Effect of Globalization on Nigerian Financial Sector

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Abstract- *The study examined the effect of globalization on the Nigerian financial sector and to ascertain the contribution of globalization on the Nigerian stock exchange and commercial banks. Assets of the Nigerian stock exchange and commercial banks were used as performance indicators. The data used are Nigerian yearly data from 1983 to 2014; the data were analyzed using descriptive statistics, ordinary least square statistical technique, Johannes's co-integration and error correction mechanism. We used Augmented Dickey-fuller statistics test for stationary. We proxy globalization with degree of openness measured by total trade divided by gross domestic product, foreign direct investment flows, Real Gross Domestic Product, external debt flows, nominal exchange rate and gross capital formation. Two null hypotheses were formulated and were tested. They were rejected based on overall significant of models using F statistics at 5 percent level of significance. The result of our estimate based on overall significant of models using F statistics at 5 percent level of significance shows that Nigerian financial sector as a whole has benefited from globalization. Some of the globalization proxy variables take out a priori signs while some did not. However, the foreign direct investment flows and Real Gross Domestic Product affected the performance of the Nigeria Stock Exchange and commercial banks positively while degree of openness, external debt flows, nominal exchange rate and gross capital formation affected the Nigeria stock exchange and Commercial Banks negatively. This shows that Nigerian foreign trade is low. External debt flow has a negative effect on the Nigerian stock Exchange and positive on commercial banks. Nigeria should discourage external loans. Gross capital formation and external debt flows affected the Nigeria stock exchange negatively. We therefore recommend that the recent re-capitalization and debt recovery exercise and monitoring macroeconomic stability be encouraged to gain confidence by investors in the financial sector.*

Keywords- *Total trade dividend; gross domestic product; external debt flow; financial sector*

1. INTRODUCTION

The world is now a global village. Activities of national economy now affect the others. Although most people continue to live as citizens of a single country, they are influenced culturally, materially, psychologically, politically and economically by people living in other countries. Distance, national borders and so on are no longer barriers or limiting factors. The issue of one global economy is now the topic of discourse among peoples of the world both in developing and developed countries.

Globalization is multi-dimensional, affecting all aspects of life – economic, cultural, environment and social as well as relations between government and nations on the seven continents. Globalization is characterized, in particular, by an intensification of cross border trade and increased financial and foreign direct investment flows promoted by rapid liberalization and advances in information technology (Mohamed, 2001). This consciousness has led to the formation of international associations and unions. For instance, we have the General Agreement on Tariffs and Trades (GATT) which is now the World Trade Organization (WTO), the North American Free Trade (NAFTA) in North America, the Latin America Integration Association (LAIA) in South America, the European Union (EU), in Europe, the African Union (AU) in Africa, and also in West Africa,

we have the Economic Community of West African States (ECOWAS). To make international trade successful, the European Union even introduced a common currency the euro. In the same vein there is also a consensus for a common currency in West Africa.

In Nigeria, the term 'globalization' became pronounced through the adoption of the Structural Adjustment Program me (SAP) in 1986. The primary aim was to restructure and diversify the productive base of the economy. In addition, the SAP was also designed to establish a realistic and sustainable exchange rate for the naira through trade and payment liberalization, tariff reforms and commercialization and privatization of public enterprises. An appraisal of this programme shows that it was a failure since it could not yield the expected results.

According to Abutiate (1987), as cited in Ikpeze (1994)[42], *'One assessment of this liberalization effort is that it has turned out to be a policy failure because: Neither domestic savings nor inflow of new foreign capital appears to have increased appreciably. Depositors who became hawkish in their demand for deposit rates on their placement are being rebuffed by banks who have little investment outlet to utilize such fund'.* Since the concept of globalization is multi-faceted (political, social, cultural, economic, and so on), it is defined and explained based on the area of interest. This study concentrates on the economic aspects of

globalization. Economic globalization according to Onah (2007), is "the increasing openness of national economy to international trade investment, migration, borrowing and lending, aid, economic policies, communications and other forms of cooperation by firms". We shall lay more emphasis on the financial sector. The financial sector is all wholesale, retail, formal and informal institutions in an economy offering financial services to customers, businesses and other financial institutions. The financial sector includes: banks, stock exchanges and insurers, to credit unions, microfinance institutions and money lenders. Thus, financial globalization is referred to as the increasing global linkages created through cross border financial flows. We shall look at this impact of globalization on commercial banks and the Nigerian Stock Exchange (NSE).

2   STATEMENT OF PROBLEM

Prasad et al (2003), argued that economic globalization could in principle help to raise the growth rate in developing countries through a number of channels. Some of these directly affect the determinants of economic growth (augmentation of domestic savings, reduction of cost of capital, transfer of technology from advanced to developing countries and development of domestic financial sectors). Indirect channels which in some cases could be even more important than the direct ones. Include increased production capitalization owing to better risk management, and improvements in both microeconomic policies and institutions included by the competitive pressure of the "discipline effect" of globalization. They also said that the volume of cross border capital flows has risen substantially in the last decade. There has not been much greater volume of flows among industrial countries but also a surge in flows from industrial to developing countries. This movement is the outcome of "pull factor" which arise from changes in policies and other aspects of opening up by developing countries. These include liberalization of capital accounts and domestic stock markets and large scale privatization programmes.We noted that during this period of liberalization and deregulation there had also been a high incidence of distress in the financial services industry. The financial institutions can no longer perform their primary role of lending and the naira has depreciated more than 5000 percent (Gbosi, 1995)[26]. What is the cause? Why is the sector still backward despite the liberation and deregulation exercise in 1986? The Indonesian banking reforms of 1983 worked. Other African countries like Benin, Botswana, Burkina Faso, Cameroun, Mauritius, Mozambique, Senegal, Tanzania, and Uganda all achieved growth and also brought inflation to a single digit during 1999 and 2000 (Gondwe, 2001)[35]. Has globalization strengthened the Nigeria financial sector? Has globalization contributed significantly to the Nigerian commercial banks and the Nigerian stock Exchange?

