Globalisation: The Nigerian Experience

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Abstract
The world has witnessed increased interdependence in the last two decades, thanks to globalization. The main driving forces of this process are technology, policy and competition and it subordinates domestic economies to global market conditions and practices. Developed nations are the beneficiaries of globalization as their share of world trade and finance has been expanded at the expense of developing countries. Thus, the process exacerbates inequality between the world's regions and poverty in the developing world. Nigeria has not benefited enough from globalization due to her largely dependence on crude oil, inability to attract increased foreign investments and her huge indebtedness. But globalization can be domesticated in the country through diversification of exports, debt reduction and expanded development cooperation with other countries. The Nigerian state also needs to be strengthened as a bulwark against the dictates of foreign capital. All this accomplished, Nigeria could join the league of nations in enjoying the benefits of globalization. This paper also examines the concept of globalisation and the place of Nigeria in the web of international relationships involving trade in goods and services and financial intermediation. The paper identifies two major categories ofglobalisation. These are the integration of goods and services markets across national boundaries and the integration of financial markets across the globe. The paper concludes that Nigeria has not benefitted enough from globalisation owing to the undue dependence on crude oil exports, low manufacturing exports and the under-development of the domestic ,financiuI markets. The paper identifies a number of prospects and challenges of globalisation. Some of' the prospects include, increased specialisation and efficiency, economies of scale in production and increased global awareness. The challenges include: the design of appropriate .framework to ensure that domestic monetary management is not impaired, and that the domestic economy is not unduly destabilised owing to adverse developments in other parts of the world. The paper concludes

that for Nigeria lo benefit maximally from globalisation and escape-from being marginalised, accountability and transparency must be enthroned through good governance and the application of market-friendly policies.

Introduction

Globalization was defined by Giddens (1990) as the 'intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring miles away and vice versa'. This definition embodies some interrelated ideas, of "accelerating interdependence" (Ohmae, 1989), of "action at a distance" (Giddens, 1990) and of "time–space compression" (Harvey, 1989). 'Accelerating interdependence' is understood to be the growing intensity of international enmeshment among national economies and societies, such that developments in one country impacts directly on another country. 'Time space compression' refers to the manner in which globalization appears to shrink geographical distance and time. In a world of near instantaneous communication, distance and time no longer seem to be major constraints on patterns of human organization and interaction (Held, McGraw, Goldbat and Perraton, 1999). Globalization is leading to homogenization and convergence in organizations' strategies, structures and processes and in consumer choice, along with a new global division of labor that widens the income gap between the 'haves' and 'have nots' both within and between societies.

Today's world is organized by accelerating globalization, 'which is strengthening the dominance of a world capitalist economic system , supplanting the primacy of the nation state with transnational corporations and organizations, and eroding local cultures and traditions through a global culture (Kellner, 1989). The emergent global economy and culture can be described as a 'network society' which is grounded in new communications and information technology (Castell, 1996, 1997, 1998). Some view globalization as the continuation of modernization and a force of progress, wealth, freedom, democracy and happiness. Others view it as another form of imposition. Its critiques view globalization as harmful and perceive it as a force that brings about increased domination and control by wealthier and overdeveloped nations over the poor and underdeveloped countries. They feel that it widens the gap between the 'haves' and 'have nots' (Castell, 1996). From the social theory perspective, globalization involves the flows of commodities, capital, technology, ideas, forms of culture and people across national boundaries via a global networked society (Castells, 1996, 1997, 1998). The transmutations of technology and capital, work together to create a new globalized and interconnected world. (Castell, 1998) A technological revolution involving the creation of computerized network of communication, transportation and exchange is the presupposition of a globalized economy, along with the extension of a world capitalist market system that is absorbing evermore areas of the world and spheres of production, exchange and consumption. The technological revolution presupposes global computerized networks and the free movement of goods, information and people across national boundaries. Hence the internet and global computer networks make globalization possible, by producing a technological infrastructure for the global economy. Globalization has an effect on employment patterns worldwide. It has contributed to a great deal of outsourcing which is one of the greatest organizational and industry structure shifts that changes the way business operates (Drucker, 1998). Globalization is also seen as changing organizational structures where expenses can move up or down as the business climate dictates (Garr, 2001). For employees the trend toward outsourcing has been thought to result in a loss of fixed employment opportunities as a consequence of firms seeking to use cheap labor from countries like China, Mexico and even Africa. The globalized economies have also had their effect on reward systems, migration, and on job security and each of these are discussed in the below. Globalisation is the integration of national economies through trade and financial interaction. A sub-set of globalization which has become very pervasive and, in some cases, destabilising is financial markets integration across the globe. The rapid flow of goods, services and capital, especially the latter, has made national controls on these aggregates less effective without consideration for countervailing measures that other nations could impose in the absence of coordinated responses. CBN ECONOMIC & FlNANCIAL REVIEW. VOL. 38 No. 2

