

GLOBALIZATION, CAPITAL MARKET AND ECONOMIC DEVELOPMENT IN NIGERIA

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Abstract

This article examines the economic integration caused by globalization and effect of capital market in Nigeria context. It establishes the type of relationship and level of significance of globalization and capital market on the economic development. Globalization concept is framed as import plus export divided by growth ratio. The capital market was determined in terms of proxy (by GDP) by price index. The growth ratio assessed the level of development using econometric model. The results suggest that sound economic reform and financial policies are necessary to achieve sustainable development in Nigeria. However, there is need to increase exports, reduce imports and control exchange rate for Nigeria to achieve sustainable economic development.

Key Words: Globalization, Capital Market, Economic Performance, Nigeria

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Introduction

The key problem facing most developing economy includes 'lack of finance' whether for the establishment of new industries to facilitate economic development or to carry out expansion plans (UNCTAD, 2012). The inability to attract financial credit has shuffled the growth and development of the economy. Thus, according to long term OECD estimation, world annual growth was average 1.75% down from 2.25% annually achieved over the seven years preceding the financial and economic crisis of 2008-09 (OECD, 2010). The reason for the lack of fund can be attributed to low level of savings of the surplus unit of the economy due to level of economic development, which leads to low savings, low capital formation and high interest rate. Consequently, it is difficult for the investors to obtain required capital inputs for expansion.

In the context of economics development, the concept of globalization has been used to refer to the integration of national economies into the global economy. This is evidence in the growth volume of international trade, foreign direct investment, capital flows, migration, and the spread of technology over the last few decades (Guido & Adriana, 2001). While globalization has encouraged international integration of markets for goods services and capital, it has also changed the face of the global economy (Obadan, 1999). Obadan (1999) attributed these changes to the magnitude and structure of trade in goods and services, capital movements, gains in productivity and efficiency that are driving growth and creating jobs in industrial countries and opening the door to

export led industrialization in middle income countries.

Capital markets are in the process of rapid evolution. Capital flows — which were formerly directed towards banks and controlled by Governments — are now held by individuals, institutions or private mutual funds and can circulate freely and instantaneously to projects which will yield the maximum profit.

The inability of specialized financial institutions such as the national Economic Reconstruction Fund (NERFUND), the Nigerian Industrial Development Bank (NIDB), to provide for their funding because of the peculiar bureaucratic problems which these specialized institutions have further hindered economic development (Balogun, Akinlade, & Campbell, 2012). The play of market forces may, however, also have adverse consequences. The decision makers and controllers of capital, indeed, turn away from states which are experiencing serious budget deficits or whose budgets are burdened by considerable social expenditure (Marx & Seibel, 2012). Deficits and the absence of economic and financial reforms may dissuade capital from investing in the countries in question.

The focus of this paper is to examine the relationship between globalization, capital market and economic development (proxy by GDP) in Nigeria. The remaining part of this paper is divided into four sections. Section II presents literature review, Section III provides the methodological issues while Section IV analyses the results. The last section (Section V) conclusion and relevant policy recommendation

Section II. Literature Review

The increased in trade and investment flows has help different countries to develop more quickly (OECD, 2001). It has also helped them to generate income and the flows that enable increased stock of productive capital without compromising their level of consumption (UNCTAD, 2007). And when such flows are in the form of foreign direct investment (FDI), they often improve access to international best practices in terms of managerial, marketing and technical know-how, skill acquisition and institutional deepening. Moreover, the intangible assets of transnational cooperation (TNC) such as knowledge, technology, management know-how and market access serve not only as essential link between national economies, but also as a catalyst for investment and enterprise competitiveness as well as complements to domestic development resources in recipient countries (UNCTAD, 2001b).

Concept of Stock markets

One possible determinant of corporate financing choices that theory has overlooked is the level of development of financial markets, especially equity markets. Most of the finance literature (Bhanu & Bishnoy, 2001; Nath & Verma, 2003) assume the existence of liquid, well-functioning stock markets. However, economies without an expansion more attractive; such an expansion could be financed either through additional debt or equity. A fourth possibility is that, by facilitating the flow of information and improving corporate governance, well-functioning stock markets may lower the cost of raising capital. In this case, external finance—both debt and equity—would become less costly, although it is not clear which would increase more.

