ANALYZING THE IMPACT OF GLOBALIZATION ON ECONOMIC DEVELOPMENT IN DEVELOPING ECONOMIES: AN APPLICATION OF ERROR CORRECTION MODELLING (ECM) TO NIGERIA

FERIDUN, Mete*
OLUSI, Janet O.
FOLORUNSO, Benjamin Ayodele

Abstract
The paper examined the effect of globalization of economic growth in Nigeria. The period of analysis was between 1986 and 2003 while the analytical method employed was econometric techniques of Error Correction Modelling (ECM). The result indicated that both measures of economic integration (trade openness and financial integration) and all other orthodox determinants of economic growth such as private investment, public investment and debt series were non stationary. They were indeed I(1) series. The paper also confirmed that trade openness had significant positive effect on economic growth in Nigeria. The impact of financial integration on the economy is, however, negative but insignificant at 10 per cent level of significance. The paper concluded that Nigeria could benefit more from globalization if its economy would fully integrate with the rest of the world. The paper therefore suggested the removal of all barriers to trade and movement of capital.
JEL classification:
Key Words: Nigeria, Globalization, Trade Openness, Economic Integration, Economic Growth.

1. Introduction

In line with globalization policy, the Nigerian Enterprises Promotion Act which hitherto regulated the extent and limits of foreign participation in diverse sectors of the economy were repealed in 1995. The principal laws regulating foreign investments now are, the Nigerian Investment Promotion Commission Decree and the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree, both enacted in 1995. Also, given the need to stabilize the banking and financial sectors, and promote confidence in these vital institutions, the Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Decrees of 1994 were put in place. The Investment and Securities Decree was also promulgated to update and consolidate capital market laws and regulations into a single code.

Nigeria's current policy thrust is, therefore, anchored on a guided de-regulation of the economy as being experienced in most parts of the world and, indeed, in globalized economies. Today, the Nigerian government is dis-engaging from activities which are private-sector oriented, leaving government to play the role of facilitator, concentrating on the provision of incentives, policy and infrastructure that are necessary to enhance the private sector's role as the engine of growth. In consonance with the policy of globalization, the economic policy of the Nigerian government is intended to increase private sector participation, generate productive employment and raise productivity, increase export of

* Mete Feridun, Faculty of Economics and Administrative Sciences, Cyprus International University, Nicosia, Cyprus. E-mail: mete.feridun@lycos.com. Janet O. Olusi, and Benjamin Ayodele Folorunso, Department of Economics, Obafemi Awolowo University, Ile-Ife, Osun State, Nigeria.

locally manufactured goods, improve the technological skills and capability available in the country and attract foreign direct investment.

Under the Privatisation and Commercialisation law of 1998, the government successfully sold its holdings in industrial enterprises and financial institutions, and such divestments were made by way of "Offers for Sale" on the floors of the Stock Exchange, so that ultimate shareholdings in such enterprises could be widespread. However, government retained full control of the public utility service corporations. From this discussion, it is clear that the current policy thrust of the government is to repeal all existing laws that inhibit competition in certain sectors of the Nigerian economy. Consequently, with the promulgation of the Public Enterprises Promotion and Commercialisation Decree in 1998, private sector investors (including non-Nigerians) will now be free to participate in and compete with government-owned public utility service corporations in the areas of telecom-munications, electricity generation, exploration of petroleum, export refineries, coal and bitumen exploration, hotel and tourism.

As a policy objective of globalization, the liberalization and de-regulation of the exchange control regime has also been designed to facilitate and enhance trading activities of the Nigerian economy with the rest of the world. Items on the import prohibition list have been drastically reduced, with government opting to utilise tariff structures to protect end-user product pricing of local industries and discourage frivolous imports. For instance, in 1998, the import prohibition list was reduced to 11 items namely: maize, sorghum, millet, wheat flour, vegetable oils (excluding linseed and castor oils used as industrial raw materials), barytes and bentonites, gypsum, mosquito repellent coils, domestic articles and wares made of plastic materials (excluding babies' feeding bottles), retreaded/used tyres and gaming machines.