The rapid advance in technology and telecommunication has reduced the cost associated with foreign portfolio and direct investment. Without moving from one location to another, a foreign investor could deploy funds across the globe with the aid of telecommunication facilities. The ease with which capital can be re-deployed to take advantage of better returns has often proved adverse for the economies experiencing the outflow. Reductions in transport and communication costs, capital account opening, financial market deregulation and privatization of state enterprises have combined to create a favourable environment for increased capital mobility (Fischer, 1998: 164). The globalization of financial markets has proved complex to understand because the phenomenon encompasses both product and capital markets. The integration of financial markets has exerted considerable constraints on the conduct and effectiveness of macroeconomic policies in recent times, as depicted by the financial crisis in South East Asia in 1997. The rapid advance in globalization, especially after the end of the cold war has tended to re-enact the laissez-faire doctrine that was prevalent before the ideological polarization of the world. The fact that globalization could mean many' things to different people, depending on where they fit into in the current dispensation, makes it imperative *to* explore the implicationsof the phenomenon for domestic macroeconomic management. The extent to which the effectiveness of domestic economic policy can be compromised if adequate consideration is not given to countervailing responses of other nations is a major area of inquiry of this paper. This is more important as the interdependence between nations is an indication that growth could be undermined if nations build protective walls around their economies. Stabilizations offinance and financial risk have been attributed to an increase in the technical capabilities for engaging in precision finance, the integration of national financial markets, the blurring of distinctions between financial institutions and the activities of the markets they engage in, and the emergence of the global bank and the international financial conglomerate, each providing a mix of financial products and services in a broad range of markets and countries. Financial globalization has resulted in two distinct developments in global finance. In the first place, traditional banking institutions have evolved into financial services firms with new accounts. Additionally, non-bank financial institutions now actively compete with banks both on asset and liabilities sides of the balance sheet thereby blurring the distinction between banks and non-bank financial institutions. Also, the rapid growth in the share of other earning assets in total assets and relative growth in off-balance sheet items have been unprecedented (IMF, 1998: 180- 182). CBN ECONOMIC & FINANCIAL REVIEW. VOL.38 No. 2

The Concept of Globalisation

Globalisation refers to the process of the intensification of economic, political, social and cultural relations across international boundaries. It is principally aimed at the transcendental homogenization of political and socio-economic theory across the globe. It is equally aimed at "making global being present worldwide at the world stage or global arena". It deals with the "increasing breakdown of trade barriers and the increasing integration of World market (Fafowora, 1998:5). Ohuabunwa, (1999: 20) opines that globalisation can be seen as an evolution which is systematically restructuring interactive phases among nations by breaking down barriers in the areas of culture, commerce, communication and several other fields of endeavour. This is evidenced from its push of free-market economies, liberal democracy, good governance, gender equality and environmental sustainability among other holistic values for the people of the member states. The process of globalisation is impelled by the series of cumulative and conjunctural crises in the international division of labour and the global distribution of economic and political power; in global finance, in the functioning of national states and in the decline of the Keynesian welfare state and the established social contact between labour and government. The hallmark of free-market capitalism has been aided among other factors by the sudden, though expected changes within the physiology of global political community in recent times. Because of the foregoing, globalisation could be correctly defined from the institutional perspective as the spread of capitalism (MacEwan, 1990). However, it is germane to adumbrate that the collapse of the Eastern block in the late 80s and early 90s led to the emergence and ascendancy of a global economy that is primarily structured and governed by the interests of Western countries, thus, facilitating the integration of most economies into the global capitalist economy. With the end of the Eastern Europe in the early 90s, capitalism as an economic system now dominates the globe more than it had been at any time in its history. Even, China, by far the largest non-capitalist economy, has undergone dramatic changes in its international economic policy orientation, and, is today the recipient of almost one-half of all foreign direct investments that go into developing nations - this is a country that essentially blocked all foreign investments until the 1980s (United Nations, 1995b). Despite this analysis of globalisation in terms of capital inflows and trade investment, it is important to state that it has negative consequences to the governments and people of the African continent. Globalisation, according to Ohiorhenuan (Ibid), is the broadening and deepening linkages of national economies into a worldwide market for goods and services, especially capital. As Tandon (1998B: 2) once opines, globalisation seeks to remove all national barriers to the free movement of international capital and this process is accelerated and facilitated by the supersonic transformation in information technology. It is principally aimed at the universal homogenisation of ideas, cultures, values and even life styles (Ohiorhenuan 1998: 6) as well as, at the villagization of the world. Expanding this argument, Gordimer (1998), argues, that it is basically concerned with the expansion of trade over the oceans and airspace, beyond traditional alliances which were restricted by old political spheres of influence. Thus, it presupposes the "making or remaking" of the world (Diagne and Ossebi. 1996) by creating "a basic change in the way in which major actors think and operate across the globe" (Biersterker, 1998). In other words, it connotes "the rapid expansion through giant multinational companies of capitalism and their "blood sapping principles" of "liberalisation", "commercialisation", privatisation" and "undemocratic and property-based democratisation" to several areas of the world including where it had hitherto been resisted or put in check" (Madunagu, 1999, 53). Very critical to our understanding of globalisation is the dire need to use it as a synonym for liberalisation and greater openness. The implication of this is that both domestic and foreign liberalization are said to imply globalisation, since the former brings domestic markets more in conformity with forces operating in markets abroad, and, the removal of administrative barriers to international movement of goods, services, labour and capital increases economic interaction among nations. It is within this purview that we can argue that globalisation is mainly a phenomenon of capital mobility. Its two prongs are: (i) Foreign direct investment and (ii) international portfolio flows. Thus, a global economy is one which is dominated by transnational firms and financial institutions, operating independently of national boundaries and domestic economic considerations. The implication of deterritorialisation for African countries is that world goods, factors of production and financial assets would be almost perfect substitutes everywhere in the world. Hence, it could be difficult to identify a national economy and consider nation states as different economic identities with autonomous decision making power in the pursuit of national objectives. This, indeed, explains why the IMF issued a query to Nigeria in respect of over 400 billion naira meant for capital expenditure in the 2001 budget, and, why the IMF and World Bank (two bodies that are driving forces of globalisation) contributed enourmously in the drafting of the Nigeria's 2001 budget. Another important feature of globalisation is that, it enhances the volume of international trade and investment, which is a reflection of the global pattern of specialisation in production (i.e. the international division of labour). Though, there is an increase in the volume of goods among nations, international trade continues to be largely concentrated in developed countries (i.e. Trade continues to exist between economies at the same level of economic development). For example, in 1992, 56% of world trade was among developed countries, virtually unchanged from its 1970 level. In the same year, 77% of developed countries imports come from other developed countries, compared to 78% in 1970. Thus, trade between the developed and developing world as measured by the share of developing countries exports in total developed countries imports has been stable, varying around 30% since 1970, although the rise in oil prices in the 1970s brought a temporary increase. However, trade among developing countries has been a relatively constant share of total trade, although, there has been a rise in intra-Latin American trade (United Nations, 1993). Central to our discourse is that, globalisation is also about international division of labour which might be broadly characterised by the skill intensity of production, with developed countries increasingly specialising in high -