What sector has it impacted most and what is the nature of the impact?

3   OBJECTIVE OF THE STUDY

The broad objective of this study is to ascertain whether globalization has strengthened the Nigerian financial sector.
Specific objective of this study are;
1. To ascertain the contribution of globalization to the Nigerian stock exchange.
2. To access the contribution of globalization to the Nigerian commercial banking subsector.

3.1   Hypotheses
The hypothesis in this study is stated all in null form, thus;
H_0: Globalization has not contributed significantly to the performance of the Nigerian Stock Exchange.
H_0: Globalization has not contributed significantly to the performance of the Nigerian commercial banks.

3.2   Significance of the Study
This study is essential and significant since it is meant to provide an overview of globalization and its effects on the financial sector of the Nigerian economy. A study of this kind therefore provides useful information for government and policy makers especially those involved in the country's external economic relations. It will also provide a database for further studies and lectures on world economy and international financial relations.

3.3   Scope of the Study
The concept of globalization is multi-faceted. This study as indicated earlier, concentrates on financial sector with special interest on the commercial banks and the Nigeria Stock Exchange. The period under this study is between 1984 and 2014. This period was selected because of some reasons: firstly, it covers the SAP period (1986-1989) under which the Nigerian economy was really liberalized and opened. Second, the recent years (2000-2006) have witnessed aggressive efforts by the Obasanjo's administration at integrating with the outside world. The policies are aimed at liberalization, increase in foreign trade and increase in Foreign Direct Investment (FDI). The scope will be from 1984 to 2014.

4   LITERATURE REVIEW

This part of the work discusses various theories of global trade, an overview of the Nigerian financial system before, during and after the Structural Adjustment Programme (SAP) and the review of some empirical literature.

4.1   Conceptual Frame Work
A financial system has been defined as a complex of various institution, and operators that interact within an economy to provide financial services. Suh services according to Gbosi, (1993)[27] may include "resource mobilization and allocation, financial intermediation and facilitation of foreign exchange transactions to enhance

international trade'. The financial sector, thus, play important roles in the process of economic and development of a country.

In the Nigerian economy, the financial sector encompasses financial instruments, financial markets and the financial institutions. Usually, the financial instruments are traded in the financial market by the financial institutions. The financial sector collects savings and lends these funds to the deficit spending unit. This shows that the financial sector is a catalyst in the whole process of economic growth and development. In Nigeria, the financial sector has undergone remarkable changes in terms of ownership structure, the depth and breadth of instruments established the economic environment and the regulatory framework within the sector operates. The Nigerian financial sector can be grouped into two main classes namely: the non-bank (tradition) financial sector and bank (modern) financial sector.

4.2 Structure/Institutions in the Nigerian Financial Sector

The Nigerian financial sector is made up of regulatory/supervisory authorities as well as banks and non-bank institutions. The regulatory/supervisory authorities are the Federal Ministry of Finance (FMF), Central Bank of Nigerian (CBN), Security and Exchange Commission (SEC), Nigeria Deposit Insurance Corporation (NDIC), Nigeria Insurance Corporation, Federal Mortgage Bank of Nigeria (FMBN) and the National Board for Community Banks (NBCB).

The CBN is the principal regulator and supervisor in the money market with the NDIC playing a complementary role. The CBN is exclusively regulates the activities of the finance houses and specialized/development finance institutions such as the NIDB, NBCI, NACB, etc. By Decree No. 7 of 1997 amendment of CBN Decree No. 24 of 1991, the CBN is to report to the presidency through the Federal Ministry of Finance. Also with effect from 1st January 1997, the CBN Decree has effectively assumed the leadership of all the banking institutions in the financial sector.

4.3 The Central Bank of Nigeria

The CBN is the apex regulatory authority of the financial sector. It was established by the CBN Act of 1958 and commenced operations on 1st July 1959. Among its primary functions, the bank promotes monetary stability and a sound financial sector, and acts as banker and financial adviser to the Federal Government, as well as banker of last resort to other banks. The central bank also encourages the growth and development of financial institutions. The promulgation of the CBN Decree 24 and Bank and Other Financial Institutions (BOFI) Decree 25, both of 1991, gave the Central Bank more flexibility in regulating and supervising the banking sector and licensing finance companies which hitherto operated outside and regulatory framework. The responsibilities of the bank in regulating and supervising the financial institutions, including development banks, under the Banks's supervision.

4.4 The Nigerian Deposit Insurance Corporation (NDIC)

The NDIC complements the regulatory and supervisory role of the CBN. It was established by Decree No.22 of 15th June 1988. To provide deposit insurance and related services for banks in order to promote confidence in the banking industry. The NDIC is empowered to examine the books and affairs of insured and other deposit-taking financial institutions. Licensed banks are mandated to pay 15/16 of 1 percent of their total deposit liabilities as insurance premium to the NDIC.

4.5 The Securities and Exchange Commission (SEC)

Formerly called the Capital Issues Commission, SEC was established by the SEC Acts of 27th September 1979, which was further strengthened by the SEC Decree of 1988. It is the apex regulatory organ of the capital market. Its major objective is the promotion of an orderly and active capital market. In doing this, the SEC has a major function of ensuring adequate protection of the investing public. Other functions of the SEC initially included the determination of the prices and registering all securities dealers, investment advisers and market places (such as Stock Exchange branches) with a view to maintaining proper standards of conduct and professionalism in the securities business.