The discussion above is a testimony that Nigeria is joining globalization train. However, the records of economic growth since the introduction of SAP in 1986 have been very disappointing. With a real GDP per capita of just=,N 1000, poverty in Nigeria is a daily worsening and painful reality to majority of the population of over 120 million. There is no gain saying that the majority of Nigerians are poor. Indeed, Nigeria is ranked among the 20 poorest countries of the world, despite its widely acknowledged huge economic potentials and abundant natural resources. The country is rated among the African countries where poverty level is relatively high. Evidence from survey investigations shows that above 60.0 per cent of the population of Nigeria live below the poverty line. Its poor human development indicator puts Human Development Index (HDI) at 168th out of the 173 countries of the world (World Bank, 2001). These statistics about poverty rate and HDI seem uncomfortable when compared with the global average record and even when compared with some other developing countries.

What then can we learn from the growth strategies of the developed countries? Who are the real victims of poverty and globalization syndrome and what are we going to do about it?

Given that greater majority of Nigerians are living below poverty line, who will bring the Nigerian poor out of their poverty; the global world or the Nigerians themselves? Also, given the enormous benefits acruing from globalization the question that readily comes to mind is that why is majority of Nigerian populace so poor even in the midst of abundant resources and what are the ways out of this misery or poverty syndrome? Will globalization bring prosperity to the Nigerian poor?

Many ealier studies have discussed different aspects of sustainable development without adequate consideration for globalization. Recently, the role of globalization on poverty and economic development has been extensively discussed in the literature. Some authors argue that globalization brings real chance of prosperity to the impoverished corners of the world. The opponents of this view see globalization as the cause of growing poverty and inequality in the world. Other authors in the middle see how unbridled globalization could wreak havoc on some while simultaneously opening the doors of opportunity to others. How do we reconcile these vastly different views and which of these views is supported by empirical evidence in Nigeria? A country-wide examination of the roles of globalization on poverty and economic growth is needed. The paper addresses this issue and other relevant issues using Nigeria data. Indeed, the paper examine the effect of globalization on the growth of the Nigerian economy. This is vital to achieve sustainable economic development in Nigeria.

Furthermore, eradication of poverty in Nigeria has been projected as being dependent on global business rather than Nigerians. Globalization has generally supported poverty reduction (Dollar and Kraay, 2004). Some authors argue that developing economies that integrate with the rest of the world tend to grow rapidly and indeed, the poor within these societies are among the key beneficiaries of globalization. The review of the different waves of globalization, however, raises important issues that will influence the extent to which poor countries will be able to deepen their integration with rich ones and to which poor people will share in the benefits.

Fitzgerald (2000) observes that trade is not enough to eradicate poverty but it is pertinent if poor countries are to have any hope of brighter future. However, the evidence is quite clear that globalization has benefited many of the world's poor. Anyone who cares about poverty should think twice about restricting trade as this will impose further hardship on poor people in the developing world. There are important environmental and social issues that need to be addressed, but these are most efficiently addressed through policies targeted to the specific problems, not indirectly through restricting trade. The argument that developing countries can benefit from integration with the global economy is a very encouraging one but how can we reconcile this optimism with the fact that the global poverty is remarkably concentrated in developing countries including Nigeria?

The main aim of this paper is to address these puzzles raised. The paper examines the role of globalization in promoting economic development in Nigeria. In order to achieve these objectives the paper has, therefore, been divided into five separate sections: section II focuses the review of literature and theories of globalization; section III presents the research methodology; section IV analyzes the results while section V concludes the paper.

2. Literature Review

The central issue of discussion in literature is whether poverty or prosperity is caused by globalization. There are advocates of globalization as there are opponents of globalization. Some other middle advocates see globalization as nearly inevitable, largely positive and in need of sensible management. The single issue that seems to divide these groups is the role globalization plays in causing or curing global poverty.

A key issue in economic literature today is the effect of globalization on inequality and poverty. For instance, Dollar and Kraay (2004) examine the effects of globalization on the poor in the developing countries. They observe that over half of the developing world that lives in globalizing economies have seen large increases in trade and significant declines in tariffs. These countries are found catching up with the rich countries while the rest of the developing world is falling farther behind. They also find that the increase in economic growth rates leads on average to proportionate increases in incomes of the poor. The evidence from individual cases and cross-country analysis supports the view that globalisation leads to faster growth and poverty reduction in poor countries.

