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Effects of Economic Globalization on the Economic Development of Nigeria

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Abstract
World economies have evolved from self-dependency to being dependent on each other to foster comparative advantage and economic growth. Where less developed countries depend on developed countries for finance, technology and technical skill while the developed ones for raw materials majorly. The objective of this study is to look at the effects of economic globalization in the economic development in Nigeria using FDI into the country as a proxy for increased GDP and economic growth from 1970 - 2010. The methodology used is purely descriptive and narrative and the data used is secondary. The study found that FDI through globalization in Nigeria has thus far has a positive effect on economic growth but Nigeria still has to rearrange and re organize its fundamental structure in order to rip the full potential of economic globalization.

Keywords: *Economic globalization, Economic development*

Background to the Study

Globalization can simply be put as a complex continuous process and not a final destination. Although the phenomenon is not new to the world, its effects and impacts are felt differently throughout the world. Economic globalization includes free flow of goods and services, decrease in tariffs and trade barriers, immigration and spread of education and technology (Salami P, Jenalabad, HS, 2014).Globalization has been a heated topic debate topic for the past thirty years, its wide impact and effects on different aspect of life for both developed and developing countries. As more and more developing countries are rapidly opening up to globalization and its various roles and impacts on economic growth, education and technology to mention a few.

As the largest economy in Africa, Nigeria (Giant of Africa) has also experienced the cost and opportunities the wind this phenomenon blows. The connection between globalization and economic growth in Nigeria has drawn so much attention from researchers and academic scholars, therefore improving economic growth in Nigeria has gradually become the main stay of monetary and fiscal policy and even politicians as it reflects to a large extent the success of the nation. Inevitably the role of globalization has proven to be essential to a nation's ability to yield the maximum potential from its available resources. Maximization of these resources tends to leads to economic development and improved quality of life through higher standard of living.

Therefore due to these increasing and uneven trend of globalization around the world, identifying its role in the economic development of Nigeria can never be over emphasized. In this paper we attempt to examine what role globalization has played in economic development of Nigeria and how Nigeria has responded to globalization.

Objective of the study

Primarily, this study is set to assess the effect of globalization on the economic development of Nigeria using FDI into the country as a proxy for increased GDP and economic growth since 1970 2010.

Literature Review

Overview of Globalization as a concept

The 19th century was a period of dramatic integration of the world economy as evidenced by the rapid expansion in world trade, the founding of the Latin monetary union in 1865 and the emergence of the gold standard in 1878 (Onwaka, 1998 and Willianson, 1999) Globalization conjures the picture of a borderless world with greater economic integration that enhances the living standards of people across the globe (Onwuku, Eguavon, 2007) The role of globalization on economic growth has continuously been a heated and highly debatable topic of discussion for the past three (3) decades. Some researchers have found positive effects of globalization on growth through effective allocation of domestic resources, diversification and technological improvement. Others argued that globalization has negative impact on growth in developing countries with weak institutions, political instability and countries which specialize in un- standardized activities in the process of globalization. With the existence of these conflicting views in mind, the nexus between globalization and economic growth lays foundation to at least three school of thought.

First, many studies support the ideology that globalization promotes economic growth. Sachs et al and Edwards are among the pioneers of the study. They examined trade openness by using different index on economic growth, they found out that trade openness gives room for more economic growth.

The second school of thought which is also supported by some prominent researchers such as Rodriquez and Rodrik, they pushed fora far less supporting conclusion that economic globalization spurs economic growth. They stated that there wasn't strong evidence to support the idea of positive relationship between globalization through trade openness and economic growth.

The third school of thought out-lines the argument that found non liner relationship between globalization and growth with concentration on the effects of complementary policies. Scholars such as Boreizlein, De Gregoun et al (1998) supported this ideology with their investigation on the impact of FDI on economic growth in a cross country framework by developing the model of endogenous growth to examine the role of FDI in economic development in developing countries. The result was interpreted with the observation that the advanced technology brought by FDI increased the growth rate of host economy only when the country has sufficient level of human capital and infrastructure. More recently, according to SaminiP,jenatabudiHS (2014) after carrying out an investigation on the effects on economic growth in Organization of Islamic Cooperation (OIC)countries. The result indicated that the positive effect of globalization is increased in countries with better educated workers and well developed financial system which is also dependent on the countries level of income.

