Economic and Financial Review

Volume 38 | Number 2 Article 1

6-1-2000

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CBN ECONOMIC & FINANCIAL REVIEW, VOL. 38 No. 2 17-33

GLOBALISATION AND THE NIGERIAN ECONOMY

By

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This paper 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 of globalisation. These are the integration of goods and services markets across national boundaries and the integration of financial markets across the globe. The paper observes that labour markets across the globe are not as integrated as the two major categories owing to factors which include immigration laws. 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 financial markets. The paper identifies a number of opportunities and challenges of globalisation. Some of the opportunities include, increased specialisation and efficiency, economies of scale in production and increased global welfare. 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 to 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

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.

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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 implications of 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.

Stabilisation of finance 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).

The rest of the paper is structured into four parts. Conceptual issues and theoretical nexus are discussed in Part II, followed by dimensions, opportunities and challenges of globalization in Part III. Nigeria in the global economy is the focus of Part IV, while the paper ends in Part V with summary and conclusion.

II. CONCEPTUAL ISSUES AND THEORETICAL NEXUS

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 theses. 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). The process of deregulation, globalisation and innovation has increased both the efficiency of, and volatility in financial markets. The volatility in international financial markets makes it more difficult to ascertain the value of financial assets and has encouraged in some instances unstable portfolio flows. Although, Bekaert (1995:107) argues that volatility is not correlated with any measure of financial integration and that it does not arise because of financial liberalisation, recent evidence points to the contrary. What is important is that unsystematic risk which can be controlled is largely over-whelmed by systematic risk which cannot be diversified.

The adjustment in the prices of assets to reflect systematic risk has not been uniform, thus introducing further instability into the international financial system. Other factors that influence the inflow of capital to emerging markets and developing economies include, the degree of openness of the economies, rates of return on investments, credit rations and secondary market prices of sovereign debts. Overall international capital flows are directly dependent on arbitrage opportunities.

The traditional theory of international borrowing and lending assumes that financial markets are highly integrated. Demand and supply for loanable funds are assumed to be equilibrated by interest rates which adjust instantaneously. Thus, each country may borrow or lend at a given interest rate, subject only to the constraint that the borrower is able to repay its debt in the long run by using its resources. Interest rate adjustment is held to ensure the movement of capital across the globe, thereby ensuring equilibrium. The modern theories of financial market integration are built on the traditional school. The degree of financial markets integration is held to be dependent on the extent to which asset prices are equalized. This is derived from the popular notion of the law of one price. When risks and transaction costs are discounted, yields on the same assets are expected to be the same at home and in the rest of the world.

The elimination of such risks and transaction costs is expected to equilibrate yields on similar assets across the globe. The reliance on asset yields to explain the movement of capital around the world derives from the efficient market hypothesis, which assumes that market players are rational, and that they apply all available information in their pricing decisions. Thus, markets are efficient when prices fully reflect available information and when the forward exchange rate becomes an unbiased predictor of the future spot rate. If this holds, the regression of the observed spot rate on the lagged forward rate should yield an estimated constant not significantly different from 1 and serially uncorrelated errors (Ott, M. and T. W. M. Veugelers, 1986:7). However, the intercept may be significantly different from 0 in the real world as a result of risk premium, shifts in monetary policy and changes in expectations. The efficient market hypothesis assumes that the distinction between domestic and foreign assets is blurred, and that differences in the value of both are equalized ultimately through cross border movements. Interest and exchange rates adjust to equalize the yields on domestic and foreign assets. Before the equalization, funds flow from areas of saturated returns to areas of increasing returns. Financial liberalisation across the world appears to have taken the wind off the automatic adjustment mechanism under the efficient market hypothesis. The dismantling of controls and rapid embrace of liberalization has opened up hitherto closed markets to capital inflow. This has not in any way faulted the efficient market hypothesis. The rapid financial integration of the world economies, especially after the end of the cold war and the application of structural adjustment and financial reforms by the emerging market economies is a further confirmation of the relevance of the efficient market hypothesis in explaining financial capital flows across the globe.