Dollar (1992) also observes that many countries of the world are not participating in globalization. This, according to him results from closed policies or from other poor institutions and policies. In other cases it results from geographic challenges (prevalence of malaria, isolation leading to high transportation costs). Flows of trade and investment are not likely to solve the problems of these poor areas, though migration, currently the missing flow in globalization, could make a big difference. There are also various types of official and non-governmental assistance that can help locations improve policies and connect with the world market.

Some other authors say globalization brings the first real chance of prosperity to the impoverished corners of the world. In view of this, globalisation is then seen growth-promoting. which in turn reduces poverty. The liberalization of international transactions is then seen as good policy for freedom and prosperity. The opponents of this view say globalization is the cause of growing poverty and inequality in the world. Those authors in the middle see how unbridled globalization could wreak havoc on some while simultaneously opening the doors of opportunity to others. Anytime there is global slowdown, as occurred in 2001, there is a danger of a return of protectionism. Hence the importance of moving ahead with a new round of trade liberalization and with efforts to improve the architecture for international financial integration. Dollar (1992) and Rodrik (1992) view globalization as not inevitable. In fact, growing integration is quite controversial (witness the anti-globalization demonstrators determined to prevent trade agreements and other forms of international cooperation). We have seen the retreat from global integration before, and the results were not pretty.

Dollar (1992) and Mundell (2000) also observe that international financial mismanagement led to beggar-thy-neighbor trade policies. Globalization, as the name implies, removes all restrictions to all international economic business and allows for the wealth of the rich being shared by the poor. However, the converse becomes the order of the day coupled with the waste of the rich being dumped on the poor while the wealth of the poor is being violently appropriated through new and clever means. The poor are being pushed into deeper poverty by making them pay for what was theirs. Even the rich become poorer because their profits are based on the theft and on the use of coercion and violence. This is not wealth creation but plunders.

The anti-liberalists claim that marginalisation is in large part caused by not enough rather by too much globalisation (Sally, 2002). Seith (2000) puts the impact of globalization on the poor thus: "For what we are doing in the name of globalization to the poor is brutal and unforgivable". This is especially evident in India where the poor, especially in agricultural sector witness unfolding disasters of globalization.

We observe from literature that the relationship between trade openness and economic growth of many countries of the world in the wake of globalization is not a straightforward issue and still unclear. Such relationship rather involves many other issues that require a country by country analysis and solution. These three different views in the literature indicate that the effect of globalization is inconclusive. The way out of this controversy is to search further for more evidence. This study clearly fills this gap by examining the effect of globalization on economic growth and development in Nigeria.

3. Model Specification and Methods of Estimation

Those that claim that globalization helps to reduce poverty and those that claim that it worsens poverty situation of most developing countries of the world have employed Solow's growth model. The growth model used is based on a simple neo-classical theory of Harrod-Domar model which relates increases in output (GDP) to increases in inputs of capital (CAP), labour (LAB), trade openness (TOP) and other variables (OTH) like technological and institutional changes. Employing the log-linear equation, the production function employed takes the following form:

$$InGDP_t = a_0 + a_1InCAP_t + a_2InLAB_t + a_3InTOP_t + a_4InOTH_t + e_t$$

$$a_1 > 0; a_2 > 0; a_3 > 0; a_4 < \text{or} > 0 \qquad (1)$$

Output is measured by nominal gross domestic product while capital is proxied by investment. Investment series is, however, separated into its private and public components in order to ascertain the relative effect of each of them. Given the view that labour is abundant in Nigeria and other developing countries, we exclude labour series from the model while debt series is included as other factors influencing growth.

Following empirical evidence on economic growth (GDP) determinants in developing countries, the growth model estimated for analysis is of the form:

$$InGDP_t = b_0 + b_1InPINV_t + b_2InGINV_t + b_3InTOP_t + b_4FOP_t + b_5InDEBT_t + e_t$$
$$b_1 > 0; b_2 > 0; b_3 > 0\ b_4 > 0; b_5 < 0 \qquad (2)$$

where PINV is domestic private investment, GINV is public investment measure, DEBT is debt series and other variables are as earlier defined. Two measures of openness are used in order to determine the extent of integration. The first measure is the trade integration measured by the sum of exports and imports (TOP) while the second is the financial integration which is measured by the sum of foreign capital inflows and outflows (FOP).

