

DOES GLOBALIZATION CONTRIBUTE TO ECONOMIC GROWTH IN DEVELOPING COUNTRIES? SOME EMPIRICAL LESSONS FROM NIGERIA.

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ABSTRACT

This paper examines empirically whether or not globalization contributes to economic growth in developing countries, drawing empirical lessons from Nigeria. The globalization – growth link, is anchored on Husain Schematic representation, Solow model, and the new growth (endogenous growth) theory. The paper adopts a multiple regression framework as its methodology with the ordinary least squares estimation technique. From the empirical results, the following empirical lessons were drawn from Nigeria: globalization does not contribute to economic growth in Nigeria, openness has a negative impact on the Nigerian economy, the Nigerian economy is still very fragile and ill prepared for the challenges of globalization, labour force as one of the channels of global integration of economies, seems to be more applicable to the Nigerian context. For globalization to contribute to economic growth, the paper proffers some policy recommendations as follows: the quest for openness and liberalization should be pursued with caution, the economy should be less import dependent and more productive and export oriented, efforts should be geared towards deepening the Nigerian capital market, among others.

KEYWORDS: Globalization, Economic Growth, Developing Countries, Empirical Lessons, Nigeria

INTRODUCTION

At different times in life, certain phenomena, philosophies and concepts do take the centre stage in the scheme of things and dominate discourse in virtually all aspects of life. One of such phenomena, philosophies and concepts in the world of today is globalization. It is a double-edged concept or phenomenon that garners public support on one hand and evokes opposition or protest on the other hand. Globalization is a multidimensional concept that gives no room for neutrality. In international economic relations, it is a new paradigm, which apparently signals the triumph of capitalism on a truly global scale following the collapse of the soviet system and the dissolution of planned economies, particularly the Eastern Europe, and the subsequent end of the cold war (Rugumanu, 1999).

Globalization is not a new phenomenon to developing countries because these countries have always been part of the global economy. They have been participating in international trade through exports and imports of goods and services, through foreign direct investment and through loans and aid and transfer of technical know-how and skills (Human Development Report, 2000/2001). Thus developing countries are subjected to the impact of changes in the international economic environment. Both the positive and negative impacts of the integration process affect people on the both sides of the development divide. However, its impact is devastating on the economies and people of developing countries (including Nigeria). Indeed as pointed out in Human Development Report (2000/2001), "the progress in developing countries has been impeded by their disadvantageous participation in the global economy".

The scope of globalization however, goes beyond mere participation in the global economy. What then is globalization? What is its dimension? Who are the major players in the globalization process? What is the position of developing countries in the integration process? These, and similar questions will be examined in this study with a view to ascertaining whether or not globalization contributes to economic growth in developing countries, with emphasis on Nigeria.

It is not easy to give a precise definition of globalization in a sentence because of its multidimensional nature. As Uwatt (2003) put it, any attempt to do so, will amount to "over simplifying a complex phenomenon or further

complicating what is already complex". However, according to Human Development Report (2000/2001), globalization may be broadly defined as "a multidimensional process of unprecedented rapid and revolutionary growth in the extensiveness and intensity of interconnections on a truly global scale". It is a process, which makes possible free movement of goods and services, capital flows, information and ideas flows as well as people across national borders, resulting in greater integration of world economies.

The expansion of globalization wouldn't have been so unprecedented and rapid if there were no key players or major actors behind it. The major actors of the integration process are transnational corporations, multilateral financial institutions, multilateral agencies and indeed independent powerful states in the global system (Rugumanu, 1999; Onimode, 2000). For most developing countries (including Nigeria), the main vehicles that accelerated their integration into the world economy are the World Bank/IMF supported structural adjustment programmes and liberal trade regimes. It is on this basis that Aina (1996) observed that for most sub-Saharan Africa, globalization has not come about through the self-propelling power or rationality of the market but rather through the powers of coercion exercised by international creditors and multilateral financial institutions.

The process of globalization is not recent in recorded history; economic historians have conveniently traced the development of globalization from 1870 to 1914 (Kwanashie, 1998). Thus three waves of globalization have been identified. The first wave is from 1870 to 1914, the second is from 1915 to 1980 and the third wave is from 1980 to date. The last wave is the most important, due largely to the fact that a large group of developing countries – the new/post 1980 globalizers broke into global markets, while others become increasingly marginalized in the world economy and suffered declining incomes and rising poverty.

