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# Globalisation and Economic Growth in Nigeria

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**Abstract**
This study examined the relationship between globalisation and economic growth in Nigeria. The collected data from the central bank of Nigeria's statistical bulletin. The used the method of Johansen cointegration and error correction mechanism (ECM). It was that globalisation variables of trade openness (TOP) and foreign aid (FAD) appeared to be more impressive in the overall performance of the Nigerian economy in terms of economic growth. The policy implication is that there is need to encourage trade openness and inflow of foreign aid through assistance from international financial institutions (IFIs), international agencies (IAGs). The need to improve the investment environment to attract inflows of foreign aid is imperative. The study recommends that the government should properly utilise the foreign aid inflows into the country for projects and programmes that target economic growth and the improvement of living condition of the vulnerable groups and social safety nets in the country. This will spur high level of productivity, create employment and boost economic growth in Nigeria. There is need to improve the quality of the countries' export commodities to earn more foreign exchange for Nigeria.

**Keywords**: Globalisation, Trade Openness, Export, Import, and Economic Growth

## Introduction

Globalisation is indispensable to the performance of any open economy because it measures the economic activities of any nation with the rest of the world. ‹Globalisation could be looked at in three dimensions; these are economic globalisation, political globalisation and cultural globalisation. But the principal focus of this work is economic globalisation. Thus, economic globalisation is the integration of national economy into the international economies through trade, foreign direct investment, capital flows, migration and the spread of technology. Thus, the interplay of measures of economic globalisation such as trade openness, financial integration, foreign direct investment (FDI) have direct relationship with the growth of an economy.

In consonance with the policy of globalisation, the economic policy of the Nigerian government is intended to increase private sector participation, generate productive employment, increase export of locally manufactured goods, improve the technological skills, attract foreign direct investment and consequently promote economic growth. It was on this premise that, Imandojemu, Akinlosotu and Aina (2021), averred that, in line with globalisation policy, the Nigerian Enterprises Promotion Act which hitherto regulated the extent and limits of foreign participation in diverse sectors of the economy were repealed in 1995. The principal laws regulating foreign investments now are: the Nigerian Investment Promotion Commission Decree and the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree, both enacted in 1995.

The importance of globalisation to economic growth of an economy cannot be over emphasized, this is because economic globalisation helps to increase the output of an economy. Thus, scholars in Nigeria like Okowa (2006) as well as Ali, Obayori and Obayori (2018) averred that some of the real issues that have restricted the achievement of sustained growth in the global village have been attributed to the extent of the financial openness, FDI inflow and net export amongst others. While, some like, Loto (2012), Aliyu (2011); attributed it to underdevelopment of the infant industries and government policy. Also, there have been controversies on the relationship between globalisation and economic growth. While, some scholars affirmed positive relationship, others affirm negative relationship. Given the controversies above, it is expedient to provide answers to these questions; what the effect of globalisation in terms of financial openness is, exchange rate, net export and trade restriction on economic growth in Nigeria. It is on this background that the paper examines globalisation and economic growth in Nigeria. The paper was organised in five sections. These are introduction, literature review, methodology, results and discussions and the last section is the conclusions and recommendations.

## Literature Review

### Theoretical Literature

There are several theories that link economic globalisation to the growth of an open economy. Some of the examples of such theories are; Heckscher-Ohlin-Samuelson (HOS) trade theory and Neo-liberalism theory. For instance, The Heckscher-Ohlin theorem asserts that a country endowment or abundant in specific resource exports the product that intensively uses that factor in exchange with other products in order to gain advantage of globalisation (Heckscher, 1919; Ohlin, 1933; Samuelson, 1953). The Neo-liberalist believe that allowing competitive free market to thrive, privatising state-owned firms, promoting and eliminating excessive government regulations and price twisting in factor, products, and financial markets, both economic efficiency and economic growth will be stimulated. Meanwhile, the idea behind these economic theories is that countries that adopt a more open stance towards globalisation enjoy increase in economic growth than those that close their economies to trade (Obadan, 2010). This idea brings to light that openness of an economy to the world economies has with it an unprecedented increased financial and capital flow among other changes that the interconnectivity possesses.

### Concept of Globalisation

According to Shangquan (2000), economic globalisation refers to the increasing interdependence of world economies as a result of the growing scale of cross-border trade of commodities and services, flow of international capital and wide and rapid spread of technologies. It reflects the continuing expansion and mutual integration of market frontiers and is an irreversible trend for the economic development in the whole world at the turn of the millennium. Jike (2003) defines globalisation to be the result of the constriction of time and space in the exchange of goods and services between countries. This narrows the transactional space and increases the intensity of commercial interactions between countries. Yashin, (2000), defines globalisation as an economic revolution of the new millennium in which the world is shrinking into a global village in part by advances in information and communication technology (ICT).