Global Financial Meltdown: Impact on Nigeria's Capital Market

Nigeria faces an uncertain economic situation both in the near and far future as a result of the ongoing global and domestic financial crisis (Serieux, 2009). The capital market is recovering because the index measure of the market direction grew by 34.5 per cent in 2012. Then, the market capitalisation, which opened trading for the year at N8.98 trillion, grew by N3.41 trillion to close trading on Dec. 9 at N12.39 trillion, reflecting a growth of 37.97 per cent. For the banks that underwent privatization from 1992 to 1994, nominal assets grew by 81% in the year of privatization, while equity grew by 73% (Thorsten, Robert, & Afeikhena, 2005).

So, banks are struggling; monoculture of oil continuous to bedevil Nigeria, resulting in a reported need to repeatedly adjust government expenditure and upcoming budget accordingly; for instance the 2009 budget benchmark price for oil is now set at \$45 per

barrel, down from 2008's \$59. Our foreign reserves situation remains an enigma wrapped in a mystery for now. One hopes that the government in Abuja—both Executive and the national legislature (senate house) as well as the Nigeria Stock Exchange (NSE), the Securities and Exchange Commission (SEC), the Nigeria Deposit insurance Corporation (NDIC) and the Central of bank (CBN) will all coordinate their activities rise to the occasion as has attempted by various governments around the world, lest our nation gets consigned to another long period of economic wilderness. The admonition in the west is even more apt in the developing countries, that in his new order of globalization, high technology and regular operations, the only option is the infusion of innovative ideas (including new technology), new regulation and particular highly-competent (and less mutual chummy) professionals at the NSE, SEC, NDIC, and CBN. Conversant with the management of 21st – Century financial markets (Aluko, 2008)

Globalization and Nigeria's Economic Development

Globalization is an uneven process with unequal distribution of its benefits and losses. This imbalance leads to polarization between the developed countries that gain, and the developing countries that lose out (Obadan, 2001). In this regard, the place of Nigeria in the globalization agenda requires some in-depth study. To begin with, Nigeria is economically weak due to inadequate domestic economic capacity and social infrastructure needed to boost the country's productivity, growth and competitiveness (Hassan, 2013). Secondly, the economy is made weaker by monocultural dependency and unfavourable terms of trade in its export trade as well as excruciating debt and debt service burdens (Majekodunmi & Adejuwon, 2012). And thirdly, before 1986, economic regimes were regulated and the country pursued expansionary fiscal and monetary policies in its development efforts (Obadan, 1998). These problems were exacerbated by political instability and corruption. As a result, investment choices were distorted, which eroded the confidence especially of foreign investors. Following the globalization trend, Nigeria has been liberalizing its economy. But the real sectors have had to function under conditions of unstable macroeconomic management, infrastructural inadequate technology and credit facilities. These have proved to be an obstacle to strengthening the productive base, especially of agriculture and industry, in order to make them export-oriented.

Theoretically, the traditional growth literature was not suited to explore the relationship between financial intermediation and economic because it focused on steady-state level of capital stock per worker or productivity, but not on the rate of growth (which was attributed to exogenous technical progress). The recent revival of interest in the link

between financial growths stems from the insights of endogenous growth models, in which growth is self-sustaining and influenced by initial conditions. In this framework, the stock market is shown to not only have level effects, but also rate effects (Levine, 1991).

Section III. Research Methodology

This study involves largely the use of secondary data. The data utilized consists of annual observation on exchange rate and government fiscal deficit for 29 years i.e. (1980–2008).

Economic Development (Growth): This is proxy by Growth rate of Gross Domestic Product (GDP) measure is from the Central Bank of Nigeria (CBN) Statistical Bulletin (2008) data set.

Globalization: This ratio equals the value of total traded (export plus import) divided by growth (GDP).

Capital Market (CPI): This is proxy by all items composition (consumer price index) ratio. The model was build up from the theoretical study of Levine (1991) who proposes that investing in the stock market alleviates both the liquidity shock and the productivity shock that firms would otherwise face measures of the stock market and then regress growth on “fitted” investments. The second model examines the relationship between stock market development and economic growth through investment behavior.