As indicated earlier, globalization is a multidimensional phenomenon. It encompasses economic activities, politics, technology, culture, even moral and social values as well as ethics (Rugumanu, 1999; Human Development Report, 2000/2001). However, this study concentrates on the economic aspect of globalization. Based on this, the broad objective of this paper is to assess the impact of globalization on economic growth in developing countries. While the specific objective is to ascertain empirically, whether or not globalization contributes to

economic growth in Nigeria and possibly draw some empirical lessons. What now follows is organized in the following sequence: Section 2 provides the theoretical issues and literature review. Section 3 gives the analytical methodology employed in the study. The empirical results and analysis follow in section 4. Section 5 concludes the study with a summary of main findings and policy recommendations.

2. THEORETICAL ISSUES AND LITERATURE REVIEW ON GLOBALIZATION AND GROWTH

As indicated in the preceding section, globalization is a multidimensional phenomenon. But in spite of its different forms, the economic dimension, which is the primary concern of this paper, constitutes the core of globalization. As pointed out by Uwatt (2003), "it is the economic dimension that is perceived to constitute the heart or hallmark of globalization". Globalization makes possible greater interdependence of world economies in what some analysts have christened, "borderless world", through trade, capital flows, free movement

of factors of production, as well as exchange of information and technologies. Obadan (2003) summed it all, when he asserted that openness and markets constitute the platform of globalization while trade, finance, investment and entrepreneurs are the heart.

On the other hand, economic growth according to Jhnigan (1997), "is related to a quantitative sustained increase in the country's per capita output or income accompanied by expansion in its labour force, consumption, capital and volume of trade". Other factors that have been identified to bring about economic growth are degree of openness, technological advancement, human capital, foreign capital inflow, international trade, investment, sound macroeconomic policies and good governance.

The foregoing analysis suggests that there exist a relationship between globalization and economic growth. This relationship was aptly captured by Husain (2000) in a Schematic representation depicted in figure 1 below.

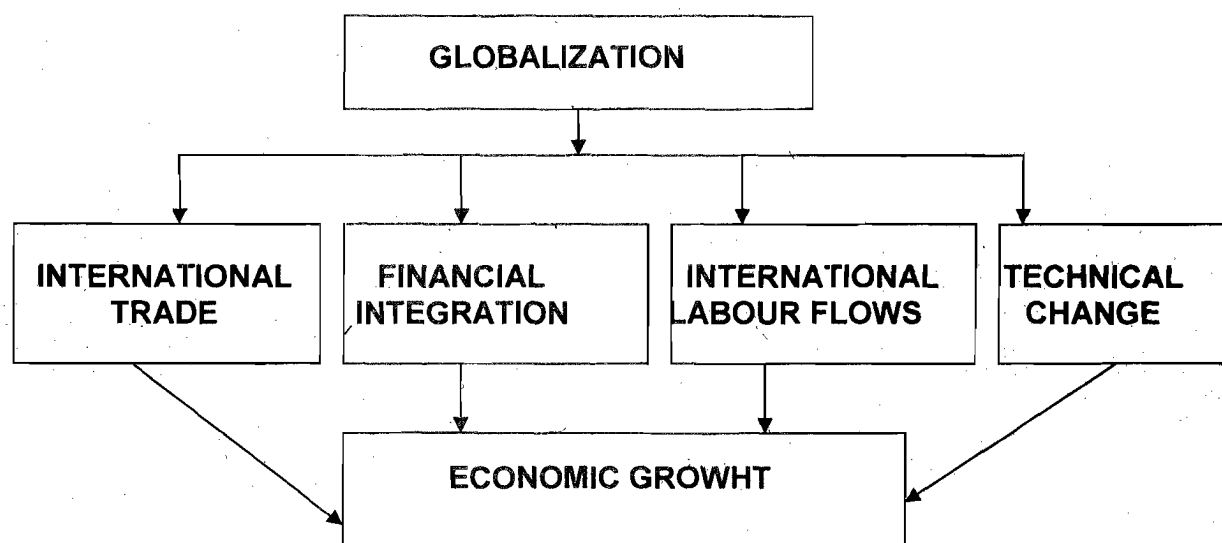


FIGURE 1: GLOBALIZATION – GROWTH LINKS

Based on this, professor McGrew of the open University, England, in Nwokoma, (2003), identified three schools of thought, namely:

- The hyperglobalists who perceive globalization as a new epoch in human history. This epoch to them, ushers in a single market and competition which are seen as pillars of future human progress.
- The sceptics who do not see globalization as a new thing. But rather, as something which has been existing and as just another stage in the evolution of the capitalist system.
- The transformers who regard the processes of globalization as novel in their present form and are generating new patterns of exclusion and inclusion in global economic policies and, therefore urge governments the world over, to adapt to the borderless world in which there is no clear distinction between internal and external affairs. They reject the postulates of the hyperglobalists and the sceptists, because to them, globalization is a re-engineering of the power, functions and authority of national governments.

Equally relevant to this study is the Solow model of economic growth. According to this model, a continuous production function is postulated, linking output to the inputs of capital and labour which are substitutable. The model assumes neutrality of technical progress, full employment of labour force and available capital stock. It takes output as a whole, the only commodity in the economy. Its annual rate of production is designated as $Y(t)$ which is dependent on capital stock (K) and labour force (L). This implies that economic growth is brought about by capital stock and labour force.

Another theory that is of great significance to this study is the new growth theory (endogenous) growth theory. The new growth theory was propounded by Romer (1986) to improve on the short comings of the previous neoclassical growth theories that treated technology as given or as a product of non-market forces. The central notion behind the new growth theory is, increasing returns associated with new knowledge or technology. It emphasizes that economic growth is a product of increasing returns associated with new knowledge and underscores the importance of investing in new knowledge to sustain growth. The new growth theory highlights two important points. First it views technical progress as a product of economic activity, and not as a product of non-market forces as was believed by the previous neoclassical theorists. Secondly, it holds the view that unlike physical objects knowledge and technology are characterized by increasing returns and this drives the process of growth. Romer (1986)

4. PRESENTATION AND ANALYSIS OF STYLIZED FACTS AND EMPIRICAL RESULTS:-

Stylized facts on some macro economic aggregates are presented in table 4.1 to show the performance of the economy vis-à-vis openness, from 1970 to 2002.

TABLE 4.1: EXTERNAL TRADE, GROWTH AND OPENNESS

YEAR	IMPORTS	EXPORT	TOTAL TRADE	GDP @ FCT 1984	GDP _g	TT/GDP
1970	756.4	88.4	1,641.8	54,148.9		0.0
1971	1,078.9	1,293.4	2,372.3	65,707.0	21.4	0.0
1972	990.1	1,434.2	2,424.3	69,310.6	5.5	0.0
1973	1,224.8	2,278.4	3,503.2	73,763.1	6.4	0.0
1974	1,737.3	5794.8	7,532.1	82,424.8	11.7	0.1
1975	3,721.5	4925.5	8,647.0	79,988.5	-29.6	0.1
1976	5,148.5	6751.1	11,899.6	88,854.3	11.1	0.1
1977	7,093.7	7,630.7	14,724.4	96,098.5	8.2	0.2
1978	8,211.7	6,064.4	14,276.1	98,020.9	-7.4	0.2
1979	7,472.5	10,836.8	18,309.3	91,190.7	2.4	0.2
1980	9,095.6	14,186.7	23,282.3	96,186.6	5.5	0.2
1981	12,839.6	11,023.3	23,862.9	70,395.9	-26.8	0.3
1982	10,77.5	8,206.4	18,976.9	70,157.0	-3.0	0.3
1983	8,903.7	7,502.5	16,406.2	66,389.5	-5.4	0.3
1984	7,178.3	9,088.0	16,266.3	63,006.4	-5.1	0.3
1985	7,062.6	11,720.8	18,783.4	68,916.3	9.4	0.3
1986	5,983.6	8,920.6	14,904.2	71,075.9	3.1	0.2
1987	17,861.7	30,360.6	48,222.3	70,741.4	-0.5	0.7
1988	21,445.7	31,192.8	52,638.5	77,752.5	9.9	0.7
1989	30,860.2	57,971.2	88,831.4	83,495.2	7.4	1.1
1990	45,717.9	109,886.1	155,604.0	90,342.1	8.2	1.7
1991	87,020.2	121,535.4	208,555.6	94,614.1	4.7	2.2
1992	145,911.4	207,266.0	353,177.4	97,431.1	2.9	3.6
1993	166,100.4	218,770.1	348,870.5	100,015.2	2.7	3.8
1994	162,788.8	206,059.2	368,848.0	101,330.0	1.3	3.6
1995	755,127.7	950,661.4	1,705,789.1	103,510.0	2.2	16.5
1996	562,626.6	1,309,543.4	1,872,170.0	107,020.0	3.4	17.5
1997	845,716.6	1,241,662.7	2,087,379.3	110,400.0	3.2	18.9
1998	837,418.7	751,856.7	1,589,275.4	113,000.0	2.4	14.1
1999	860,525.3	1,1890,006.5	2,501,531.8	116,400.0	3.0	17.6
2000	692,232.8	2,287,400.3	297633.1	120640	3.5	2.5
2001	1347466	2001231	33486971	125351.0	3.8	2.7
2002	1249381	1874874	3124255	129820.0	3.0	24.06