Economic globalisation also affects cultural globalisation through the import of goods and services that expose people to other cultures. Globalisation has imperialistic tendencies whereby the developing countries like Nigeria live at the mercy of superpowers in terms of military and economic manipulations (Shuaib, et al., 2015). This implies that the Western world developed the concept of globalization to tie the aprons of the developing countries to themselves.

**Economic Growth**

Economic growth has had as many definitions as there are people who have written about it. Economic expansion, on the other hand, is accompanied by a rise in a country's production over a duration of time, usually a year. To put it another way, job expansion is the rise in the number of goods and services supplied over duration by an economy. In the words of Zhattau (2013), economic growth is the basis of increased prosperity and it comes from the accumulation of more capital and innovations which lead to technical progress. Economic growth can be defined as a periodic increase in a nation's output, which is most commonly measured by the gross domestic product (GDP) of the nation. The benefits stemming from economic growth are wide-ranging (Harper, 2011). Nwosu (2013) sees economic growth as the process of augmenting the productive forces or expanding productive capacity which is accomplished through effective mobilisation, assemblage, and management of human, material, and financial resources. According to Dewett (2015), economic growth implies an increase in the net national product in a given period. It is defined as a steady process by which the productive capacity of the economy is increased over time to bring about rising levels of national output and income. Pritzker, Arnold and Moyer (2015) identified Gross Domestic Product (GDP) as the economic indicator which measures the value of the goods and services produced in an economy in a given time period. They stated that GDP is a measure of the economy's output and is a measure of current production, not sales.

**Empirical Literature**

Jaho et al. (2023) studied globalisation and economic growth in Nigeria from 1985 to 2021. The objectives of the study are to; determine the impact of financial openness on economic growth in Nigeria; examine the effect of the net exports on economic growth in Nigeria; and examine the impact of exchange rate on economic growth in Nigeria. Annual data was collected from Central Bank of Nigeria statistical bulletins and World Development Index. The technique of Autoregressive Distributed Lag (ARDL) model was used to analyze the data. The empirical results showed that in the long run, all the variables of globalization have positive and significant relationship with economic growth in Nigeria during the period of study. In the short run, both financial openness and exchange rate have positive relationship with economic growth in Nigeria. But net exports have negative impact on economic growth in Nigeria. Based on these findings, it was concluded that, to a great extent economic globalisation significantly accelerate economic growth in the long-run in the Nigerian economy.

Imandojemu, Akinlosotu and Aina (2021), used the Ordinary Least Squares (OLS) approach to examine the impact of globalisation on the Nigerian economy. Specifically, the objectives of the study were to determine the impact of foreign direct investment (FDI), exchange rate, external debt and balance of payment on economic growth proxied by gross domestic product per capita income. Bi-directional causality among the variables was also determined. The result revealed that exchange rate and balance of trade have direct relationship with gross domestic product per capita (GDPC) while external debt had inverse relationship with gross domestic product per capita (GDPC).

Hassan (2021) examined the relationship between trade openness and economic growth in Bangladesh. Both cointegration and Granger causality analysis are used to find the short-run and long-run effects of trade openness on economic growth. The result indicates that trade openness has positive and significant effects on economic growth in Bangladesh. Granger causality analysis tells us that trade openness causes economic growth in the long run, though not in the short run.

Omojolaibi, Mesagan, and Nsofor (2016), evaluates models the channels through which globalisation affects financial sector development in Nigeria. To this end this study examines the data for these variables used in this study for the period (1987-2014). The results obtained in this study have established that globalisation has a significant effect on financial sector development in Nigeria.

Shuaib, Ekeria and Ogedengbe (2015), appraised the impact of globalisation on the growth of Nigerian economy using times-series data from 1960 to 2010. The study tested the stationarity, cointegration of Nigerian's time series data and used error correction mechanism to determine the long run and short run relationship among the variables examined. The results of the findings supported that growth of external debt ratio was an inversely related to economic growth.

Kilic (2015), investigated effects of economic, social and political globalisation on the growth levels of developing countries using fixed effects least squares method for 74 developing countries between 1981-2011 period. The result of the analysis implies that economic growth level of selected developing countries was positively affected by the economic and political globalisation whereas social globalization affected economic growth negatively.

Oni (2015) examined globalisation not only as a strategy of economic development but also on how Nigeria can minimize the adverse effect of globalization and benefit maximally in terms of improved wellbeing of the people. The study relies on secondary source of information. It contends that for Nigeria to fully participate in the complex global political economy, it must necessarily confront frontally the constraints on global integration.