Globalization in Nigerian Economic growth

Nigeria has not been spared from the phenomenon of globalization. To begin with, Nigeria is economically weak due to inadequate domestic economic capacity and social infrastructure needed to propel the nation's productivity, growth and competitiveness. Secondly the economy is made even weaker by mono-cultural dependency and unfavourable terms of trade in its export trade as well as excruciating debt and debt services burdens (Onwuka and Eguavoen, 2007). Thirdly, prior to 1986, economic regimes were regulated and monetary policies in its development efforts (Obadan, 1998). These problems were further pronounced by political instability and corruption. As a result, investment choices were distorted, which eroded the confidence especially of foreign investors (Onwuka and Eguavoen, 2007). Although, globalization plays an uneven process with unequal distribution of its benefits and costs. This uneven distributions gives room for polarization between the developed countries that gain and developing countries that loose out (Obadon, 2001). The fact remains that Nigeria has become relatively more integrated with the global contemporary economic system, therefor the role of globalization in Nigeria requires some in depth study. This study focuses on one major powerful force that propel globalization in contemporary global environment which isforeign direct investment (FDI) (Usman, 1999:45 63)

Globalization and Foreign Direct Investment in Nigeria

Government has put in place various polices and incentives to attract FDI in recognition of its role in the economy. Government expressed its willingness i.e. (1997 budget) and severally to enter into investment protection agreement with foreign government for private organizations wishing to invest in Nigeria. In mid-1990's, Nigeria established the Nigeria Investment Promotion Commission (NIPC) decree which replaced the Industries Development Coordination Committee (IDDC) established in 1988 for the purpose of fostering a conducive regulatory environment for potential investors. The NIPC decree 16 of 1995 emulates the new enhanced liberal foreign investment policy stand of the government.

The creation of Nigeria Export processing Zone Authorities in 1992 at Calabar and many others were aimed at attracting more foreign investments through the provision of infrastructure facilities and elimination of bureaucratic bottlenecks- while the repeal of the Nigerian Enterprises Promotion Decree (NEPD) of 1972 and the Exchange control Act of 1962 were to make the investment climate more conducive for foreign investors. The privatisation and commercialization programmes from which government disengaged from the activities that could be effectively undertaken by private individual and groups were also aimed at promoting foreign investment.

FDI in Relation to Nigeria's Resource Endowment

The relative importance of Nigeria in the world economy can be measured through various indices, Nigeria's share of the world's FDI being one of them. Nigeria's share over the years has been small. Although Nigeria may not have achieved a full integration into the international financial markets, the nation is richly endowed with physical, human and natural resources. Nigeria's land mass covers 9,323,768kms with a large estimated population of over 160 million people (NPC 2012). The economy is also propelled by the fortune of crude oil production and much of the little global FDI is directed to the oil sector. Nigeria's natural resources are not limited to crude oil. It also included agricultural and other mineral resources. The mineral resources include coal, diamonds, sapphire, limestone, marble, etc. among others-which are in abundance. According to Obaseki and Ojo (1998) they argued that Nigeria has gas reserves expected to last for more than 200 years. Nigeria's potentials in petro-chemical are therefore high and bright. According to Shaib et al (1997) they argued that the Nigerian agricultural sector is endowed with “68million hectares of arable lands, fresh water sourcing covers 12million hectare, 960 km of coaster and ecological diversity” which enable the country to produce a wide variety of crops and livestock, forestry and fisheries products. When account is taken of Nigeria's natural resources potentials, the prospects of increased benefits to Nigeria from globalization become apparent. Akande (2002) therefore concludes that it is in view of this that foreign investors are being invited to take advantage of the bountiful investment opportunities to invest in Nigeria both in the oil and non-oil sectors such as gas, oil servicing, agriculture, telecommunications and transportation.