skill intensive manufacturing and services and, developing countries in low - skill intensive manufacturing. This asymmetry has severe and devastating impacts on African economies since they are primarily to produce raw materials for industries in the developed countries which, eventually, produce goods and dump them in developing countries as a result of liberalisation - a critical component of globalisation. There is no doubt whatsoever that globalisation is one of the most challenging developments in the world history. As Tandon (1998A:2) once opines, "globalisation in its most generic and broad sense is part of the movement of history". In other words, globalisation which is an "imperial policy" (Toyo, 2000) and the "final conquest of capital over the rest of the World", is deeply rooted in history and quite explainable within the context of the one -arm banditry and exploitative antecedents of capitalism which, by its nature cannot exist without parasitic expansion. Given the changing faces and phases of globalisation and its immutable central and primary focus to exploit African resources, disintegrate its economies and incorporate it into the international capitalist economy, it is imperative to emphasise that, the different conceptions, notions and treatment of globalisation by scholars are not incompatible with one another. The limitation of these conceptions, notions and treatments, however, is that, it does not describe the sudden yet significant shifts in the world economy, but, rather, the continuation of longer term trends. Rather, the new development which seems to connect these different strands is that an increased pace of capital mobility has begun to shift the prospects for economic development and growth to the global level - an indication of the expropriation of surplus and capital flight from the African economies. Globalisation has progressed with developments in the world economy. The phenomenon has benefitted immensely from multilateral trading and investment arrangements, advance in technology and communication, and the opening up of trade and investment through liberalisation of current and capital account transactions. The concept of globalisation has robust theoretical underpinnings. The promotion of trade as the bedrock of the wealth of nations was first espoused in the "mercantilist" doctrine before the emergence of Adam Smith's and David Ricardo's thesis. The neo-classical model of growth was later countered by the radical theorists on the inviolability of trade for ensuring the growth of nations.

The radical theorists and the early proponents of development economics were of the view that growth can be internalised. However, recent developments in the world economy have shown that it is futile for countries to isolate themselves in a rapidly integrating world. Trade theory, as well as closed and open economy, macroeconomics have explained a great deal of the phenomenon that has overwhelmed the world. Globalisation has provided the impetus for nations to tailor their development efforts towards competitiveness in order to remain relevant in the emerging global economy. The trade theorists advanced the thesis that trade was essential for the growth of nations. The arguments of this school did not favour autarky, where an economy is closed with little relations with the rest of the world. With the gains by nations from closer interaction in trading activities following the liberalisation of current accounts, emphasis has shifted to some minimal capital account liberalisation. Although the opening up of capital accounts has been slow, especially among developing economies, current account liberalisation has progressed smoothly. It has often been argued that the more open an economy is, the higher the rate of economic growth. The extent to which an economy is liberalised is influenced by factors such as the strength of the domestic economy, the competitiveness of the external sector, the level of the exchange rate, domestic gross capital formation, among others. Net capital flows are the outcome of imbalances between savings and investment across countries. Both net and gross capital flows respond to economic fundamentals, official policies and financial market imperfections. Thus, fundamental determinants of international capital flows are factors such as the investment opportunities available in the global economy, the co-variances between the expected returns on various investment projects, and the preferences of individuals for present and future consumption, as well as attitudes toward risk**.** As the international financial system becomes more integrated and portfolios more diversified, assets prices are more likely to change than are net capital flows to restore market equilibrium (Taylor, 1997:453).