Adesoye, Ajike and Maku (2015) assessed the impact of economic globalisation on output growth of the Nigerian economy using the Error Correction Model were carried out using the data sets within the period of 1970 and 2013. There exists a long-run relationship among exchange rate, interest rate, inflation rate, foreign direct investment (FDI), trade openness, and financial openness and real gross domestic product. The results revealed that a higher exchange rate and inflation rate, an increase in foreign direct investment, growth in trade and financial openness and a lesser interest rate enhance the growth rate of output in Nigeria.

**Methodology**

This presents the procedure and method of data analysis. It includes research design, model specification, data sources and technique of data analyses. This study employed quasi-experimental research design. This design is used to establish the causal relationship between the dependent variable and the independent variables in social sciences. The main sources of data include World Bank Development Indicators and the Central Bank of Nigeria. The estimation methods of ordinary least squares (OLS) estimation techniques of Augmented Dickey Fuller (ADF) unit root, Johansen cointegration, and the error correction mechanism (ECM) tests were used. ›This study adopted the linear model of Jaho et al. (2023), whose work focused on globalization and economic growth in Nigeria. This is modified and presented in mathematical and econometric form as:

$$EGRT = f(TOP, FDI, FDT, FAD) \qquad (1)$$

The ordinary least square (OLS) form of the equation is written as:

$$EGRT = a_0 + a_1TOP + a_2FDI + a_3FDT + a_4FAD + Ut \qquad (2)$$

A priori expectation: $a_1>0$; $a_2>0$; $a_3>0$; $a_4>0$;

Where:

EGRT = economic growth,

TOP = trade openness,
FDI = foreign direct investment,
FDT = foreign debt
FAD = foreign aid
$a_0$ = constant
$a_1$-$a_4$ = co-efficient of the explanatory variables
u = error term

**Data Analysis, Results, and Discussions of Findings**
This section presents the results of the analyses from the data collected. This includes Unit Root test, Johansen Cointegration and Error Correction test.

**Table 1 ADF Unit Root Test**

| Variables | ADF Stat. at Levels | 1% Crit. Value | 5% Crit. Value | ADF Stat. at first Diff. | 1% Crit. Value | 5% Crit. Value | Order of integration |
|---|---|---|---|---|---|---|---|
| **EGRT** | 1.523472 | -2.639210 | -1.951687 | -5.540038* | -2.641672 | -1.952066 | I(1) |
| **Log(FDI)** | 0.794809 | -2.639210 | -1.951687 | -7.589429* | -2.641066 | -1.952066 | I(1) |
| **TOP** | 0.416844 | -2.644302 | -1.952473 | -5.794799* | -2.647120 | -1.952910 | I(1) |
| **Log(FAD)** | 0.518293 | -2.644302 | -1.952473 | -4.379459* | -2.641066 | -1.952066 | I(1) |
| **Log (FDT)** | 3.075302 | -2.639210 | -1.952687 | -3.578244* | -2.641672 | -1.952066 | I(1) |

Source: Author's Computation, 2024
Note: *(**) indicates (1%) and (5%) Significant Levels

The unit root test in the Table 1 shows that all the variables are stationary at first difference [that is, I(1)] at 1% and 5% significant levels. Therefore, the time series data used in this study were stationary.

**Table 2: Johansen Cointegration Test on the Model**

Unrestricted Cointegration Rank Test (Trace)

| Hypothesized No. of CE(s) | Eigenvalue | Trace Statistic | 0.05 Critical Value | Prob.** |
|---|---|---|---|---|
| None * | 0.929109 | 197.0575 | 111.7805 | 0.0000 |
| At most 1 * | 0.737011 | 117.6593 | 83.93712 | 0.0000 |
| At most 2 * | 0.621546 | 77.59004 | 60.06141 | 0.0008 |
| At most 3 * | 0.449438 | 25.24010 | 24.27596 | 0.0377 |
| At most 4 | 0.201576 | 7.335625 | 12.32090 | 0.2929 |

Trace test indicates 4 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

| Hypothesized No. of 6CE(s) | Eigenvalue | Max-Eigen Statistic | 0.05 Critical Value | Prob.** |
|---|---|---|---|---|
| None * | 0.929109 | 79.39815 | 42.77219 | 0.0000 |
| At most 1 * | 0.737011 | 40.06926 | 36.63019 | 0.0190 |
| At most 2 | 0.621546 | 29.14978 | 30.43961 | 0.0718 |
| At most 3 * | 0.449438 | 17.90447 | 17.79730 | 0.0482 |
| At most 4 | 0.201576 | 6.753482 | 11.22480 | 0.2717 |

Max-eigenvalue test indicates 3 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Source: Authors' Computation, 2024

From the result in Table 2, trace and max-eigen statistics indicate 4 and 3 cointegrating equations respectively. This means that a longrun equilibrium relationship exist between the dependent and explanatory variables in the model.