The estimation of equation (2) above by ordinary least square technique may yield spurious regression if the variables are not stationary. In order to overcome this problem, all variables are subjected to a unit root test in order to determine the time series properties. We employ Augmented-Dickey Fuller (ADF) unit root test on all the variables of interest. We also examine the long run relationships between output, foreign direct investment and all their determinants. This is also carried out by testing whether the residuals of the estimated equation (2) are stationary to confirm if the series are indeed cointegrated with economic growth. Again, ADF test is used in performing the cointegration test. We then employ an error correction modeling technique to derive parsimonious models which are then used in further analysis. The analysis covers the period of 1986 to 2003.

4. Analysis of Results

The results presented in Table 1 show that all series with the exception of foreign direct capital inflows (FDI) and total balance of trade (BOT) which are integrated of order zero [I(0)] are integrated of order one [I(1)]. This implies that economic growth, private investment, public investment and debt series are non-stationary at levels. Hence, the need to use their first difference values so as to avoid spurious results. The models estimated are in first difference forms the results of which are reported in Table 2.

Table 1: Unit Tests Results (1986-2003)

Series	ADF Levels	ADF First Difference	Series	ADF Levels	ADF First Difference
Oil Imports	-1.4102	-2.4569	Total Bal. of Trade	-4.4872	-5.9944
Non-oil Imports	-1.7685	-3.4702	For. Dir. Inv (FDI) Inflows	-2.4444	-6.3773
Total Imports	-1.8781	-3.7923	For. Dir. Inv (FDI) Outflows	-0.5039	-3.4758
Oil Exports	-1.3630	-3.5367	For. Dir. Inv (FDI) Netflows	-0.7096	-2.4753
Non-oil Exports	-0.3494	-2.9907	Nominal GDP	-1.0386	-2.6432
Total Exports	-1.3277	-3.5252	Real GDP	-3.6043	-2.2847
Oil Trade	-1.4444	-3.3774	Private Investment	0.7659	-1.6779
Non-oil Trade	-1.6549	-3.5670	Public Investment	-1.3571	-2.6948
Total Trade	-1.5635	-3.1194	Debt	-1.1101	-2.6952
Oil Bal. of Trade	-1.2746	-3.7413	Trade openness	-1.6380	-3.0626
Non-oil Bal of Trade	-1.5432	-1.9704	Financial openness	-1.8486	-5.6242

The results of ECM models reported in Table 2 clearly show a well-defined error correction term (ECM) which indicates a feedback of 0.95 of the past level's disequilibrium from the long run elasticity of gross income (NGDP). The implication of this is that private investment (PINV), public investment (GINV), debt series (DEBT) and openness measures (TOP and FOP) maintain the economic growth through time. The effect of these "disequilibrium" error corrections are not only large but also have a negative sign as expected. The strong significance of the coefficient of lagged error corrections ($ECM1_{t-1}$) supports the earlier assertion that income series and all the standard growth determinants specified are indeed cointegrated.

Table 2: Modelling ~LNGDP by OLS
The Sample is 1988 to 2003 less 0 Forecasts

Variable	Coefficient	Standard Error	H.C.S.E.	t-stat	pratial r^2
CONSTANT	.0134339	.03281	.02588	.40950	.0234
~LPINV 1	.0213437	.02764	.01430	.77228	.0785
~LGINV	.2131863	.06841	.07281	3.11652	.5812
~LGINV 1	.3114440	.06082	.05911	5.12056	.7893
~LTOP	.1968219	.02526	.01322	7.79047	.8966
~LFOP	-.0015624	.00903	.00665	-.17302	.0043
~LDEBT	-.0253667	.04697	.03564	-.54004	.0400
~LDEBT 1	-.0785028	.04490	.02220	-1.74846	.3040
ecm1 1	-.9516674	.38914	.51628	-2.44555	.4607