According to Kareem (2009), there is no consensus on the definition of globalization in the development literature. Most economists take globalization to mean the closer integration of economies through trade and the flow of factors. While some used the growth rate of trade and factor (but capital rather than labour) flow to measure globalization, others take it to be economic liberalization, which enhances closer economic interactions and even some analysts gave a narrower definition to globalization, as being the organization and governance of global production systems (Lall, 2002). Adewuyi (2001) takes globalization to mean the process of both vertical and horizontal integration that involved an increased volume and variety of transnational transactions. Omar (1996) conceived globalization as the integration of domestic economies via financial and trade interactions, leading to the collapse of barriers to trade that makes the domestic economy influenced by the policies of another country through trade and investments. Other definitions of globalization were given by Igudia (2003), Lall (2002) among others. Although economic globalization has many dimensions, loosely speaking it refers to removal of trade restriction (suchas tariff, quota), liberalization of capital markets and free movements of labor. All these could be considered as the indicators of economic globalization. According to Kazeem (2009) the issue of Globalization has brought about three schools of thought: those who believe that globalisation is the best thing that could happened to this world, those who believe that the advent of globalization nhas brought havoc to the economy and those who believe that it could have both positive and negative effect on the economy depending on how they accept and apply it. Economic liberalization is a subset of globalization and it is multidimensional as it encompasses trade, financial, telecommunication etc. To Kazeem (2009), economic liberalization entails freedom in the movement of goods and services across the border of the trading countries. Economic liberalization may be described as the freedom to engage in economic activity at home and/or abroad, a freedom subject to institutional and policy constraints needed to guarantee public interests at large (Ognivtsev, 2005). To Bhalotra (2002), Economic liberalization refers to both macroeconomic stabilization and micro-structural change. As advocated by the IMF and then WB, the package of reforms typically includes some or all of the following changes: reduction in government expenditure, opening of the economy to trade and foreign investment, adjustment of the exchange rate, deregulation in most markets and the removal of restrictions on entry, on exit, on capacity and on pricing. Robert A. Packenham, (1994) is of the view that economic liberalization, which he defined as reduced control by the state over the market and the private sector, is an aggregate concept that has a number of elements or sub dimensions. In his words, Among these elements µare privatization of state enterprises, more liberal trade policies and liberal investment policies, deregulation of ongoing private-sector enterprises, reductions in state subsidies, budget deficits, state bureaucracies, and moves toward bureaucratic decentralization. Development on the other hand is a word that is difficult to define because of the diverse contextual usage of the concept. But simply put, the term means improvement or to become more advanced, more mature, more complete, more organized, more transformed etc. Rodney (1969)sees it as a many sided process but defines it in relation to the individual. As he explains, ³at the level of the individual it implies increased skills and capacity, greater freedom, creativity, self-discipline, responsibility and material well-being´. Todaro also sees development as a multi-dimensional process but gives a definition that is often considered as the other extreme of emphasis from that of Rodney. He describes development as a multi-dimensional process involving there organization and reorientation of the entire economic and social system. This involves in addition to improvement of income and output, radical changes in institutional, social and administrative structures as well as in popular attitudes, customs and belief (Todaro 1982). Todaros definition gives the meaning, which the concept of development assumes whenever it is discussed in relation to countries. Development at this level of conceptualisation is often understood in terms of economic development. This does not only signify economic development, but as Todaro notes above, it equally implies improving the social, administrative, political as well as peoples cultural attitudes and beliefs that are anti progress. Also, Ibezim (1999) further explains, ³economic development does not only involve physical and financial progress but also improvements in the political and social aspects of society´. As stated in Todaro and Smith (2009), µDudley seers posed the basic question about the meaning of development

Dimensions of Globalisation

Globalisation is of two main categories: trade and investment integration, and financial integration. Globalisation of the world's goods and services markets through trade liberalisation and the removal of numerous controls preceded financial markets integration. The removal of barriers to international trade by countries in the quest to operate within the framework of the multilateral trading system was a major impetus for the acceleration of globalisation of trade.