**Table 3: Parsimonious ECM Estimates on the Model**

| | | | | |
|---|---|---|---|---|
| Dependent Variable: D(EGRT) | | | | |
| Included observations: 30 after adjustments | | | | |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | -0.279495 | 0.559475 | -0.499567 | 0.6242 |
| DLOG(FDI) | -0.528731 | 0.121639 | -4.346723 | 0.0002 |
| DLOG(FDI(-2)) | 0.593032 | 0.963775 | 0.615322 | 0.5470 |
| DLOG(TOP) | 0.275286 | 0.319500 | 0.861616 | 0.4016 |
| DLOG(TOP(-1)) | -0.281820 | 0.315136 | -0.894282 | 0.3844 |
| DLOG(FAD) | -0.450829 | 0.089871 | -5.016401 | 0.0000 |
| DLOG(FAD(-2)) | 0.568348 | 0.691261 | 0.822191 | 0.4231 |
| D(FDT) | 0.024343 | 0.016318 | 1.491739 | 0.1552 |
| D(FDT(-1)) | 0.039294 | 0.015569 | 2.523801 | 0.0226 |
| ECM(-1) | -0.161831 | 0.023040 | -7.024874 | 0.0000 |
| R-squared | 0.569772 | Mean dependent var | | 0.593333 |
| Adjusted R-squared | 0.520212 | S.D. dependent var | | 2.081427 |
| S.E. of regression | 1.838017 | Akaike info criterion | | 4.359976 |
| Sum squared resid | 54.05289 | Schwarz criterion | | 5.013868 |
| Log likelihood | -51.39964 | Hannan-Quinn criter. | | 4.569162 |
| F-statistic | 18.62970 | Durbin-Watson stat | | 3.227287 |
| Prob(F-statistic) | 0.015953 | | | |

Source: Authors' Computation, 2024

From the results in Table 3, Adjusted $R^2$ is 0.520212. This means that about 52% of the variation in the dependent variable is as a result of the variations in the explanatory variables. The remaining 48% may be attributed to the variables that are not included in the model. The F-statistic of 18.62970 indicates that the overall model is statistically significant at 5 percent (%) level. The result of DW-statistic of 3.227287 shows no autocorrelation of the error term in ECM. This means that the estimates based on OLS is not spurious. The value ECM of -0.161831 indicates 16% speed of adjustment to shortrun dynamics. The apriori expectations show that inflow of foreign direct investment (FDI) and foreign aid (FAD) showed negative relationship with economic growth (EGRT) in Nigeria. This means that increase in the inflows of FDI and FAD reduce economic growth by 52.87% and 45% respectively in Nigeria. This is not in line with theoretical apriori expectations. It may be attributed to high level of insecurity in Nigeria that tend to discourage inflows of FDI. On the other hand, trade openness (TOP) and foreign debt (FDT) showed positive relationship with economic growth (EGRT) in Nigeria. As trade openness (TOP) and foreign debt (FDT) increased by 1%, economic growth (EGRT) increased by 27.5% and 2.4% respectively. Foreign direct investment (FDI, -4.346723) and foreign aid (FAD, -5.016401) are statistically significantly. But trade openness (TOP, 0.861616) and foreign debt (FDT, 1.491739) are not statistically significant. This is because Nigeria export commodities are primary products.

**Conclusion and Recommendations**

This study examines the relationship between globalisation and economic growth in Nigeria. Following the findings, the study draws the conclusions that globalisation variables of trade openness (TOP) and foreign aid (FAD) appeared to be more impressive in the overall performance of the Nigerian economy in terms of economic growth. The policy implication is that there is need to encourage trade openness and inflow of foreign aid through assistance from international financial institutions (IFIs), international agencies (IAGs). The need to improve the investment environment to attract inflows of foreign aid is imperative. Based on the conclusions, the following recommendations were made for policy:

i) The government should properly utilise the foreign aid inflows into the country for projects and programmes that target economic growth and the improvement of living condition of the vulnerable groups and social safety nets in the country. This will spur high level of productivity, create employment and boost economic growth in Nigeria.
ii) The government should also ensure that the issue of insecurity is properly handled so as create investment friendly environment that has the capacity to attract foreign aid. This will help to maintain high level of productivity and boost the performances of all the sectors of the economy for rapid economic growth in Nigeria.
iii) There is need to improve the quality of the countries' export commodities to earn more foreign exchange for Nigeria.

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