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International Digital Organization for Scientific Research ISSN: 2579-082X
IDOSR JOURNAL OF BANKING, ECONOMICS AND SOCIAL SCIENCES 4(1): 103-111, 2019.

Globalization and Liberation: Impact on Nigerian Economy

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ABSTRACT

This paper examines the contribution of globalization on economic growth of Africa: Nigeria in focus from 1986 - 2017 using the globalization index, Nigeria's growth index components Gross Domestic ProducT {GDP}Foreign Direct Investment {FDI}, degree of trade openness {TOP}, exchange rate {EXR},error index {TRI}, labour force participation {LFPR}, manufacturing output, {MAN} information communication technology {ICT}: Theoretically, globalization is often referred as the process of integration of goods and services in world trade designed to improve and accelerate economic performance of all the sub-set of the global economy. It provides networks of connection among actors at intra or inter and multilateral locations through information flow. Globalization is assumed to impact positively on national incomes through multi-global capital leakages, business and investment opportunities, technological transfer and labour mobility across the globe. These benefits seem to have eluded Nigeria because stylized facts indicated that Nigeria's poverty rate which stood at below 30% in the 80s rose to more than 70% in 2018 and the per capita income has continued to decline inspite of her high degree of trade openness. This implies that the common assertion by the western world that globalization can increase resource distribution efficiency and growth is yet to practically transcend to Nigeria's economy because of regional growth differences, poverty and inequality gap and cultural domination. The study applied econometric method of ordinary least square, conitegration test to evaluate long run economic growth and globalization in Nigeria. The result indicated that globalization manifested positive but insignificant effect on Nigeria's Gross Domestic Product (GDP), Foreign Direct Investment (FDI) but showed insignificqnt effect on socio-cultural integrity weakening of national economic autonomy. From the findings, the study recommends that Nigeria and some other countries in Africa should be cautionary in applying certain trade restrictions as much as they embrace globalization policy.

Keywords: Globalization, FDI, ICT, labor force participation and ARDL

INTRODUCTION

Globalization which is the current trend in international trade is a paradigm shift of Ricardo's theory of comparative advantage and Ohlin's theory of factor endowment. It dismantles all the inhibitions of free trade which include factor mobility; labour rigidity; emigration; restrictions and bans. International trade has traversed from individualism to ontological holism, it enforces equal participation of countries with unequal endowments as well as different stages of economic growth. Rostow‘s growth theory sufficiently puts different countries in their respective stages in the growth ladder and infers different layers of economic development which the World hitherto is grappling with. Thus, globalization is a trend that encourages interdependencies of world economies (large or small) for purposes of trade in goods and services, international finance and investment to achieve global prosperity and happiness. Economic liberty signifies reduction in growing poverty and widening inequality as well as political freedom. [1] opines that economic liberty and political freedom reinforce one and another, ultimately enhancing living standard and reducing social tension and violent conflict. Thus, economic liberty implies greater incomes which spurs rise in effective demand for import goods (televisions, mobile phones, computers, vehicle parts, tractors) as citizens are no longer restricted to consumption of those goods. Economic freedom creates a middle class that are reasonably educated to arouse political consciousness and awareness in a society. This presents a large group in the country that can ensure that policies that formulated and executed are people oriented and development driven

In the last two decades World output of goods and services have soared higher and with future promise for more robust performance through improvements in cross border linkages in trade, financial investment, social and political relations. Currently, adaptability to free market economies, trade openness and change has left promising economic landmarks in the economies of both developed and developing nations. Globalization created a water shed emerging economies such China and India to exponentially raise their production in Information technology, automobiles, textiles and other consumables. Besides, the output of industrialized countries increased following greater import demand for their manufactured goods and services within the period of trade openness and change. The global unemployment rate especially for advanced countries (OECD) which remained very high plummeted drastically. Empirical findings of [2] reveal that globalization promotes growth, reduces poverty and inequality. Developing economies financial linkages have witnessed sharp increase in the last decades with a rise in private capital inflows from developed countries; domestic financial houses have also expanded branches and increased their financial services across frontiers. Stylized facts available show that World trade index increased from 86 per cent in 1980 to 156 per cent in 2016 and more emerging or transition economies has been created. In the same vein through economic freedom, political and civil liberty seem to have been improved in most under developed countries thereby accentuating economic growth in many less industrialized nations including Nigeria. Nevertheless, competiveness which globalization rests squarely rest on suffocates weak economies and frustrates the chances of squaring the circle of equality of wealth creation, social and political freedom. Increased openness has created import destination points for excess supply of advanced economies thereby stifling new innovation and growth of small firms. Africa's contribution to global trade has remained marginally low and has continued to drop over time. For instance, stylized facts indicate that Africa's contribution to World trade reduced from 12 percent in 1995 to 0.88 percent in 2015 [3]. The sharp drop in total trade is caused by high demand for imports not matched with high exports. Notwithstanding, the contribution of Nigeria and other import destination centers in Africa to total world trade the continent continues to grapple with unemployment rate and socio- political tension.