4.6 Commercial Banks

The first commercial bank started operation in Nigeria in 1892. Commercial banks perform three major functions namely, acceptance of deposit, granting of loans and the operation of the payments settlements mechanism. Since the government started active deregulation of the economy in September 1986, the commercial banking sector has continued to witness rapid growth, especially in terms of the number of institutions and product innovations in the market. The number of commercial banks and their branches increased. Since the enactment of CBN and BOFI decrees, commercial banks have been operating under a changed environment which seeks to minimize the risks associated with innovation and deregulation. The minimum capital requirement of commercial banks has been increased to a uniform level of N25bn.

4.7 Institutions in the Capital Market

The capital market institutions are generally classified according to their involvement in either the primary issues.

Primary issues institutions include the following;
(i) Issuing houses
(ii) Commercial banks
(iii) Merchant Banks
(iv) Development banks and
(v) Central Bank whose roles consist of – issuing new government stocks, taking up or underwriting the un-

purchased stock which is subsequently released through the market to the investing public as demand arises and acting as lender of last resort.

4.8   Theoretical Framework

There has been no generally accepted theory of globalization even though the concept is age-long phenomenon. However, three theories have been established, these theories are; Absolute advantage theory, comparative advantage and porter's theory. Therefore, we shall discuss theories that relate to global trade since the idea of globalization is to break barriers that tend to hinder the free movements of goods and services, technology as well as people among sovereign states.

4.8.1   Absolute Advantage Theory

The theory of absolute advantage which is attributed to Adam Smith discusses the benefits a country can achieve by actively participating in the international division of labour. Smith argued that specialization in production leads to increase in output. This theory advocates that a country that trades international should specialize in producing only those goods in which it has absolute advantage. The country can then export a portion of those goods and, import goods that its trading partners produce more cheaply. According to Smith, this approach will lead to global efficiency. Smith based his theory on the assumptions of;

(1) The trade involves only two countries.

(2) Only two goods are traded upon by the two countries and

(3) The two countries have the same level of resource input.

The absolute advantage theory is not free from criticism. The theory is based on the labour theory of value. The theory used only one factor of production which is labour and its concern is merely on the number of workers available to each country and their efficiency in the ability to produce the goods in question; there was no room for the inclusion of other factor that may aid in the production processes. Therefore, the production function is; $Q = F(L)$. Where Q= Output and L= Labour input. This means that output is a function of labour only which is not realistic.

4.8.2   Comparative Advantage Theory

This theory which is credited to David Ricardo proposed that countries can benefit from each other even though one has absolute advantage over the other in the production of both goods. The comparative advantage comes if each trading partner has a product that will bring a better price in another country than it will at home. If each country specializes in producing the goods in which it has a comparative advantage, more goods are produced, and the wealth of both countries increases.

4.9   Porter's Theory

Porter's theory of competitive advantage suggests that the pattern of trade is influenced by four attributes:

1. Factor endowments: this refers to a nation's position in factors of production such as skilled labour or infrastructure necessary to complete in a given industry.

2. Domestic demand conditions; this relates to the nature of home demand for the industry's product or service.

3. The presence of related and supporting industries: this relates to the presence or absence in a nation of supplier industries or related industries that are nationally competitive.

4. Firm's strategy, structure and rivalry: this relates to the condition in the nation's governing how companies are created, organized and managed and the nature of domestic rivalry.

The four attributes are called Porter's Diamond. He called them the attributes of a nation that constitute the diamonds of national advantage.

5   METHODOLOGY

The data for this study were obtained from Central Bank of Nigeria Statistical Bulletins, National Bureau of Statistics, Securities and Exchange Commission, Journals, Books, Magazines and various write ups. The data used in this study are yearly time series data for the period of study, 1985-2006. The data are converted to rates by differencing for uniformity sake and are interpolated to 88 data points.

5.1   Model Specification

The objective of this section is to formulate models that will capture the stated objectives of the study. Economic technique is used to establish a model of financial sector performance and globalization.

MODEL ONE; MODEL ONE WILL CAPTURE THE FIRST OBJECTIVE   "**GLOBALIZATION ON STOCK MARKET**"

$$MKCAP = f(FDI, OPN, EXCHR, RGDP, GCF, EXTDF) \dots\dots\dots\dots (1)$$

$$Log\ MKCAP = b_0 + b_1 log\ FDI + b_2 log\ OPN + b_3\ EXCHR + b_4\ log\ RGDP + b_5\ log\ GCF + b_6\ log\ EXTDF + log\ \mu \dots\dots\dots\dots\dots\dots (2)$$

$$b_1 > 0, b_2 > 0, b_3 > 0, b_4 > 0, b_5 > 0, b_6 > 0;$$

Where;

$MKCAP$ =   Performance of Nigerian stock exchange measured using Market capitalization.

FDI =   Foreign Direct Investment

OPN =   Index of openness (total Trade/GDP)

$EXCHR$ = REAL EXCHANGE RATE

$RGDP$ = REAL GROSS DOMESTIC PRODUCT.