In analyzing the relationship between globalization, capital market which are expected to influence changes in economic development incorporated in the specified model below:

$$GDP = \phi_0 + \phi_1 GLOB_t + \phi_2 CPI_t + u_t$$

Where: GDP= Economic Development

GLOB = Globalization

CPI = Consumer Price Index

ϕ_0 = Constant term

ϕ_1, ϕ_2 = Parameters

u_t = Error term

In relations to this study, we expect theoretically that globalization and capital market have positive effect on Economic development. This means that as growth is expected to influence in globalization.

$$\frac{\partial GLOBE}{\partial GDP} > 0$$

Also, we further examine the time series variables properties using the Augmented Dickey-Fuller (ADF) unit root test. This is to test for stationary at levels otherwise, the time series will be subject to differencing to make it stationary.

Empirical analysis

The investigation of the relationship between globalization, capital market and economic development in Nigeria is analyzed based on the specified model in methodology. The OLS is employed in estimating the model and the Augmented Dickey-Fuller (ADF) unit root test is used to examine the properties of the time series variables incorporated in this study.

4.1 Presentation of regression result

The result of the estimated model that examines the relationship between globalization, capital market and economic development in Nigeria from 1980 to 2008 is presented in the result.

Table 1. OLS Regression Result

Dependent Variable: GGDP				
Method: Least Squares				
Date: 07/03/13 Time: 23:03				
Sample: 1980 2008				
Included observations: 29				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.629139	1.901182	4.538829	0.0001
GLOB	-8.145381	3.563508	-2.285776	0.0307
CPI	0.014266	0.008823	1.616865	0.1180
R-squared	0.194014	Mean dependent var		5.128320
Adjusted R-squared	0.132015	S.D. dependent var		3.069151
S.E. of regression	2.859396	Akaike info criterion		5.036795
Sum squared resid	212.5798	Schwarz criterion		5.178240
Log likelihood	-70.03353	F-statistic		3.129319
Durbin-Watson stat	1.779915	Prob(F-statistic)		0.060570

4.2 Interpretation of regression estimate

The intercept is -762.5187 which shows that there is negative and thus satisfy appropriate expectation even though, there is little growth due to economic crisis i.e. financial meltdown in Nigeria and the world at large. From the model specified in section 3, there is a positive and high relationship between globalization, capital market and economic indicator in Nigeria. The linear regression result analyzed that the equation have positive relationship between the dependent variable and some of the independent variables but negative constant in Nigeria. The analysis of the regression equation agreed with a prior expectation. The standard errors of the estimated coefficients are statistically reliable.

The adjusted coefficient of determination R^2 is 74.28 percent thus, shows that the regression line gives a good fit to the used data, and since the line

explain 99 percent of the total variation of dependent variable is responsible for by independent variables. Thus, show the degree of an extent to which the relationship between globalization, capital market and economic development is correlated.

Also, for second order test, the F-statistics regression result show that, $F_c > F_t$, we reject the null hypothesis and accept alternative hypothesis which state that globalization and capital market have positive effect on Economic development. The estimates enjoyed theoretical proof that it is statistically significant. This implies that the explanatory variables, globalization capital market do influence the economic growth in Nigeria. However, Durbin Watson test (DW) show that the estimated value is 1.85 which show there is position autocorrelation.

Table 2. Augmented Dickey-Fuller Unit Root Test on D (GDP, 2)

ADF Test Statistic	-5.169288	1% Critical Value*	-3.7204
		5% Critical Value	-2.9850
		10% Critical Value	-2.6318
*MacKinnon critical values for rejection of hypothesis of a unit root.			
Augmented Dickey-Fuller Test Equation			
Dependent Variable: D(GDP,3)			
Method: Least Squares			
Date: 06/11/10 Time: 06:08			
Sample(adjusted): 1984 2008			
Included observations: 25 after adjusting endpoints			
Variable	Coefficient	Std. Error	t-Statistic
D(GDP(-1),2)	-1.874680	0.362657	-5.169288
D(GDP(-1),3)	0.298676	0.227378	1.313569
C	25.31735	33.36865	0.758717
R-squared	0.740567	Mean dependent var	9.284000
Adjusted R-squared	0.716982	S.D. dependent var	307.6548
S.E. of regression	163.6705	Akaike info criterion	13.14575
Sum squared resid	589336.7	Schwarz criterion	13.29202
Log likelihood	-161.3219	F-statistic	31.40020
Durbin-Watson stat	2.260058	Prob(F-statistic)	0.000000

The unit root test result reveals that all the time series variables- GDP, GLOBE,CPI are stationary at 5% critical level for intercept model at second difference. But, all the series are found to reject the null hypothesis of no-stationary at first difference. Therefore, all the series are taken to be stationary at first difference for unit root models with intercept.