Integration in trade was followed and facilitated by foreign direct investment flows between countries that were involved in trade relations. The multinational corporations, the original custodians of international monopoly capital, were the channels through which both international trade and foreign direct investment (FDI) flows were channelled. It was, therefore, not surprising that the countries that traded ore among themselves also recorded substantial FDI flows across their borders. Variants of globalisation of trade and investment can also be determined through the process leading to the integration. Trade liberalisation and the application of the Most Favoured Nations Preference or symmetrical treatment of all trading partners provided a wider focus for globalisation. The liberalisation of current account transactions in the context of the International Monetary Fund (IMF) Article VIII, Sections 2, 3 and 4 on currency convertibility has further provided the basis for the integration of national economies. A number of member countries of the Fund have acceded to the obligations of Article VIII. Other countries in the transitional status have attained some level of convergence that will qualify them to accede to Article VIII. Apart from the institutional and multilateral arrangements that contributed to trade integration, lower transport and production costs, arising from increased specialisation and economies of scale have also helped to accentuate the phenomenon. The integration of the world's financial markets has been more profound. The volume of financial transactions has more than tripled.that of trade in goods and services. Financial globalisation was propelled by the advance in information technology, that facilitated interactions among financial concerns in different parts of the world. Within seconds, financial transactions involving large sums of money could be concluded. The fluidity with which capital moves across national boundaries makes the phenomenon different from globalisation involving trade in goods and services. Financial globalisation, unlike that involving trade in goods and services, is more difficult to track. This is because it exhibits herd bahaviour and its presence can easily be obscured either deliberately or by default. Although, globalisation of trade has led to enormous benefits, its adverse effects have been reflected by shocks in the external sectors of weak economies. The volatility arising from globalization of trade is, however, on a lower scale than that of financial markets globalisation. The rapid integration of the global capital markets has made reverse flow of capital very destabilising. Hedge funds and financial derivatives have also compounded the problems of international financial integration. Gains from globalisation of goods and services markets can easily be eroded as a result of adverse developments in the financial markets. More importantly, volatility of financial markets is a more difficult problem for monetary and macroeconomic management. For instance, the monetisation of huge inflows of capital results in increased monetary aggregates and expansion of aggregate demand with implications for monetary management and inflation control. The increased specialisation that immensely contributed to globalisation in the major forms are namely: goods and services markets, and financial markets integration has failed to encourage rapid labour mobility. Although some form of mobility has been achieved on regional basis, international mobility of labour has not assumed a level comparable to the rapid trade and financial integration that has taken place over the years, especially after the end of the cold war and the embrace of Structural Adjustment Programmes by the developing and emerging economies. There are also legal and institutional impediments to labour mobility, some of which include immigration laws. Also, certain categories of individuals and skills may be averse to movement out of their usual abode. The movement of labour from developed to developing economies may also be influenced by the disparities in the level of economic development. The rigid labour laws of the advanced countries, 24 CBN ECONOMIC & FINANCIAL REVIEW, VOL. **38** No. 2particularly the discrimination against third world countries also makes it difficult for migration from the developing economies to occur on a large scale. If international mobility of labour had been on the scale of trade and capital flows, global prosperity would have been better enhanced. If international mobility of labour is encouraged, living standards would be enhanced generally while the law of one price would eventually result in the convergence of the quality of life. The radical paradigm can also be used to explain the phenomenon of globalisation. The proponents have argued that globalisation is the strategy of the 'North' to retain economic power, in order to continue the marginalisation of the 'South'. Thus, they have continued to reinforce the policy of liberalisation through the multilateral trading arrangements and the Bretton Woods Institutions, the IMF and the World Bank. The Bretton

Woods Institutions are quick to point out that the openness of the industrialised economies and the application of structural adjustment and market-friendly policies accounted for their rapid economic growth. The change in the fortunes of the East Asian economies, owing to financial market volatility which is a fallout of financial globalisation, has been attributed to the inappropriate policies pursued by those countries. This is regarded as the asymmetry of globalization by radical critiques. *Obaseki* 23