GCF =   Gross Capital Formation

$EXTDF$ = EXTERNAL DEBT FLOW

μ =   Error Term

MODEL TWO; MODEL TWO WILL CAPTURE THE SECOND OBJECTIVE   "**GLOBALIZATION ON COMMERCIAL BANK**"

$$CBA = f(FDI, OPN, EXCHR, RGDP, GCF, EXTDF) \dots\dots\dots\dots (1)$$

$$Log\ PSC = b_0 + b_1 log\ FDI + b_2 log\ OPN + b_3\ EXCHR + b_4\ log\ RGDP + b_5\ log\ GCF + b_6\ log\ EXTDF + log\ \mu \dots\dots\dots\dots\dots\dots (2)$$

$$b_1 > 0, b_2 > 0, b_3 > 0, b_4 > 0, b_5 > 0, b_6 > 0, > 0$$

CBA = *Performance* of commercial banks using Commercial banks *Assets*

FDI = Foreign Direct Investment
OPN = Index of openness (total Trade/GDP)
EXCHR = REAL EXCHANGE RATE
RGDP = REAL GROSS DOMESTIC PRODUCT.
GCF = Gross Capital Formation
EXTDF = *EXTERNAL DEBT FLOW*

μ = Error Term

5.2 Method of Analysis

This study employed ordinary least square statistical technique, co-integration and error correction techniques to estimate the model. Most economic time series data that exhibit strong trends are non-stationery (Gujirati, 2004). Correct and appropriate specifications of time series models require that we determine whether the time series are stationary. Since most time series encountered in application are non-stationary, there is need to analyze them as this may lead to spurious relationship (Granger, 1969). This leads to coefficient of determination (R^2) tending to unity (i.e. Very high R^2 approaching 1), or adjusted coefficient of determination (R^2), together with high auto correlated residuals as indicated by low Durbin Watson (DW) statistic. In the same way, the standard significant test (measured by the traditional t-test) rejects the null hypothesis if no trend or no relationship exist between the series, hence there is a danger of accepting a close relationship between the series, when they are almost independent.

The method of testing for unit roots are by use of the Dicey-Fuller (DF) test and the augmented Dickey-Fuller (ADF), but the ADF test is considered superior to the Dicey-Fuller test because it adjusts appropriately for the occurrence of serial correlation.

5.3 Presentation of Regression Results

The result of the model was gotten from the estimation of model specified in the methodology. The estimation procedure employed in this analysis is the ordinary least squares method of estimation (OLS) and the econometric software in the E-view.

Long-Run Estimation Procedure For Model 1
TABLE 1
Dependent Variable: MKCAP

VARIABLES	COEFFICIENT	STD. ERROR	t-STAT	PROB
C	-0.732995	1498300.	-0.489218	0.6288
FDI	0.237054	7.062745	3.356412	0.0024
OPN	-0.400676	16517.15	-2.425823	0.0225
EXCHR	-0.101005	17198.04	-0.587305	0.5621
RGDP	0.176558	5.050324	3.495980	0.0017
GFC	-0.231531	9.062757	-2.554763	0.0168
EXTDF	-0.026826	0.419094	-0.640106	0.5277

$R^2 = 0.94$; $R^{-2} = 0.93$; DW = 1.32; (F -STAT) = 76.407; Prob(F-stat) = 0.00000.

From the regression result presented above the intercept C shows that on the average a unit increase of the independent variables will led to 73.2 percentage decrease in the dependent variable that is market capitalization (MKCAP) in Nigeria stock Market.

In the Foreign Direct Investment (FDI), a percentage increase on FDI will lead to 23.7 percent increase on the dependent variable that is market capitalization (MKCAP) in Nigeria stock Market. This is in line with the Yeung and Lo (1996), postulations which argues that FDI bring about expansion, reduction in cost of production which reduces the level of import, increases export and domestic production. Therefore it is expected theoretically that an increase in FDI will lead to increase in domestic performance of the Nigeria stock market.

In the Degree of Openness (OPN), a percentage increase on OPN will lead to 40 percent decrease on the dependent variable MKCAP. The result obtained here does not confirm to a-priori expectations because it is believed theoretically that OPN enhances domestic performance of the stock market. In the exchange rate (EXCHR), a unit increase in the EXCHR will lead to 10 percent decrease on the dependent variable MKCAP.

In the Real Gross Domestic Product (RGDP), a unit increase on the RGDP will lead to 10.7 percent increase on the dependent variable MKCAP. This implies that an increase Real Gross Domestic Product, increases the performance of the Nigerian stock market capitalization and this conform to a-priori expectations and also holds ground in Nigeria economy.

In the Gross Capital Formation (GFC), a percentage increase on GFC will lead to 20.3 percent decrease on the dependent variable MKCAP. This implies that an increase in Gross Capital Formation (GFC), decreases the Nigerian stock market capitalization (MKCAP) and this does not conform to a-priori expectations. In the External Debt Flow (EXTDF), a percentage increase on EXTDF will lead to 2.6 percent decrease on the dependent variable MKCAP. This implies that an increase External Debt Flow (EXTDF), decreases the Nigerian stock market capitalization (MKCAP) and this does not also conform to a-priori expectations.

5.3.1 Evaluation of regression results
Here the empirical results will be evaluated in order to know if the variables under study meet the necessary criteria for a good regression model. The evaluation will be based on the following

5.3.2 Economic criteria (a priori signs)

This criteria is used to examine whether the regression parameter coefficients agrees with theoretical postulations or conforms to a priori expectations both in sign and magnitude.

The table below shows whether the economic variables under study conform to a priori expectations or not.

Table 2

VARIABLES	COEFFICIENT	SIGNS	CONCLUSION
C	-0.732995	Negative	Does not conform
FDI	0.237054	Positive	Conforms a priori
OPN	-0.400676	Negative	Does not conform
EXCHR	-0.101005	Negative	Conform
RGDP	0.176558	Positive	Conforms to a priori
GFC	-0.231531	Negative	Does not conform
EXTDF	-0.026826	Negative	Does not conform

5.3.3 Statistical criteria (first order) TEST

The statistical criteria take into account of the following, F-statistics, student t-statistics and R^2 values. A test of significance is a procedure by which sample results are used to verify the true nature of the null hypothesis (H_0).

The rationale behind the statistical test is that testing statistical significant of parameters and sampling distribution of such a statistic under the null hypothesis which is very vital in any empirical analysis (Gujarati 1995).