Given these scenario, the study explores the impact globalization on Nigeria's economic growth, social and political liberty. The aim is to analyze the dilemma of globalization in the context of development, inequality and social freedom of developing countries especially Nigeria. This paper is divided into five parts: Part one is introduction; part two is conceptual issues, whereas part three looks at the methodology applied in the work; partfive is the discussion of result. Finally, proposals and conclusion are made from the result findings.

Conceptual Issues

Globalization' has been described by [4] as a phenomena, a process, a condition, a system, a force, and a trend that fosters strong economic, political, and cultural interconnections and global flows that make currently existing political borders, economic barriers and restrictions inconsequential. Moreover, we could easily imagine different social manifestations of : one based primarily on values of individualism and competition, as well as on an economic system of private property, another embodying more communal and cooperative social arrangements, including less capitalistic economic relations. These future alternatives expose the fundamentally indeterminate character of globalization. In my view, the term globalization should be seen as a phenomena that support equal participation of trade among all countries irrespective of the level of the level economic growth [5].

[6] describe globalization as a practice where all economic agents (producers, financial institution as well as government) from different countries operate freely without boundaries and with minimum national restriction. Globalization can be seen to mean worl wide phenomenon of economic, technological, political and cultural linkages or exchanges among countries, individual consumers, producers, financial houses and government for the purposes of achieving overall prosperity and political stability.

Review of Theories

The paper draws from the neoclassical growth theory developed by Robert Solow. The theory postulates that output is a function of labour and capital. The production function is expressed as: Y=AR(L,K) where Y represent output, k is stock of capital and L is labour. A is technology which is exogenously determined. This model is relevant in analyzing globalization and economic growth because the movement of capital and labour forms the basis for globalization and international trade. The relevance of globalization is determined by the changes in total factor productivity in terms of labour, capital and technological progress in economic growth between the developed and developing nations through technology which is exogenously determined. This divergence in the benefit from globalization also has been linked to the neglect of the manufacturing sector in developing countries including Nigeria which has become retrogressive due to obsolete technology.

Empirical Review

A number of empirical studies have been carried out on the impact of globalization on economic growth; poverty and inequality in Nigeria and across countries of the world. However, the findings of the previous studies especially those carried out in developing countries have been conflicting. For instance, [7] examined the effect of globalization on economic growth in Nigeria over the period 1986 – 2003. The study employed the econometric techniques of Johansen cointegration and error correction modeling (ECM) in carrying out its objectives. The results show that trade openness has significant positive effect on economic growth in Nigeria whereas financial integration has negative but insignificant effect on economic growth in Nigeria.

[8] studied globalization and its implications for the growth process of the Nigeria economy for the period 1985 – 2001. Using descriptive method of analysis, the study revealed that Nigeria has not benefited from globalization due to mono-cultural export, inability to attract increased foreign investment and huge indebtedness. [9] investigated the nexus between globalization and economic development of Nigeria over the period 1980 – 2011. The study employed Johansen cointegration and Granger causality tests and revealed that trade openness relates negatively with economic development in Nigeria. The study further revealed that a unidirectional causality flows from economic development to globalization without such in reversed order and that trade partners appear to be gaining more than the country especially the developed trade partners. commission, 2017). The study by [10] investigated globalization and economic security in Nigeria's manufacturing sector. The study covered the period between 1981 and 2010 and used the cointegration and Error correction mechanism (ECM) TO estimate the formulated model. The findings revealed that globalization has negative

effect on the Nigerian manufacturing sectorin the long run, but the effect of globalization on the manufacturing sector is positive in the short run. The impact of globalization on economic growth in Nigeria was the focus of the study by [11]. The study spanned 1960 to 2010 period. The ordinary least squares (OLS) was used. The result showed that globalization had a significant impact on economic growth in Nigeria. [12] investigated globalization and economic development in Nigeria. Adopting the cointegration technique and granger causality tests the result showed that FDI is a component of globalization and had an important influence on the level of economic growth in Nigeria. The result also indicated unidirectional causality from FDI to economic growth. [13] examined economic growth and globalization in Nigeria. The study adopted the granger causality. The result adopted the null hypothesis that globalization does not granger cause economic growth was accepted. Globalization and the industrial development of Nigeria formed the basis for the study by [4].