Prospects and Challenges of Globalisation

Globalisation has both positive and negative effects, which are opportunities and challenges, respectively. The positive effects or benefits are numerous, but the most important include, increased specialisation and efficiency, better quality products at reduced prices. economies of scale in production, competitiveness and increased output, technological improvement and increased managerial capabilities. The increase in world trade and output made possible through globalisation, ensures that consumers derive the best satisfaction since the best standards of quality are maintained through specialisation and competition. In addition, the volume of goods and services increases with the welfare of individuals enhanced across countries. The increase in FDI flows facilitate the growth in world trade and global output by increasing the international mobility of capital and ensuring efficient use of technological and other resources in the production process. Through investment and trade, firms specialise in production, with trade facilitating the process through specialisation. In addition, FDI facilitates the process through technological innovation and efficient deployment of resources to achieve lower unit cost of production. These processes help to increase global wealth, enhance living standards, ensure poverty reduction and improved welfare for the individual. Thus, globalization is crucial for worldwide economic growth and development. Trade and investment can aid efforts at restructuring an economy to make it more competitive and better able to contribute to the globalisation process. Rapid capital and financial integration has helped in the mobilisation of foreign savings for domestic investment and economic growth. It has also made capital to be more efficiently deployed. In specific terms, the benefits of financial integration include, boosting of domestic investment potentials, a more rational allocation of savings in favour of relatively more profitable investments, and the enhancement of the depth and efficiency of the domestic financial market, which positively impacts on output and employment. The favourable impact of globalisation on the world economy has been attributed to the slow growth in inflation, reduced fiscal imbalances with improved real interest rates and good prospects for investment and structural reforms, especially in the transition economies and heavily debt distressed economies applying adjustment programmes. Current and capital accounts liberalisation across the globe have also helped the rapid integration of the world economy. National macroeconomic policies, including financial policies, have to give due consideration to the sustainability of rapid capital flows that tend to narrow the yield across national boundaries on various assets. The narrowing of the yield spread predicated on high interest rates, easily result in volatility, especially in a fully saturated system where the capital importing country may be saddled with increased burden of repayment and rapid outflow on account of default. Fragile and over-exposed banking system with inadequate prudential regulation also accentuate reverse capital flows at periods of crisis and turbulence. Differences in macroeconomic, sectoral and structural policies have accounted for the varying degree of benefits accruing to countries in the context of the rapid integration of goods, services and financial markets, and information systems across the globe. Although globalisation has both positive and negative aspects, there is no doubt that it has improved global welfare. Those countries that have not benefitted have failed to: implement sound macroeconomic policies towards financial and exchange rate stability; apply policy measures to achieve current account convertibility through the removal of non-tariff barriers to trade; and adopt adequate prudential measures to stem banking system distress. Globalisation penalizes countries that adopt the wrong macroeconomic and sectoral policies, while enhancing the growth potentials of those that apply sound policies. As a result, countries must strive to adopt policies that are in consonance with the current reality of the rapid integration of the world economies. The problems associated with current account liberalisation have not been as serious as those arising from capital account liberalisation. This is mainly because the two are not exactly the same thing. While trade flows may not necessarily exhibit herd behaviour, capital flows do, and this phenomenon precipitated and intensified the East Asian financial crisis in 1997. The rapid integration of the global capital market has made reverse flow of capital very destabilising. Hedge funds and financial derivatives have also compounded the problems of international financial integration. The contagion effect of financial crisis spreads very rapidly and this is very destabilising. Gains that have been recorded in growth and financial stability can easily be eroded through sustained capital outflow. A very critical fallout of financial integration is the adverse consequences from the inability of a country to develop the required absorptive capacity to utilise inflow of capital, or sterilise the portion that cannot be deployed for economic development purposes. Thus, economic overheating may become manifest with dire consequences for future inflows. A reverse flow of capital may follow such over-heating when the situation is not well managed. Rapid capital flows arising from globalisation can pose difficulties for macroeconomic management. A weak external sector can be financed only temporarily as hidden current account deficits easily show up when capital starts flowing outwards as soon as the investment climate becomes unfavourable. Thus, excessive growth in investment, financed by foreign capital when domestic savings are low. could result in difficulties, especially current account deficits with concomitant problem for macroeconomic stability. With the rapid integration of financial markets. it becomes difficult to control effectively the movement of capital across national boundaries. More importantly, the distinction between destabilizing and stabilising short-term capital flows becomes blurred. Sterilisation policies may also prove difficult to implement successfully as a result of the cross-border operations of the multinational financial institutions that accelerated the process of international transmission of funds with the aid of advanced information technology. CBN ECONOMIC & FINANCIAL REVlEW, VOL. 38 No. 2

Apart from making the pursuit of independent monetary policy difficult, globalisation increases unemployment in those countries with relatively low skilled labour. This is because labour mobility is higher under globalisation. Essentially, globalisation tends to encourage policy interdependence while reducing national policy sovereignty, especially for countries with uncompetitive economies. The rapid integration of financial markets has significantly altered the environment confronting national policy makers in the conduct of monetary and financial policies. The liberalisation of controls on capital flows, and the development of various categories of derivatives and off-balance sheet instruments have made it difficult to appropriately target monetary policy. The integration of financial markets affects the conduct of monetary policy as the transmission mechanism is not only determined by the interest rate, but also by the exchange rate. In a sense, this may be good as the burden of monetary adjustment is no longer borne by interest rate alone. However, the type of exchange rate mechanism in place matters. With fixed exchange rates, monetary policy direction is ultimately determined by developments in the economy of the anchor country. When exchange rates are flexible, domestic monetary policy independence can be achieved, although to a limited extent if price stability cannot be maintained. Where price stability is maintained, the exchange rate mechanism in place does not really matter since monetary policy objective would have been guaranteed. The integration of financial markets can result in the achievement of less than expected results from monetary actions by government if volatile short-term capital inflows persist. This could undermine the achievement of macroeconomic stability. Another problem with globalisation is the rapid spread of shocks and disturbances from one financial market to another. Although, such shocks can be absorbed by large markets, they nonetheless constitute obstacles to the achievement of macroeconomic stability. The rapid inflow of capital to take advantage of high domestic interest rates may undermine the pursuit of macroeconomic stability if such flows are not based on improved domestic economic fundamentals. To sustain the inflow, interest rates may have to be maintained at high levels with attendant inflationary pressures, especially when capital inflow cannot be stenlised. A more serious problem is the sustained increase in the real exchange rate which may be counter-productive, especially for external sector competitiveness, when funds start flowing outwards on the realisation by investors that there are no more long-term prospects for productive investment in an economy. It follows that globalisation, especially financial markets integration has serious implications for macroeconomic management. CBN ECONOMIC & FINANCIAL REVlEW, VOL. 38 No. 2