Therefore, the acceptance or rejection of the null hypothesis is determined by the values derived from the given set of data using relevant statistical test. These statistical test include;

(1) The coefficient of multiple determinations (R^2).

The R-square (r^2) measures the goodness of fit of a model. It gives the proportion or amount of total variation in the regress (dependent variable) that is explained by the regressor (independent variable).

From the empirical analysis, it was observed that the coefficient of determination (R^2) value is 0.94 and this implies that about 94% of the fluctuations in stock market capitalization (MKCAP) are caused by the regressors or explanatory variables such as Foreign Direct Investment (FDI), Degree of Openness (OPN), Exchange Rate (EXCHR), Real Gross Domestic Production (RGDP), **Gross Capital Formation (GCF) and External Debt Flow (EXTDF).**

5.3.4 Student t-test

This test is carried out in order to check the level of significant influence of the explanatory variables in the regress and (dependent variable). This tests the statistical significant of the estimated parameters at a choose level of significance (α =5% (0.05).

We therefore use the conventional approach to t-statistic or the rule of thumb to measure whether economic variables under study are statistically significant or not. This is based on statistical occasion and is carried out by comparing the estimated values (t-calculated) and the tabulated t-value. For a two tailed test at 5% level of significance with n-k degree of freedom, the tabulated t-value will be given thus as t 0.05 (32) = 2.042

Table 3

VARIABLES	t-stat (T-cal)	T-tab	Decision rule	Assessment
C	-732995.1	2.042	Accept h_o	Not statistically significant
FDI	3.356412	2.042	Reject h_o	Statistically significant
OPN	-2.425823	2.042	Accept h_o	Not significant
EXCHR	-0.587305	2.042	Accept h_o	Not statistically significant
RGDP	3.495980	2.042	Reject h_o	Statistical significant
GFC	-2.554763	2.042	Accept h_o	Not statistically significant
EXTDF	-0.640106	2.042	Accept h_o	Not significant

DECISION

Reject H_o (null hypothesis) if T-cal is greater than T-tab at the given chosen level of significant and accept if otherwise.

CONCLUSION

From the above table, two explanatory variables (FDI ; RGDP) are statistically significant and four variables (OPN ; EXCHR ; GFC ; EXTDF) are not statistically significant having passed the rule of thumb and conventional t-criteria.

5.3.5 F-Statistics

This is employed in order to test the overall significant of the entire regression model with V_1= K-1 (numerator) and V_2= n-k degree of freedom (denominator).

This test follows the hypothesis stated below H_0: $B_1 = B_2 = B_3 = B_4 = B_5 = B_6 = 0$(statistically insignificant).

DECISION RULE

Reject H_0 if F-cal is greater than F-tab (F 0.05(V_1/v_2).

Where V_1=k-1=Number of parameters minus 1 v_2=N-K-sample size minus number of parameters under study.

From the study, the computed F-value (f* F-cal) = 76.407 and the tabulated f-value is given as f α (k-1/N-K) =2.62.

CONCLUSION

From the above table, since the f* = 76.407 is greater than the f α (k-1/N-k) = 2.62, we therefore conclude the overall regression is statistically significant at 5% significant level. Implying that there exist a relationship between the dependent variable and the explanatory variables of the study.

5.3.6   Econometric Test (Second Order Criteria)

The second order test referred to as the econometric test is based on the satisfaction of the classical linear regression model (CLRM). The following batteries of econometric test were found necessary and vital to this research with normality test

5.3.7   Normality Test

The normality test was employed in this study in order to ascertain the error term of the regression model follow a normal distribution or not. The test follows a chi-square distribution the hypothesis is stated below.

H_0: μ= 0 (Error term not normally distributed)

DECISION RULE

Reject H_0 if x^2cal is less than x^2 tab at the chosen level of significance and accept if otherwise since x^2 computed = 0.8440 =JarqueBera value, is less than the x^2 tabulated =43.8 we therefore reject H_0 and conclude that the error term is normally distributed.

5.3.8   Autocorrelation Test

This is a problem which is usually associated with any time series data. We employ this test in a model using the Durbin Watson value or d-statistic. This according to Koutsoyannis (1997) has optional asymptotic properties

and is more efficient for all sample sizes. The DW value is used to ascertain whether or not there exist the presences of autocorrelation.

In our study, the DW value is 1.33

DECISION RULE

If 0<d<dl, reject H_0 of no positive autocorrelation

If $4 \leq d \leq$ du, No decision on H_0 of No positive autocorrelation.

If 4-dl<d<4, Reject H_0 of no negative autocorrelation

If 4-du $\leq$ d4-d1, No decision on H_0

If du<d<4-d, do not reject H_0 of No autocorrelation, positive or negative.

From the table, dl=0.856 and du=1.690 while Dw =1.33

Since 4-du $\leq$ d4-d1 = 4-1.690 $\leq$ 1.33(4)-0.856 then we take no decision on H_0.

5.3.9   Unit Root Test for Stationarity

It has been generally observed that most economic variables are non stationary hence the Utmost need to conduct a stationarity test in order not to encounter wrong prediction and forecast of regression results. Unit root test is used to test whether the variables of the model are stationary or not at a given order of integration (1(d)). The augmented Dickey Fuller (ADF) is use to compare with the chosen critical value (say 5% conventional approach). The hypothesis is formulated thus,

H_0: ϕ =1 (Non stationary or unit root).

H_1: $\phi < 1$ (stationary)

DECISION RULE

Reject H_0 if /(ADF) static/ > / critical value/ at the chosen critical value (5% level of significance) with the desired degree of freedom and accept if otherwise.