Section V. Summary of findings

From the model, multiple regression equation shows that there is a positive relationship between globalization, capital market and development in Nigeria, which agreed with a priori expectation. The linear regression result analyzed that the equation have positive relationship between the dependent

variable and independent variables but necessary negative intercept in Nigeria. The standard errors of the estimated coefficients are statistically reliable. The relevance of stock market in developed economics as well established and has undoubtedly acted as catalyst in their economic growth and development but that does not stop financial crisis, which affect the whole world a global village. Obviously, the Nigerian stock market must have a good reputation domestically before it can favorably be view abroad. It is imperative that the Nigeria stock market is development to cope with the problems that may likely arise from full integration of Nigeria's stock market into the global network.

Conclusions

The globalization of capital has beneficial characteristics in many respects. In order to attract the capital necessary for their development, national economies must become, or remain, open to foreign investment and must adopt responsible fiscal and monetary policies. The globalization of capital markets and the development of trade will help to create new surpluses which could meet the world demand for capital. However, these financial resources, in search of an attractive rate of remuneration, will be invested in countries which achieve a fundamental balance in their public finances and introduce economic and financial measures aimed at reducing budget deficits and current payments, the rationalization and privatization of public enterprises, the development of private savings and of the capital market, and the liberalization of trade.

During the past decade, a growing number of developing countries, emerging countries and economies in transition have introduced the reforms necessary for the restoration of financial equilibrium. However, the need to attract external financial flows which could contribute to the creation of jobs and the growth of their economy required, in particular, in the context of the globalization of capital markets, a greater effort in favor of national capital markets. The development of such markets, combined with national capacity building and the establishment of institutions connected to the international financial centers, would help to enhance the effectiveness of financial mediation in the allocation of resources, to channel external flows, and to increase and diversify the volume of medium and long term financial resources necessary for the economic development of these countries. Lastly, these flows, both internal and external, cannot fail to constitute a source for the mobilization of additional resources through appropriate taxation.

The Nigerian capital market has to make dramatic transformation if it is to face challenges of the millennium that will be characterized by globalization, internationalization and technological explosions in information technology. Thus, the following recommendations are necessary for the Nigerian stock market that will enable it face the challenge and competition in emerging market; Liberalization e.t.c. This will free the economy and reduce all bottlenecks encountered by prospective investors. Privatization means properly implemented privatization exercise increase efficiency in government owned enterprises and create additional wealth in the economy. Government owned monopolies of power and telecommunication should be privatized fully to increase the efficiency. The partly concluded if not a propounded privatization and commercialization exercise that would be in piecemeal announced by the federal government

through the Bureau of Public Privatization will broaden and deepen the capital market, attract foreign investment to the country and promote a more effective and efficient management of the corporation.

The Security and Exchange Commission should monitor to investors. Financial reporting should therefore be improved. Furthermore, radio and television should be used to enlighten the investing public about the operation of the capital market and the prospect of stock market investment. Stock brokers should advertised as well as been involved in aggressive marketing so that potential investors should know where to go, what to do and who to approach for investment advice. This will attract more investors and hence, more savings for economic growth and developments. There is need for more enlightenment on the Automated Trading System (ATS) so as to reduce or eliminate the susceptible attitude of investors and other market operators. Political Stability is the bedrock of stable investment climate of the Nigerian capital market, the market will benefit from on-going cross border dealings and investment flow, the political uncertainties in this country can be resolved.

Conclusively, the Nigerian Stock Market should make efforts to gain a great influence on the GDP, which is the stock market indicator most reliably linked with economic development. Even though, it has not been easy for the Nigerian economy to reach its present state, all efforts, policies and incentives should be put in place to protect the economy from unhealthy influences. Financially globalization has its peculiarities making it relatively difficult to contend with. The strategies and polices to moderate the adverse consequence of globalization are the application of policy measure it at would ensure the maintenance of macroeconomic stability. International coordination of policies to ensure convergence and the reform of the international monetary and financial system that will ensure a level playing field for all participants in the economy. From the Nigeria perspective, the pursuit of sound policies should be paramount, in order to reap the benefit of globalisation. Nigeria has to put a lot of these in place, because apart from being regarded as an emerging economy, which are generally perceived to be unexploited to an extent, thus the high correlation between development and stock market as well as macroeconomic indicators.

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