The study covered the period between 1960 and 2010. The study adopted the Johansen cointegration methodology. The result revealed that globalization had a significant impact on industrial development in Nigerian. Trade openness had a positive impact on industrial development. [8] studied globalization and economic growth in Nigeria. The study spanned the 1981 – 2012 period. The cointegration test was adopted. The results showed a positive and insignificant relationship between financial integration, human resource development and trade openness, while Gross fixed Capital Formation had a negative and insignificant impact on trade openness. [12] investigated the potency of globalization as a driver of economic growth in Nigeria. The 1970 – 2011 period was the target of the study. The OLS technique was used. The results revealed that globalization had no significant impact on non-oil export in Nigeria. [5] evaluated globalization and national development in Nigeria. The study adopted the description statistics. The result revealed that infrastructural decay, poverty, ethno-religious crises and bad governance are hindering the integration of the Nigerian economy into the global system. Globalization, business cycle and economic growth in Nigeria formed the focus of the study by [9]. The study covered 1970 to 2010 period. Using the autoregressive model, the study showed that globalization had positive and significant impact on economic growth in Nigeria. [2] analyzed the nexus between globalization and economic growth in Nigeria. The study adopted the descriptive statistics and the OLS. The result revealed that insulation had a significant and positive impact on FDI while exchange rate had a significant and negative impact on FDI. [10] analyzed globalization and economic development in Nigeria. The study adopted the descriptive statistics and discovered that the Nigerian economy had not benefited from the globalization process.

[6] examined the causal relationship between economic growth and globalization in Nigeria. In carrying out the study, Johansen cointegration, Granger causality and variance decomposition tests were employed. The study found that globalization does not Granger-cause economic growth in Nigeria. [13] examined the causal relationship between globalization and economic growth in Nigeria from 1981 to 2012. In carrying out the study, Johansen cointegration and Granger causality tests were employed. The results show that there is a positive and insignificant relationship between financial integration, human resource development and trade openness, while gross fixed capital formation was negative and insignificant. The results further revealed that a unidirectional causality runs from financial integration to gross fixed capital formation. [7] through their study interrogated globalization as a potent driver of economic growth in Nigeria using the non-oil (agricultural and manufacturing) export as reference point from 1970 – 2011. The study employed

the ADF unit root test and OLS technique and found that globalization has no significant impact on non-oil export and that globalization has not been a potent driver of growth of the non-oil export in Nigeria. [11] examined the impact of globalization on the growth of the Nigerian economy over the period 1960 – 2010. The study employed the Johansen cointegration and error correction model and found that growth of external debt ratio was inversely related to economic growth in Nigeria. [3] analyzed the impact of globalization on economic growth in Nigeria in terms of trade and capital flows from 1970 – 2011. Using descriptive method of analysis, the study found that increased trade and capital flows engendered by globalization can enhance the country's growth performance. [6] examined the impact of economic globalization on output growth of the Nigerian economy over the period 1970 – 2013. The study employed Engle-Granger cointegration and error correction model and found that a higher exchange rate and inflation rate, an increase in foreign direct investment, growth in trade and openness and a lesser interest rate enhance the growth rate of output in Nigeria.

METHODOLOGY

Model Specification

The framework of this study is anchored on the Cobb-Douglas production function as modified in Romar's endogenous growth model. Where the model of economic growth is a function of physical capital (K), human capital (H) and labour

Thus, the Cobb-Douglas production function $Y = AK^{\alpha}L^{1-\alpha}$

The modified Solow and Romar model is the inclusion of human capital development is presented thus: $Y=AHK^{\alpha+\beta}L^{1-\alpha}$

Where A is assumed fixed with time and does not with changes in technical progress K is the capital stock, L is the labour supply and H is the stock of human capital. It is important to point out here that the parameters α and β are assumed to lie between 0 and 1 and that (α + β) < 1, implying that there are decreasing returns to all capital. Theoretically, the aggregate improvement in skill and retraining of workers would increase efficiency of workers thereby resulting higher productivity and rise in aggregate output. In the light of this analysis the model of this study is hereby presented as.