Source: Central Bank of Nigeria's Statistical Bulletin (various issues).

Where GDP = Gross Domestic Product
 * GDP_g = Gross Domestic Product Growth Rate
 * TT/GDP = Measure of Openness

*Calculations by the author

Nigeria's dependence on foreign trade measures the extent to which the economy is open to the outside world. Trade openness as earlier defined, is measured by the ratio of total trade to GDP (that is the ratio of the sum of import and exports to GDP). A trend analysis in table 4.1 shows that before 1987 the economy was less open as indicated by the indices of trade openness which varied between 0.1 and 0.3 respectively. But beginning from 1987 after the Structural Adjustment Programme (SAP) was introduced in 1986, the economy became more liberalized. Consequently, the index which was 0.1 in 1974 rose to 0.7 in 1987. The index of openness continued to rise, and by 1999, it stood at 17.6, while it reached an unprecedented level of 24.06 in 2002 (see table 4.1).

However, growth rates in GDP for the years under consideration have been very slow. In some years, the growth

rates were even negative. This analysis shows that openness has not contributed much to economic growth in Nigeria.

4.1 EMPIRICAL RESULTS

The summary of the regression results is presented as follows:

$$\text{GDP}_g = 8.68302 + 0.684155E - 03\text{TON} + 0.28586\text{FDN} + 0.020227\text{TAF} + \\ (8.93010) (0.245662) (0.229212) (0.125250) \\ 0.998959E - 02\text{PIV} + 0.755362\text{LAB} - 0.121253E - 02\text{INF}$$

$$(0.086674) \quad (2.73625) \quad (-1.361221)$$

$$R^2 - \text{Adjusted} = 0.824935 \quad F\text{-ratio} = 36.565 \\ D.W = 1.82852$$

Where values in parentheses are t- values.

The results presented above are obtained from the empirical model of equation (3.1). The estimation method is the ordinary least squares (OLS). The choice of this method is informed by its BLUE properties. That is, best linear unbiased estimator (Koutsoyiannis, 1977). The results are validated by three criteria, namely, economic apriori, statistical and econometric criteria.

Generally, the results are consistent with apriori economic theory. The signs of all the explanatory variables are all correct. For example, if there is an increase in trade openness (TON), ceteris – paribus, this will lead to economic growth in consonance with the classical and the neoclassical postulations. This explains why trade openness is positive.

Similarly, an increase in financial integration or openness, measured as the ratio of FDI, to GDP can stimulate growth in the domestic economy. This is why the coefficient of financial openness (FON) is positive. In the same vein, increase in average tariff rate (TAF), has the tendency of discouraging the consumption of imported goods, while emphasis will be placed on local production for domestic consumption and export. This in turn will enhance growth. For this reason the coefficient of average tariff rate (TAF) is positive. Furthermore, portfolio investment – GDP ratio (PIV) that captures capital stock, and labour force are all positive. As postulated by the Solow model, growth in output in the economy is dependent on capital stock and labour force. Lastly, an increase in the inflation rate retards growth and creates uncertainty in the economy. Hence the coefficient of inflation rate is negative.

However, even though all the explanatory variables are consistent with apriori economic expectations, most of them are not statistically significant at 5% or 10% level. Apart from the constant term and labour force, all the rest of the explanatory variables are not statistically significant. The model fits the data well, as 82.5% of variation in GDP growth rate is explained by the explanatory variables. Moreover, the overall model is statistically significant as shown by the statistical significance of the F-ratio. F-calculated of 36.565 > f-tabulated of 2.49 at 5% level.