Trend of FDI in Nigeria

In the immediate post-independence period up to 1972, FDI in Nigeria was dominated by the non-oil sector. Agriculture was the main stay of the economy during this period. According to Anyanwu (1997) investment in the oil sector during 1970 was 25% of total FDI while investment in non-oil sector stood at 73% in the same period. In 1971, the share of the oil sector declined to 9.8% and that of the non-oil sector to 90.2%. In 1972, a total reversal was the case. The oil sector share shut up to 66% while non-oil sector dropped to 34%. This marked the beginning of the structural shift and sectorial in balance of the Nigeria economy towards and in favour of the oil sector and by 1973, the respective shares stood at 62% and 38% for oil and non oil sectors. Nigeria, being a mixed economy has gradually over the years shifted more from the public sector to the private sector and eventually to an open economy in which export and import play a great role. This also suggests the rate of FDI inflow to the economy. According to Ojo and Obaseki (1998), Nigeria is highly dependent on external trade and as such, measures should be applied to ensure maximum benefit for the country in the context of globalization. FDI forms a small percentage of the nation's gross domestic product (GDP) making 2.4% in 1970, -.81% in 1980, and 6.24 in 1989 and3.93 in 2002. On the whole, it formed about 2.1% of the GDP over the period1970-2002. Prior to the early 70s, foreign investment played a major role in the Nigerian economy such that between 1963 and 1972, an average of 65% of total capital was in foreign hands. Because successive Nigerian governments viewed FDI as a vehicle for political and economic domination, the thrust of government policy through the Nigeria Enterprises Promotion Decree (indigenization policy) was to regulate rather than promote FDI. The NEPD was promulgated in 1972 to limit foreign equity participation in manufacturing and commercial sectors to a maximum of 60%. In 1977, a second indigenization decree was promulgated to further limit foreign equity participation in Nigeria business to 40%. Hence, between 1972 and 1995, official policy towards FDI was restrictive. The regulatory environment discouraged foreign participation resulting in an average flow of only 0.79% of GDP from 1973 to 1988.

Table 1: Flow of foreign direct investment in Nigeria, 1970-2006.

Year	Nominal FDI Nmillions	FDI as % of GDP	Real FDI (N millions)
1970	128.6	2.47	1,190.70
1971	142.8	2.17	1,142.40
1972	297.8	4.13	2,308.50
1973	186.3	1.69	1,369.90
1974	181.6	0.99	1,179.20
1975	253.0	1.21	1,222.20
1976	212.5	0.79	830.07
1977	245.5	0.77	829.39
1978	134.4	0.38	389.39
1979	184.3	0.43	478.70
1980	-404.1	-0.81	-955.32
1981	334.7	0.66	653.71
1982	290.0	0.56	526.32
1983	264.3	0.46	389.25
1984	360.4	0.56	380.17
1985	434.1	0.60	434.10
1986	735.8	1.02	698.10
1987	2,452.8	2.29	2,112.66
1988	1,718.2	1.20	948.23
1989	13,877.4	6.24	5,088.89
1990	4,686.0	1.81	1,598.23
1991	6,916.1	2.15	2,090.09
1992	14,463.1	2.65	3,023.22
1993	29,660.3	4.28	3,944.71
1994	22,229.2	2.43	1,882.71

1995	75,940.6	3.87	3,721.85
1996	1,112,995.0	4.06	42,189.27
1997	110,452.7	3.89	3,857.62
1998	80,750.4	2.92	2,564.16
1999	92,792.5	2.91	2,753.66
2000	115,952.2	2.39	2,955.09
2001	132,433.7	2.39	3,102.90
2002	225,036.5	3.93	4,368.37
2003	358,388.6	2.55	4,703.70
2004	248,224.6	2.13	3,608.41
2005	302,753.4	2.79	4,164.05
2006	573,835.0	3.93	7,119.89
2007			
2008			
2009			
2010			

Source: CBN Statistical Bulletin (various years)

The adoption of the structural adjustment programme in 1986 initiated the process of termination of the hostile policies towards FDI. A new industrial policy was introduced in 1989 with the debt to equity conversion scheme as a component of portfolio investment. The Industrial Development Coordinating Committee (IDCC) was established in 1988 as one-step agency for facilitating foreign investment flow. This was followed in 1995 by the repeal of the Nigeria Enterprises Promotion Decree 16 of 1995. The NIPC absorbed and replaced the NICC and provided for a foreign investor to a set up a business in Nigeria with 100% ownership. In summary, the policies embarked on by the Nigerian government to attract foreign investors as a result of the introduction of the SAP (structural adjustment programme) could be categorized into five: the establishment of the Industrial Development Coordinating Committee (IDCC), investment incentive strategy, non-oil export stimulation and expansion and expansion, the privatization and commercialization programme, and the shift in macroeconomic management in favour of industrialization, deregulation and marked-based arrangements.