$InGDP = \beta_0 + \beta_1 In\ FDI + \beta 2InTOP + \beta 3ExR + \beta 4In\ TRI + \beta 5LFPR + \beta In6MAN + \beta 7ICT + Ut$

A Priori Expectation: β1, β2, β3, β4, > 0

Where:

GDP: = Gross Domestic Product

FDI: = Foreign Direct Investment

TOP: = degree of trade openness

EXR = exchange rate

TRI = Terror index

LFPR = labour force participation

MAN = manufacturing output

ICT = information communication technology

β_0 = Intercept

β 3, **β** 3 and β 4 = Intercept

Nature and Sources of Data

This study employed secondary data sourced from: Central Bank of Nigeria's statistical bulletin and World Bank Statistical Reports, (2010 and 2016) editions. The data series sourced therefore and used in this study include: (i) GDP as proxy for economic growth foreign direct investment (FDI), Degree of trade openness (Dopennes) which is a ratio of export to import of a countries total foreign trade, EXR is the exchange rate of naira to the dollar. Terror index (Terindex) is the measure of social and political insecurity of the country, (HCD) expenditure on education by Nigerian government for secondary education only used as proxy for human capital development to create middle income group.

Estimation Technique

The Autoregressive Distributed Lag {ARDL} model was used to estimate the long run effect of globalization and social liberation variables on economic growth. However, all the series were subjected to standard and relevant econometric tests of significance to avoid producing spurious result. Some pre-test analyses were conducted: unit root and cointegration test respectively.

RESULT PRESENTATION

Table 1. Test of Stationarity

Variable	Level form		First difference		Second difference		Order of integration
	ADF statistic	ADF critical value	ADF statistic	ADF critical value	ADF statistic	ADF critical value	
EXR	-1.70	-3.02	-3.63	-3.04	-	-	I(1)
ICT	-2.55	-3.67	-3.60	-3.69	-4.05	-3.79	I(2)
LOGGDP	-1.08	-2.96	-4.54	-2.96	-	-	I(1)
LFPR	-1.01	-3.02	-3.17	-3.04	-	-	I(1)
MAN	-2.56	-3.69	-3.56	-3.79	-4.07	-3.82	I(2)
TRI	6.15	-3.75	-	-	-	-	I(0)
TOP	-1.95	-3.02	-5.22	-3.04			I(1)
FDI	-3.67	-2.96	-	-	-	-	I(0)

Source: *Author's Computation (E-views 9.0), 2019*

The result in table above shows the variables are integrated of order zero, one and two. Terror perception index (TRI) is integrated at level form. Exchange rate, labour force participation rate, gross domestic product and trade openness are all integrated at first difference while ICT, and MAN are integrated of order two.

Table 2. Multicollinearity test

Correlation	EXR	FDI	ICT	LFPR	LOGGDP	LOGMAN	TOP	TRI
EXR	1.000000							
FDI	-0.334618	1.000000						
ICT	0.845052	-0.375412	1.000000					
LFPR	-0.691371	0.006714	-0.378021	1.000000				
LOGGDP	0.882966	-0.242705	0.783575	-0.802693	1.000000			
LOGMAN	0.847153	-0.322941	0.974506	-0.476611	0.872201	1.000000		
TOP	0.067262	0.222499	-0.182651	-0.533310	0.235033	-0.082133	1.000000	
TRI	0.921785	-0.265702	0.860544	-0.783094	0.953404	0.903352	0.194976	1.000000

Source: *Author's Computation (E-views 9.0), 2019*

From table 2, it is evident that the multicollinearity test manifested partial correlation among the explanatory variables which implies that the independent variable have exclusive and respective effects on economic growth.

Table 3: Bound Test

Test Statistic	Value	k
F-statistic	6.0891 11	7

Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.03	3.13
5%	2.32	3.5
2.5%	2.6	3.84
1%	2.96	4.26

Source: Author's computation(Eviews9.0), 2019

The ARDL bounds test was further used to check co-integration. The analysis above shows that the calculated F-statistics (6.08) exceeds the upper bound F-critical value at 5% level of significance. The result, therefore, supports the rejection of the null hypothesis that there exists no long run relationship between the variables and therefore concludes that there exists a long run relationship between economic growth and globalization variables.

Estimated Long Run Coefficients Using Ardl Approach

From the result ECT, it can be said that the speed of adjustment towards the long run equilibrium is 46% annually. This result implies that the variables under consideration in this study will converge at equilibrium state at the speed of 46 per cent, it also means that there exists a long run relationship among the variables.