The stationary results is presented in the table below:

Table 4 Stationarity Table

VARIABLES	ADF STAT	5% CRITICAL VALUE	ORDER OF DIFERENCE	ASSESSMENT
MKCAP	-4.8056	-2.960411	D(MKCAP(-1),2)	STATIONARY @ ORDER 1 & 2
FDI	-5.92610	-2.960411	D(FDI(-1),2)	STATIONARY @ ORDER 1 & 2
EXCHR	-5.311095	-2.960411	D(EXCHR(-1),2)	,,
RGDP	-7.466771	-2.963972	D(RGDP(-1),2)	,,
EXTDF	-3.54047	-2.960411	D(EXTDF(-1),2)	,,
OPN	-6.08320	-2.96041	D(OPN(-1),2)	,,
GFC	-6.539893	-2.963972	D(GFC(-1),2)	,,

From the above table, all the variables under study are all stationary at first different order of integration/stationarity. And /(ADF) static/ > / critical value/ among all tested variables therefore we Reject H_0 across all the variables under study at the chosen critical value (5% level of significance) with the desired degree of freedom.

5.3.10   Cointegration Test

After establishing the existence of unit root and their order of integration identified then it will be necessary to check if the variables have the same order of integration. If the variables are integrated in the same order then the presence of co-integration is established as well as their linear combination (Enders, 1995).

Table 5 Cointegration Table

VARIABLES	ADF STAT	5% CRITICAL VALUE	ASSESSMENT
D(RESID01)	-3.3339597**	-1.955681	COINTEGRATED

CONCLUSION

Since the saved residual are integrated at level form then we conclude that the variables are co-integrated implying that there exist a short run stability among the variables under study.

5.3.11   Error Correction Model (Ecm).

If there is the presence of Co-integration in the model it will be necessary to check if the variables have long-run relationship through running the error correction model (ECM), the ECM indicates the speed of adjustment of variables that were in a disequilibrium state into equilibrium.

Table 6 Ecm Test Result

VARIABLES	COEFF	t- VALUE	ASSESSMENT
D(RESID01)	-0.972372	-4.285093	It takes 97.2% speed to adjust from disequilibrium to equilibrium

Following the table above it shows that the ECM result is negative which obeys a-priori expectations, this means that it takes 97.2% speed of adjust annually for the variables in disequilibrium in the short-run into equilibrium in the long run.

6   LONG-RUN ESTIMATION PROCEDURE FOR MODEL 2

Table 7 Dependent Variable: **CBA**

VARIABLES	COEFFICIENT	STD. ERROR	t-STAT	PROB
C	-0.3114502	1376490.	-2.262641	0.0322
FDI	0.1571802	6.488555	2.422422	0.0227
OPN	-0.3627021	15174.33	-2.390235	0.0244
EXCHR	-0.4102707	15799.87	-2.596671	0.0153
RGDP	0.2325533	4.639741	5.012205	0.0000
GFC	-0.3601876	8.325969	-0.432607	0.6689
EXTDF	0.4062947	0.385023	1.202390	0.2400

R^2 = 0.94; R^{-2} = 0.93; DW = 1.02; (F -STAT) = 67.34; Prob(F-stat) = 0.000000.

From the regression result presented above the intercept C shows that on the average a unit increase of the independent variables will led to 31.1 percentage decrease in the dependent variable that is commercial Bank Assets (CBA) in Nigeria.

In the Foreign Direct Investment (FDI), a percentage increase on FDI will lead to 15.7 percent increase on the dependent variable that is commercial Bank Assets (CBA) in Nigeria. This is in line with the Yeung and Lo (1996), postulations which argues that FDI bring about expansion, reduction in cost of production which reduces the level of import, increases export and domestic production. Therefore it is expected theoretically that an increase in FDI will lead to increase in domestic performance of the Nigerian Commercial Banks.

In the Degree of Openness (OPN), a percentage increase on OPN will lead to 36.2 percent decrease on the dependent variable CBA. The result obtained here does not confirm to a-priori expectations because it is believed theoretically that OPN enhances domestic performance of the Commercial Banks. In the exchange rate (EXCHR), a unit increase in the EXCHR will lead to 41 percent decrease on the dependent variable CBA.

In the Real Gross Domestic Product (RGDP), a unit increase on the RGDP will lead to 23.2 percent increase on the dependent variable CBA. This implies that an increase Real Gross Domestic Product, increases the performance of the Nigerian Commercial Banks and this conform to a-priori expectations and also holds ground in Nigeria economy.

In the Gross Capital Formation (GFC), a percentage increase on GFC will lead to 36 percent decrease on the dependent variable CBA. This implies that an increase in Gross Capital Formation (GFC), decreases the performance of Nigerian Commercial Banks and this does not conform to a-priori expectations. In the External Debt Flow (EXTDF), a percentage increase on EXTDF will lead to 40.6 percent increase on the dependent variable CBA. This implies that an increase External Debt Flow (EXTDF), increases the performance Nigerian Commercial Banks and this also conform to a-priori expectations.

6.1 Evaluation of regression results

Here the empirical results will be evaluated in order to know if the variables under study meet the necessary criteria for a good regression model. The evaluation will be based on the following

6.2 Economic criteria (a priori signs)

This criteria is used to examine whether the regression parameter coefficients agrees with theoretical postulations or conforms to a priori expectations both in sign and magnitude.

The table below shows whether the economic variables under study conform to a priori expectations or not.