Nigeria in the Global Economy

Nigeria has not been spared from the phenomenon of globalisation. Although, the adverse consequences have not been pronounced, the fact remains that Nigeria has become relatively more integrated with the global economic system. The tempo intensified with the policy shift from trade and exchange controls to economic liberalisation from 1986. Nigeria is highly dependent on external trade, while rapid inflow of capital has been stemmed largely as a result of the relatively underdeveloped state of the financial markets. To determine the extent of openness of the Nigerian economy, trade flows involving the country and the rest of the world could be analysed. The share of total trade in total output or gross domestic product (GDP)can be applied to measure the openness of the Nigerian economy. On the basis of this methodology, Nigeria's economy recorded increased openness between 1986 and 1987, reflecting a movement from 0.21 to 0.64 during the period. The trend showed a decline to 0.63 in 1988. The trend mirrored adequately the performance of the Structural Adjustment Programme introduced in 1986. The openness index nudged upwards, reaching 1.70 in 1990. A further improvement was recorded in 1995 when 16.5 was recorded. This rose successively, reaching 18.80 in 1997, before declining to 14.06 in 1998. The drop recorded in 1998 was accounted for by the decline in both export and import from their levels in the preceding year. Although, the Nigerian economy has become more open over the years, its share of world trade has remained relatively low. The share of Nigeria's exports in total world expol-1 was below 1 per cent in the period 1970 to 1998, except in 1974, 1976, 1977, 1979 and 1980, when 1.1, 1.1, 1.1, 1.1 and 1.4 per cent were recorded, respectively. CBN ECONOMIC & FINANCIAL REVlEW, VOL. 38 No. 2 .

Similar trend was exhibited by Nigeria's import trade. Nigeria has applied various policies over the years to stimulate the productive and external sectors of the economy, not only to ensure export competitiveness, but also to expand the import capacity of the economy. The low share of Nigeria's imports in total world import trade was partly accounted for by the low export capacity of the economy. The undue dependence of Nigeria on crude oil exports has limited the scope for the diversification of the economy, while at the same time exposing the economy to shocks in the international oil markets. This has resulted in the direct transmission of instability in world oil prices into unstable and unpredictable revenue receipts by the government. Thus, development programmes for the economy have been largely predicated on development in the world market for crude oil. The low level of primary commodity exports, owing largely to the crash in commodity prices and the constraining effect of higher incomes and improved living standards on the demand for them, in addition to the low level of export of manufactures, contributed to the predominance of the oil sector. Nigeria's low export performance especially in manufacturing is a major factor preventing the country from benefitting adequately from the integration of goods and services markets across the globe. The lack of comparative advantage in manufacturing has limited the scope for specialisation. With the mobility of all factors of production in the context of international specialisation, it is obvious that only those countries with the requisite skills would be able to compete in the global arena. The implementation of market-friendly policies could result in the attraction of the requisite skills and international support that would pave the way for the movement of relevant factors of production into and out of the country. With the current low level of comparative advantage in manufacturing, Nigeria will continue to be marginalised in its economic relations with the rest of the world. To avoid marginalisation, Nigeria would have to diversify its economy and take appropriate measures to raise manufacturing exports. Nigeria's position in the global economy would have been worse than it is now if financial markets integration had not been prevented from a full reign on the economy. This situation was not deliberately created. It merely resulted from policy inactivity and the poor state of the financial markets. The financial markets in Nigeria have not kept pace with developments in the global financial markets. The non internationlisation of the capital market prevented the economy from exposure to developments in international financial market.

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The financial turmoil in East Asian economies in 1997 and the wide spread contagion effects across the Asian continent, with some marginal effects on the US and European economies would have had some impact on the Nigerian capital market. This does not, however, mean that the state of our capital market is ideal. It is imperative that we develop the capital market to cope with the problems that may likely arise from the full integration of Nigeria's capital market into the global network. Financial markets integration, which has been facilitated by the rapid advance in information technology, compounds the problem of monetary management. The injection of short-term capital into an economy, and the rapid withdrawal of such funds reduces the scope of official surveillance, tasking to the limit the expertise of financial managers. The disequilibrium that such rapid capital flows creates in the financial markets negatively impacts on the productive sectors of the economy. The inflow of medium to long term capital into an economy could be applied more judiciously, since the quantum can easily be determined and the sources well defined. The use of such resources to augment domestic savings helps to expand the scope for economic growth through improved investment outlay. In certain circumstances, when the domestic financial market is sound, and prudential regulations are transparent, short-term capital flows could easily be managed, thus providing a source of short-term financing. Shortterm capital flows has not been a major source of funding Nigeria's financial market. With the linking of the Nigerian Stock Exchange with the major world financial centres, portfolio flows into Nigeria are expected to increase. However, the internationalisation of Nigeria's financial markets should be preceded by a strong domestic economy, and a competitive external sector, with a preponderance of manufactured exports. At the current state, Nigeria's share of global trade is rather low, indicating the country's uncompetitive position in the context of globalization in goods and serlices. In the area of financial integration, Nigeria is a late starter.