Table 4: ARDL Long Run Result

Long Run Coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EXR	0.000627	0.000151	4.149047	0.0016
FDI	0.009027	0.003419	2.640294	0.0230
ICT	-0.017956	0.003092	-5.806886	0.0001
LFPR	-0.238533	0.040245	-5.927019	0.0001
LOGMAN	1.203862	0.108646	11.080552	0.0000
TOP	-0.000523	0.000404	-1.294628	0.2220
TRI	-0.026785	0.008040	-3.331342	0.0067
C	22.830343	2.168405	10.528636	0.0000

From the long run ARDL result in table 4, all the independent variables except terror index (TRI) are all statistically significant at 5 per cent as their respective p- values are all less than (0.05). the implication is that the variables of exchange rate, information technology (ICT), manufacturing output (LOGMAN), labor force participation(PFPR) and trade openness (TOP) have significant impact on gross domestic product {GDP} of Nigeria. The estimated long run coefficients can be seen have both positive and negative relationship with LOGGDP. Whereas EXR and LOGMAN happen to be positively related to LOGGDP, FDI, ICT, LFPR, TOP, and TRI are negatively related to the dependent variable. Following this result, LOGGDP would reduce by 0.017, 0.238, 0.0005, and 0.026 following a unit increase in FDI, ICT, LFPR, TOP, and TRI respectively. Also, a unit increase in exchange rate (EXR) foreign direct investment (FDI), and LOGMAN would increase LOGGDP by 0.0006, 0.009 and 1.20 units respectively. Notwithstanding that the insignificant relationship between trade openness and LOGGDP of the economy could be attributed to the high import demand for imported finished product with little export receipts from primary and semi-produces goods that are low in demand in the international market.

Table 5: Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	4.673207	Prob. F(2,9)	0.0406
Obs*R-squared	15.28323	Prob. Chi-Square(2)	0.0005

Conclusion: Since the P-value χ^2 (0.0005) < 0.05, we reject H_0 and conclude that there is presence of autocorrelation. This implies that the model of this study does not suffer any of the consequences of autocorrelation and the outcome of the result can be relied upon for making forecast and predictions. Also, there is goodness of fit as all the variables account for about 99 per cent of the total variation of the dependent variable GDP.

DISCUSSION OF RESULT

Literature in this field seems to differ on the benefit of globalization especially to developing countries including Nigeria. It takes away our jobs and create unemployment, distort gains of value chain, devalue our currencies, change our consumption pattern, modify and upturn our culture and create new capitalist structure and temporal middle class. Furthermore, globalization creates avenue for foreign firms to dominate and over throw domestic economies of developing economies and stifle the slow growth rate of less industrialized nations. On the other hand, protagonists of globalization affirm that through financial linkages and technological transfers developing countries have witnessed trajectory of growth and development through ICT, industrialization, firm, expansion, creation of middle and stabilization of democratic processes in Nigeria and other developing economies.

However, the ARDL result indicated that a negative significant relationship between globalization and economic growth in Nigeria. it showed that the coefficient of trade openness (TOP) is -0.0005 and p-value is (0.0241). This means that trade openness as proxy for globalization negatively affect economic growth of Nigeria. This is in line with the protagonists that opine that globalization stifles growth potentials of developing economies. Furthermore, the result of the ARDL showed that foreign direct investment which also a component of globalization negatively correlated with economic growth. The coefficient of FDI is (0.0009) with a corresponding p-value of (0.0230) less than 0.05 critical value. Thus, FDI has insignificant impact on Nigeria's growth performance. In specific terms, whereas globalization engenders economic growth of Nigeria, foreign direct investment contributes insignificantly towards the growth trajectory of Nigeria. The findings are in tandem with the works [7] [8]. Thus, the study submits that globalization and financial linkages have not been active in boosting economic growth of Nigeria

PROPOSALS AND CONCLUSION

Trade linkages have helped Nigerian economy to increase the size of the markets for their products and benefit from economies of scale. Trade. Openness, capital flows, ICT, manufacturing output and labor force participation and exchange rate offered the opportunities to diversify into new sectors, increase investment and growth, and achieve prosperity. However, the findings revealed that both trade and capital shoed inverse and insignificant correlation with growth performance of Nigeria. Thus, globalization is yet to offer opportunities for growth of the Nigerian economy. This study recommends that the government should formulate policies that would encourage diversification of the economy, development of ICT, appropriate education that is in line with industry demand. It should also encourage indigenous consumption so as encourage local productions.

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