R^2 = .9591426 σ = .0622495 F(8, 7) = 20.54 [.0003] DW = 1.924
RSS = .0271250344 for 9 Variables and 16 Observations
Information Criteria: SC = -4.820306; HQ = -5.232633; FPE = .006055
R^2 Relative to DIFFERENCE+SEASONALS = .97258

Solved STATIC LONG RUN Equation

LNGDP = 3.907 + .074 LPINV + .744 LGINV - .167 LDEBT + .117 LTOP - .013 LFOP
S.E. (1.03) (.09) (.25) (.09) (.12) (.06)

The coefficient of determination (R□) is as high as 0.95 for nominal income model while it is as high as 0.90 for real income model. F-statistic for the model also shows that the economic growth series and its determinants are linearly related. Indeed, the overall explanatory power of the models are high. The Durbin-Watson (DW) statistics also show no evidence of autocorrelation. Thus, the conclusions drawn from the analysis are expected to be reliable.

The results in Table 2 indicate that both the current and lagged values of public investment possess significant positive effect on economic growth. The static long run coefficient is 0.7 which is significant at 1 per cent level of significance. The private investment series on the other hand bear an insignificant positive effect on economic growth at 10% level of significance. These results partially suggest a *crowding out* effect of public investment. The results indicate that public sector concentrated on investment projects that are substitute rather than complementary to that of private investment.

As regards the effect of debt on economic growth, the lagged value of debt variable bears the correct negative sign which is significant at 10% level of significance. The coefficient of its current level is also negative but insignificant. This implies that debt has actually retarded economic growth in Nigeria. This findings therefore support the view that Nigeria debt size should be greatly reduced in order to achieve any meaningful economic growth. Perhaps, the call for debt forgiveness as suggested by Chhibber and Pahwa (1994) will be the only way out of Nigeria's debt problem.

The results in Table 2 indicate that economic integration measured by trade openness (TOP) bears a significant positive effect on the level of economic growth (NGDP) at 1% level of significance with a coefficient of 0.2. However, economic integration measured by financial openness (FOP) have an insignifiant negative sign. The results indicate that the magnitude and sign of economic integration or openness depend highly on the measure employed. However, the extent of openness may matter so much as to render insignificant some of the traditional determinants of economic growth.

5. Conclusion

The study examined the effect of globalization on economic growth in Nigeria between 1986 and 2003. Given the extent of trade openness, the study showed that the Nigerian economy is gaining from globalization. The study also confirmed that the economy is yet to gain from its policy of financial integration. The problem is not that the country is excluded from the global market but, in most cases, that it is not fully included in it. The worst hit by this ugly situation are the Nigerian poor people with peasant and impoverished majority in the midst of extremely few wealthy and corrupt individuals. Most of the poor practice subsistence farming which excludes them from global integration. The oil sector of the economy remains the dominant sector in the international transaction and create deprive majority of Nigeria from enjoying the benefit of trade openness.

Nigeria, rated the second most corrupt country in the world, has formulated and executed economic policies resulting in a wider gap between the rich and the poor. The study concluded that Nigeria can use the international market for services to improve economic governance and to provide necessary infrastructure (such as ports, electricity) as being witnessed in the telecommunication sector in the country today. The study therefore concluded that more successes of the 2000s in terms of economic growth from integration requires not just open trade policies, but also sound institutions and policies in a range of areas. If Nigeria, like any other developing country, would only open up to foreign trade and investment, it will prosper and achieve accelerated economic growth. Openness will encourage adequate investment from private sector and, hence, economic growth. The study concluded that for Nigeria to achieve accelerated growth and development, it is highly necessary to fully integrate her economy into global economies by removing all barriers to trade and liberalized all the sectors of the economy. Globalization has generated great wealth for Nigeria and could be used to massively reduce poverty and in turn to reduce global poverty and inequality. Globalization has helped increase investment and create wealth in Nigeria but it must be harnessed better to help the poor and most marginalized people improve the lives of their citizens. Perhaps, the impetus of globalization lies in proper democracy and transparent market economies. It is observed that Nigeria needs to fully integrate her economy and deregulate all sectors in order to fully enjoy the benefits of globalization. This will take some time but any backsliding in the present economic reform will not produce good result for the entire economy.

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