The domestic financial markets are still rudimentary and the rate of economic growth has not been encouraging even with the adjustment efforts. The emigration and immigration of capital which largely indicates the performance of an economy, given that a high and sustained non-inflationary rate of economic growth had been achieved, has eluded us in setting our goals and priorities owing to the unattractiveness of the domestic financial markets. The problem of labour market integration also applies *to* Nigeria. However, many highly skilled Nigerians have migrated to other African countries where their skills are required. This pattern follows what has been established in other regions of the world. The problem with labour migration as it affects Nigeria is that highly skilled personnel that are in short supply in the country are moving out in search of better opportunities. Labour migration in the industrialised countries releases only the portion of labour that is in excess supply. Thus, the country of origin is not disadvantaged. In order for Nigeria to benefit from globalisation, efforts should be made to develop human capital and decode the multimedia super-corridor for relevant information. Thus, information technology should progress in line with the global trend. Above all. good governance, transparency and accountability are desirable for a strong and competitive economy. CBN ECONOMIC & FINANCIAL REVIEW, VOL. 38 No. 2

External Trade, Growth and Openness

Year	**EXPO**	**W 'MI IMP**	**LION) TTRADE**	**GDP**	ER C **GDPGR**	w **TT/ GDP**
1970	885.7	756.4	1642.1	54148.9	21.0	0.0
1971	1293.4	1078.9	2372.3	65707.0	5.0	0.0
1972	1412.2	987.6	2399.8	693 10.6	6.0	0.0
1973	2278.4	1224.8	3503.2	73763.1	11.0	0.0
I974	5794.8	1737.3	7532.1	82424.8	-3.0	0. **I**
1975	4988.4	3717.4	8705.8	79988.5	10.0	0.1
1976	6622.4	51 32.6	11 755.0	88854.3	8.0	0.1
1977	788 I .7	7159.7	15041.4	96098.5	-8.0	0.2
1978	6380.4	8 132.0	I45 12.4	89020.9	2.0	0.2
1979	10397.5	6161.9	16559.4	91 190.7	4.1	0.2
1980	14196.7	9095.6	23292.3	96 186.6	2.8	0.2
1981	C1033.8	12599.1	23632.9	70395.7	-0.3	0.3
1982	9 196.4	10100.2	19296.6	70157.0	-5.4	0.3
I983	775 I .8	6555.7	14307.5	66389.5	-5.1	0.2
1984	9138.8	4484.5	13623.3	63006.2	9.4	0.2
1985	1 1720.8	5536.9	17257.7	68916.1	3.2	0.3
I986	9047.5	5974.7	15022.2	71075.9	-0.6	0.2
1987	29578.1	15695.4	45273.5	70740.6	10.0	0.6
1988	31191.8	18088.4	49280.2	77752.3	7.3	0.6
1989	57971.2	30860.2	8883 1.4	83495.0	8.3	1.1
1?90	109886.1	45717.9	155604.0	90342.0	4.7	1.7
1991	121533.7	89488.2	211021.9	94614.1	3.0	2.2
1992	205613.1	143151.2	348764.3	9743 1.4	2.3	3.6
1993	218770.1	166100.4	384870.5	1000 10.0	1.3	3.8
1994	206059.2	162788.8	368848.0	10 1350.0	2.2	3.6
1995	95066 1.4	755 127.7	1705789. **I**	103530.0	3.4	16.5
1996	1309543.4	562626.6	1872 170.0	107020.0	3.2	17.5
1997	1241662.7	845716.7	2087379.4	ll0400.0	2.4	18.9
1998	75 1856.7	8375 18.9	1589375.6	113,000.0	2.7	14. **I**
1999	1999 11 89006.5	862525.3	205 I53 1.8	1 16000		11.7

Source: Central Bank of Nigeria

Note:
EXPO = Exports
IMP = Imports
TTRADE = Total Trade
GDP = Gross Domestic Product

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

Conclusion

Globalisation, the closer interaction between national economies through trade, investment and capital flows, made possible by technological development and advancement in telecommunications, has increased global welfare and transformed the world into a global village. Globalisation has evolved over the years, but its rapidity intensified after the endof the cold war. Globalisation slowed during the cold war as a result of protectionist policies applied to defend ideological interests by the major protagonists. With the end of the ideological polarisation of the world, increasing emphasis has been placed on openness and liberalisation of national economies to secure maximum benefits from global economic prosperity. Globalisation has been facilitated by the activities of multinational corporations (MNCs), the multilateral monetary and financial system, especially the Bretton Woods institutions and the international trading arrangements. Globalisation has both positive and negative effects. The positive effects are international specialisation, which results in high quality and low cost products, improvement in welfare and the closer interaction between national goods and services, and financial markets. These result in the free flow of investment capital to take advantage of opportunities for higher yields across national boundaries. The adverse effects include, the accentuation of acroeconomic imbalances, marginalisation of economies that failed to apply appropriate policies and destabilizing impact of rapid short-term capital flows, especially when they cannot be absorbed in the production process and avenues for sterilisation are slim. The world economy has been characterised by the rapid integration of financial markets in the last two decades. Financial globalization has proved more difficult to contend with because of its peculiarities. The ease with which cross border financial transactions take place has further compounded the problem of independent domestic macroeconomic management. Reductions in transport and telecommunication costs, capital account liberalisation, financial market deregulation and privatisation of state enterprises have created favourable environment for increased capital mobility. The

strategies and policies to moderate the adverse consequences of globalisation are the application of policy measures that would ensure the maintenance of macroeconomic stability, international coordination of policies to ensure convergence, and the reform of the international monetary and financial system to ensure a level playing field for all participants in the global economy. Above all, countries must pursue sound policies, liberalise their economies, reduce the role of government relative to that of the private sector and ensure good governance in order to reap the fruits of globalisation. Otherwise, poor policies will be rewarded by marginalisation in the global arena. Disadvantaged.
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