothesis of serial correlation. The probability value (0.9534) of the chi-square distributed statistics indicates that the model was free serial correlation of order two. Additionally, the p-value (0.6230) of the Jarque-Bera statistic exceeds the 0.05 level of significance, indicating that the residuals are normally distributed..

4.6 Stability Test
The stability of the parameters in the parsimonious ECM are examined graphically using CUSUM plot. This is helpful in determining whether or not the coefficients of the regressors are stale overtime. The CUSUM plot is illustrated below.

Figure 4.1 CUSUMPlot for Stability Test
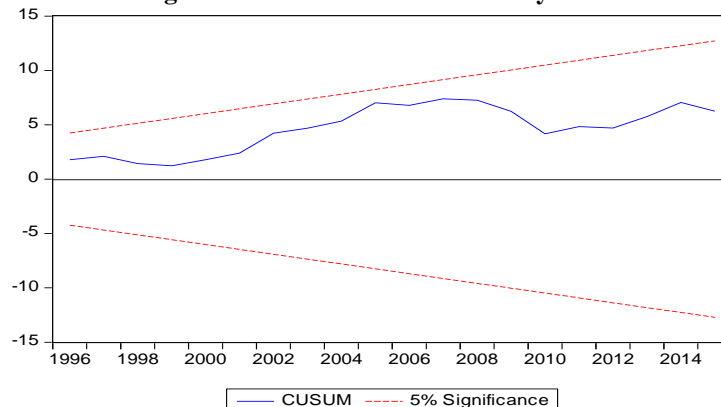
Source: Estimated by the Author

. The CUSUM plot in figure 4.1 falls within the critical region of 5 percent. This is an indication that the coefficients are stable over the study period and can be relied upon for forecast and policy purposes.

V. CONCLUSION AND RECOMMENDATIONS

The findings of this study demonstrate that actual flows and restrictions tend to constraint the growth of the Nigerian economy in the short run, but seem to boosts the process of growth in the long run.Consequently, it is recommended that efforts should be directed towards building and sustaining strong institutions as well as providing necessary environment for boosting the potentials of optimizing the net positive benefits of globalization in Nigeria.

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