Table 8

Variables	Coefficient	Signs	Conclusion
C	-0.3114502	Negative	Does not conform
FDI	0.1571802	Positive	Conforms a priori
OPN	-0.3627021	Negative	Does not conform
EXCHR	-0.4102707	Negative	Conform
RGDP	0.2325533	Positive	Conforms to a priori
GFC	-0.3601876	Negative	Does not conform
EXTDF	0.4062947	Positive	Conform

6.3 Statistical criteria (first order) TEST

The statistical criteria take into account of the following, F-statistics, student t-statistics and R^2 values. A test of significance is a procedure by which sample results are used to verify the true nature of the null hypothesis (H_0).
The rationale behind the statistical test is that testing statistical significant of parameters and sampling distribution of such a statistic under the null hypothesis which is very vital in any empirical analysis (Gujarati 1995).
Therefore, the acceptance or rejection of the null hypothesis is determined by the values derived from the given set of data using relevant statistical test. These statistical test include;

(1) The coefficient of multiple determinations (R^2).

The R-square (r^2) measures the goodness of fit of a model. It gives the proportion or amount of total variation in the regress (dependent variable) that is explained by the regressor (independent variable).
From the empirical analysis, it was observed that the coefficient of determination (R^2) value is 0.94 and this implies that about 94% of the fluctuations in Commercial Bank Assets in Nigeria (CBA) are caused by the regressors or explanatory variables such as Foreign Direct Investment (FDI), Degree of Openness (OPN), Exchange Rate (EXCHR), Real Gross Domestic Production (RGDP), Gross Capital Formation (GCF) and External Debt Flow (EXTDF).

6.4 Student t-test

This test is carried out in order to check the level of significant influence of the explanatory variables in the regress and (dependent variable). This tests the statistical significant of the estimated parameters at a choose level of significance (α =5% (0.05).
We therefore use the conventional approach to t-statistic or the rule of thumb to measure whether economic variables under study are statistically significant or not. This is based on statistical occasion and is carried out by comparing the estimated values (t-calculated) and the tabulated t-value. For a two tailed test at 5% level of significance with n-k degree of freedom, the tabulated t-value will be given thus as t 0.05 (32) = 2.042

Table 9

VARIABLES	t-stat (T-cal)	T-tab	Decision rule	Assessment
C	-2.262641	2.042	Accept h_o	Not statistically significant
FDI	2.422422	2.042	Reject h_o	Statistically significant
OPN	-2.390235	2.042	Accept h_o	Not statistically significant
EXCHR	-2.596671	2.042	Accept h_o	Not statistically significant
RGDP	5.012205	2.042	Reject h_o	Statistical significant
GFC	-0.432607	2.042	Accept h_o	Not statistically significant
EXTDF	1.202390	2.042	Accept h_o	Not significant

DECISION
Reject H_o (null hypothesis) if T-cal is greater than T-tab at the chosen level of significant and accept if otherwise.
CONCLUSION
From the above table, two explanatory variables (FDI ; RGDP) are statistically significant and four variables (OPN; EXCHR ;GFC; EXTDF) are not statistically significant having passed the rule of thumb and conventional t-criteria.

6.5 F-Statistics

This is employed in order to test the overall significant of the entire regression model with V_1= K-1 (numerator) and V_2= n-k degree of freedom (denominator).
This test follows the hypothesis stated below H_0: B_1= B_2 = B_3 = B_4 = B_5 = B_6 = 0(statistically insignificant).
DECISION RULE

Reject H_0 if F-cal is greater than F-tab (F 0.05(V_1/v_2). Where V_1=k-1=Number of parameters minus 1 v_2=N-K-sample size minus number of parameters under study.
From the study, the computed F-value (f* F-cal) = 67.34 and the tabulated f-value is given as f α (k-1/N-K) =2.62.
CONCLUSION
From the above table, since the f* = 67.34 is greater than the f α (k-1/N-k) = 2.62, we therefore conclude the overall regression is statistically significant at 5% significant level. Implying that there exist a relationship between the dependent variable and the explanatory variables of the study.

6.6 Econometric Test (Second Order Criteria)

The second order test referred to as the econometric test is based on the satisfaction of the classical linear regression

model (CLRM). The following batteries of econometric test were found necessary and vital to this research with normality test

6.7 Normality Test

The normality test was employed in this study in order to ascertain the error term of the regression model follow a normal distribution or not. The test follows a chi-square distribution the hypothesis is stated below.

H_0: μ= 0 (Error term not normally distributed)

DECISION RULE

Reject H_0 if x^2cal is less than x^2 tab at the chosen level of significance and accept if otherwise since x^2 computed = 0.4040 =JarqueBera value, is less than the x^2 tabulated =43.8 we therefore reject H_0 and conclude that the error term is normally distributed.

6.8 Autocorrelation Test

This is a problem which is usually associated with any time series data. We employ this test in a model using the Durbin Watson value or d-statistic. This according to Koutsoyannis (1997) has optional asymptotic properties and is more efficient for all sample sizes. The DW value is used to ascertain whether or not there exist the presences of autocorrelation.

In our study, the DW value is 1.02

DECISION RULE

If 0<d<dl, reject H_0 of no positive autocorrelation

If 4≤d ≤du, No decision on H_0 of No positive autocorrelation.

If 4-dl<d<4, Reject H_0 of no negative autocorrelation

If 4-du≤d4-d1, No decision on H_0

If du<d<4-d, do not reject H_0 of No autocorrelation, positive or negative.

From the table, dl=0.856 and du=1.690 while Dw =1.02

Since 4-du≤d4-d1 = 4-1.690≤1.02(4)-0.856 then we take no decision on H_0.

6.9 Unit Root Test for Stationarity

It has been generally observed that most economic variables are non stationary hence the Utmost need to conduct a stationarity test in order not to encounter wrong prediction and forecast of regression results. Unit root test is used to test whether the variables of the model are stationary or not at a given order to integration (1(d)). The augmented Dickey Fuller (ADF) is use to compare with the chosen critical value (say 5% conventional approach). The hypothesis is formulated thus,

H_0: ϕ =1 (Non stationary or unit root).