Conclusion

From the above observations we can conclude that Globalization through FDI has a positive impacts on Nigeria's GDP and economic growth respectfully. It helps to promote growth by increasing labour force skill, promoting competition and facilitating the transfer of technology. The inflow of FDI has also helped Nigeria in raising productivity and hence the real wages of labour. When FDI induced industrialization takes place, the real wages of newly employed workers are higher than the real wages of workers in rural sector of the economy. Furthermore, FDI brings more revenue to the government when it taxes the profit of foreign firms or gets royalties from concession agreements, foreign capital helps to improve balance of payment problems experienced in the country. In Nigeria private companies are usually unwilling to undertake risky ventures, foreign companies take on the risk while also providing more job opportunities for Nigeria. FDI inflow is essential for growth in Nigeria as Nigeria suffers from technological backwardness due to capital deficiency which results from low savings and low private sector investment.

Nigeria would have been able to attract a lot more foreign direct investment from the world economy if the economic and political environment were as conducive as it is supposed to be. Nigerian economy is crippled with corruption, insecurity of life and property, weak infrastructure, unhealthy macro-economic conditions and political instability, thereby weakening the potential of a globalized induced economic growth.

Recommendations

In order for the Nigerian economy to rip the full benefits and growth potential of globalization as a developing country certain conditions must be meet in order to stimulate increased flow of FDI into the country. Below are some recommendations highlighted in the following section.

Conducive Macro-Economic Policy Environment

A healthy economic environment is indispensable for high investment and rapid economic growth. A good macroeconomic environment for stimulating FDI should be one characterized by stability and predictability. The macroeconomic environment should be the one that is efficient in resource allocation, promotes a stronger and sounder banking system that protects the savings of small depositors and elicits increased saving, encourage greater transparency and accountability in government and corporate affairs and Reduce uncertainty so as to accelerate the investment response to incentive package, furthermore creates a more level playing field for the private sector by dismantling monopolies and establishing more transparent regulatory systems and encourages and reward individual initiative sound macroeconomic policies.

According to Iyoha (1998), to rekindle investment for economic development, there is need for government to formulate and implement sound macro-economic policies that promote growth through low inflation, prudent fiscal policies and a sustainable current account balance of payment position. In Nigeria, the macroeconomic policies should be designed to reduce instability endangered, also if external debt is reduced, more money will be available in the country to improve on the weak / poor infrastructure in

Deregulation of the financial system

Pill and Pradhan (1997) have established that if there is financial liberalization, market determined interest rate would result in a modest positive interest rate. These in turn will increase the resources available to the financial system, since bank deposit offering competitive venture will attract savings that were previously held outside the formal financial sector. More so, positive real invest rates, will provide an incentive for borrowers to invest in more productive activities thereby improving the productivity of the economy as a whole. Consequently, financial liberalization should lead to an increase in both quantity and quality of financial intermediation by the banking sector. Financial deregulation can therefore stimulate economic growth and development through a variety of channels since the financial system performs the vital function of raising funds for, and channeling same to productive investment.

Effective and Trusted Judicial System (legal Machinery)

An effective judicial system would be mandatory to further attract and protect investors and their investments. This is because according to Nwogogu (1965), attention must be paid to the legal aspects of FDI because the value of foreign capital flow into the country depends on the effectiveness of the legal machinery. The private investors are most often than not reluctant to invest in a state with an unattractive business atmosphere where property is not secured and the prospect of earning profit is gloomy.

Policy consistency

The Nigerian economy is characterized by policy inconsistencies as well as serious problems of credibility that is common in government policy pronouncements resulting from those inconsistencies in the nation's macroeconomic policy instruments and objectives.

Corruption

Corruption and economic turmoil often go hand in hand, it plays a major role in fostering staggering poverty and broken economic systems. Transparency international published its 2014 corruption perception index (CPI), which ranked 175 countries and Nigeria was ranked the 136 most corrupt country in the world .This characteristic is deeply rooted in every aspect of a typical Nigerian and it goes a very long way in preventing and hindering foreign investors and tourist from coming into the country. The Nigerian government needs to make corruption a priority, tackle it properly and root it out of the system completely. The Nigerian civil service should be the first point of cleansing and restructuring in order to set proper thriving ground for the private sector to work effectively.

Infrastructural Development

There should be concerted efforts to improve electricity supply, water supply, road network and transportation facilities etc. If these are not provided, business outfits incur extra costs providing theses and these constitutes addition to the start up and running cost of business concerns, therefore discourage new individuals and foreign investors.

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