The estimated model showed evidence of the existence of first order autocorrelation. This was however eliminated with the application of the Cochrane – Orcutt iterative method. Convergence was achieved after 7 iterations (See appendix for details). With this, there was a remarkable improvement in the results. The calculated Durbin Watson statistic of 1.83 suggests that serial or autocorrelation does no longer exist.

4.2 EMPIRICAL LESSONS

From the empirical results presented and analyzed above, the following lessons can be drawn:

- i. Globalization does not contribute to economic growth in Nigeria. This is due largely to the fact that apart from labour force, all other variable used as proxies for globalization are not statistically significant, meaning that they do not significantly influence growth in output in Nigeria.
- ii. The free movement of Labour as one of the channels through which economies are integrated is the most effective and applicable channel to the Nigerian situation as labour force is found to contribute significantly to growth in GDP.
- iii. The aggressive policy of liberalization embarked upon from 1986 with the concomitant rise in the indices of openness (See table 4.1), suggest that there is a high degree of asymmetry between the Nigerian economy and the global economy. But while the later looms alarmingly large in the Nigerian horizon, the former is being extremely, economically insignificant in the world. This is epitomized by the negative impact of openness on GDP growth rate. Above all, it shows that the Nigerian economy is still very fragile and ill prepared for the challenges of globalization.

5. SUMMARY, RECOMMENDATIONS AND CONCLUSION

The renewed emphasis and focus on globalization as the new engine of growth has provoked global debate on this popular paradigm that has been described by some analysts, as a "double – edged" concept that tends to produce gains for some, at the expense of others. This study examines empirically whether or not globalization contributes to economic growth in developing countries, drawing empirical lessons from Nigeria. It uses Husain Schematic representation and Solow model as well as the endogenous growth theory as its theoretical underpinnings to examine the relationship between globalization and economic growth. It employs appropriate econometric techniques and made some findings which show that globalization has not contributed significantly to the economic growth of Nigeria.

Consequently the following recommendations are proffered.

- i. Nigeria should exercise restraint in its quest for openness, since openness has not been found to contribute significantly to economic growth. However, Dollar and Kraay (2002) have emphasized the need for openness of developing countries since it provides them with access to markets, technologies and ideas needed to sustain higher and more equitable pattern of growth. In their word, they observed that "integration of poor countries with the global economy is associated with faster growth and poverty reduction". Openness of the economy though desirable should be pursued with caution. What we need do is to restructure our internal capacity and boost the productive base of the economy with a view to making Nigeria more competitive in the global economy.
- ii. The economy should seek to promote investment by eliminating restrictions that inhibit efficient allocation of resources and adopt investment codes that are universally accepted. Increase in investment will lead to growth in output.
- iii. Another prerequisite for Nigeria to achieve economic growth is the continuous fine tuning of macroeconomic policies to converge with development in her major trading partners' economies in particular and the global trend in general.
- iv. The economy should be less import dependent and more productive and export oriented to reduce the rate of imported inflation. Since inflation retards growth.
- v. There should be an intensive effort to deepen Nigeria's capital market. Even though Nigeria's capital market has witnessed some phenomenal growth in recent times, by international standard, it is still very shallow. This, perhaps may be responsible for the dismal contribution of portfolio investment to economic growth as seen in our empirical results.
- vi. To further boost growth in output, production techniques in Nigeria should be more of labour intensive than capital intensive. Labour force as found in our empirical regression results contributes significantly to economic growth. Nigeria, as a developing country with abundant labour will gain more if methods of production are geared towards labour intensive.

The world is not static. It is characterized by certain dynamics. For an economy not to be marginalized it must be fully integrated with the dynamics of the world. One of such in evitable dynamics today, is globalization. It is worthy of note that the growth and spread of globalization in Nigeria as well as other LDCs has a lightning speed. Unfortunately, from the foregoing, this is not true with the benefits of globalization. The picture which emerges is, a country, which is well and intimately integrated with and excessively dependent on the global economy and is exposed to external shocks and the boom- and- bust cycles of global macroeconomic forces. The empirical results have shown that there is no robust relationship between globalization and economic growth in Nigeria. To this end, if Nigeria wants to achieve the desired economic growth, the above recommendations should not be

treated with levity. As the most populous black nation in the world and one of the largest economies in Africa, Nigeria cannot afford to be marginalized in the globalization process.

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