H_1: ϕ < 1 (stationary)

DECISION RULE

Reject H_0 if (ADF) static/ > / critical value/ at the chosen critical value (5% level of significance) with the desired degree of freedom and accept if otherwise.

The stationary results are presented in the table below:

Table 10 Stationarity Table

VARIABLES	ADF STAT	5% CRITICAL VALUE	ORDER OF DIFERENCE	ASSESSMENT
CBA	-3.02678	-2.960411	D(CBA (-1),2)	STATIONARY @ ORDER 1 & 2
FDI	-5.92610	-2.960411	D(FDI(-1),2)	STATIONARY @ ORDER 1 & 2
EXCHR	-5.311095	-2.960411	D(EXCHR(-1),2)	,,
RGDP	-7.466771	-2.963972	D(RGDP(-1),2)	,,
EXTDF	-3.54047	-2.960411	D(EXTDF(-1),2)	,,
OPN	-6.08320	-2.96041	D(OPN(-1),2)	,,
GFC	-6.539893	-2.963972	D(GFC(-1),2)	,,

From the above table, all the variables under study are all stationary at first different order of integration/stationarity. And /(ADF) static/ > / critical value/ among all tested variables therefore we Reject H_0 across all the variables under study at the chosen critical value (5% level of significance) with the desired degree of freedom.

6.10 Cointegration Test

After establishing the existence of unit root and their order of integration identified then it will be necessary to check if the variables have the same order of integration. If the variables are integrated in the same order then the presence of co-integration is established as well as their linear combination (Enders, 1995).

Table 11 Cointegration Table

VARIABLES	ADF STAT	5% CRITICAL VALUE	ASSESSMENT
D(RESID01)	-3.3339597**	-1.955681	COINTEGRATED

CONCLUSION

Since the saved residual are integrated at level form then we conclude that the variables are co-integrated implying

that there exist a short run stability among the variables under study.

6.11 Error correction model (ecm).

If there is the presence of Co-integration in the model it will be necessary to check if the variables have long-run relationship through running the error correction model **(ECM)**, the ECM indicates the speed of adjustment of variables that were in a disequilibrium state into equilibrium.

Table 12 Ecm Test Result

VARIABLES	COEFF	t- VALUE	ASSESSMENT
D(RESID01)	-0.565254	-4.285093	It takes 56.5% speed to adjust from disequilibrium to equilibrium

Following the table above it shows that the ECM result is negative which obeys a-priori expectations, this means that it takes 56.5% speed of adjust annually for the variables in disequilibrium in the short-run into equilibrium in the long run.

7 SUMMARY, RECOMMENDATIONS CONCLUSION

7.1 Summary

The study examined the extent to which globalization has impacted on the Nigerian financial sector between 1983 to 2014, accordingly, the study utilized an ordinary least square econometric technique, co-integration and error correction mechanism for the purpose of investigating the effect of the globalization variables (degree of openness (OPN), foreign direct investment (FDI) flows, Real Gross Domestic Product (RGDP), external debt flows (EXTDF), nominal exchange rate (EXCHR) and gross capital formation (GFC). While the financial sectors of interest is the stock market and commercial banks, their performance is proxy to market capitalization (MKCAP) and Commercial banks assets (CBA) respectively.Two null hypotheses were formulated which sought to explore the relationship between globalization and the performance of the Nigerian financial sector and they were tested. They were rejected based on overall significant of models using F statistics at 5 percent level of significance. The result of our estimate based on overall significant of models using F statistics at 5 percent level of significance shows that Nigerian financial sector as a whole has benefited from globalization.

Based on the result of the study we have the following findings

1. The unit root confirm that the variables used in the models are non-stationary at levels and indeed they are of random walk, integrated of order one and two.
2. The result of the determinants of the financial sector performance such as FDI, EXCHR, RGDP confirm to a priori with respect to stock market while OPN, GFC and EXDTF did not
3. The result of the commercial bank performance show that FDI, RGDP, EXTDF, were all positive against OPN, EXCHR, and GFC that were negative.
4. The co-integration result shows that the variables used for the study have long run relationship.

7.2 Recommendation

Based on our findings we hereby give the following recommendations to aid future study.

7.2.1   For Policy

1. The government should encourage external trade but with caution. We observed that the degree of openness (OPN) contributed to the overall financial sector performance.

2. The government should create a conducive environment that would encourage a steady flow of foreign direct investment. FDI is a sin qua non for development especially in the financial sector.

Monitoring/Evaluation of micro-economic stability may help to build the confidence of foreign investors on the security of their investment in Nigeria.

3   The exchange rate is very vital in determining the financial sector of performance, both in short and long run. Therefore, government should create the enabling environment to stabilize the exchange rate.

4   We also see that gross capital formation which ought to be positive is negative in the both sub-sector of the financial sector, indicating that more attention and encouragement is required.

5   Finally, adequate sensitization programs should be carried out by government on the need to embrace a good banking culture and to patronize the Nigerian stock market.

7.3 Conclusion

On the basis of our analysis and findings, the following conclusions could be drawn about the effects of globalization on the Nigerian financial sector in the short run and the long run. To a large extent, the Nigerian financial sector as a whole has benefitted from globalization given our overall result. Foreign direct investment flows meet our apriori expectation in both subsectors but not in a very high degree, while the degree of openness negatively affected the performance of both financial sub-sector which means that our trade is low.The Johnson co-integration results shows that the variables used for estimation have long run relationship.Finally, our result confirm to porter's theory as found in chapter two. The commercial banks for now are not strong enough to compete with their foreign counterparts. Therefore, the government is enjoined to come up with appropriate macro-economic policies that would protect them.

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