The law of one price, which the efficient market hypothesis is a sub-set of, makes it possible for domestic financial markets to be integrated into the global economy. Exchange and interest rates are the main channels by which adjustments through the efficient market hypothesis are effected to trigger funds movement. Under rational expectation, the future spot rate should be equal to the actual observed value in addition to the risk premium and a random error. The assumption of market efficiency without risk in the foreign exchange market has been roundly rejected on empirical grounds. The uncovered interest parity (UIP), which is based on the same assumptions as the efficient market hypothesis, relates the expected change in the spot rate and the risk premium to the forward premium. The covered interest parity (CIP), which relates the interest rate differentials at home and abroad with the forward premium, holds most of the time. The fact that the CIP holds most of the time means that capital would move from areas of high risk to areas of low risk and stable returns. Thus, countries would be forced to apply policies that would reduce risks to foreign capital inflow in the quest to attract such funds in addition to preventing marginalisation from increased global financial interaction.

With the greatly diminished barriers between national markets, elimination of currency risks by forward cover and non-inhibition of potential arbitrage flows between national markets, departures from CIP have on the average become much smaller. Divergences between the CIP and domestic short-term interest rates declined in the early 1980's in response to the financial deregulation and liberalisation of capital movements undertaken by many countries (World Economic Outlook, May 1997:64). A more fundamental issue is the extent to which the CIP helps to ensure that expected changes in inflation rates are reflected in expected exchange rates. Capital flows are expected to equalise real interest rates between countries. If this holds, it will be possible for short-term interest rates and nominal exchange rates to converge with relative purchasing power parity (PPP). In the long-run, changes in relative inflation rates are important in explaining trade and capital flows between countries.

Capital markets have become more integrated in the last twenty years. In spite of the phenomenal growth of cross-border flows and the rapid progress toward the integration of financial markets, financial globalisation seems to be confined to heavily traded, highly liquid financial assets, while countries' overall investment performance continues to be determined predominantly by their domestic savings rates rather than by net capital inflows. But the highly integrated segment of the capital market is large enough to exercise higher constraints than in the past on the conduct and effectiveness of macroeconomic policies (Fischer, 1998:166). Apart from the fact that capital flows, especially when they are destabilising, can undermine macroeconomic stability, they are important elements to watch because unlike trade flows, they are subject to herd behaviour, panics, crashes, destabilising speculation and self-justifying outflows and currency speculation (IMF 1998:338). Capital flows are porous and can easily evade municipal control. Thus, the case for capital account liberalization should be cautiously approached for it not to be counter productive.

III. DIMENSIONS, OPPORTUNITIES AND CHALLENGES OF GLOBALISATION

Globalisation is of different types and forms. The phenomenon also has a number of opportunities and challenges. These are discussed as follows:

III.1 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 more 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 globalisation 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, 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, particularly 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 globalisation by radical critiques.

III.2 OPPORTUNITIES 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, globalisation is crucial for world wide 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 penalises 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 over-heating 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 destabilising 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. 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 eapital 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 sterilised. 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.

IV. 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 export 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. 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 markets. 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. Short-term 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 globalisation in goods and services. 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.

V. SUMMARY AND 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 end of 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 macroeconomic imbalances, marginalisation of economies that failed to apply appropriate policies and destabilising 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.

EXTERNAL TRADE, GROWTH AND OPENNESS

(₦'MILLION)					(PER CENT)	
YEAR	**EXPO**	**IMP**	**TTRADE**	**GDP**	**GDPGR**	**TT/GDP**
1970	885.7	756.4	1642.1	54148.9		0.0
1971	1293.4	1078.9	2372.3	65707.0	21.0	0.0
1972	1412.2	987.6	2399.8	69310.6	5.0	0.0
1973	2278.4	1224.8	3503.2	73763.1	6.0	0.0
1974	5794.8	1737.3	7532.1	82424.8	11.0	0.1
1975	4988.4	3717.4	8705.8	79988.5	-3.0	0.1
1976	6622.4	5132.6	11755.0	88854.3	10.0	0.1
1977	7881.7	7159.7	15041.4	96098.5	8.0	0.2
1978	6380.4	8132.0	14512.4	89020.9	-8.0	0.2
1979	10397.5	6161.9	16559.4	91190.7	2.0	0.2
1980	14196.7	9095.6	23292.3	96186.6	4.1	0.2
1981	11033.8	12599.1	23632.9	70395.7	2.8	0.3
1982	9196.4	10100.2	19296.6	70157.0	-0.3	0.3
1983	7751.8	6555.7	14307.5	66389.5	-5.4	0.2
1984	9138.8	4484.5	13623.3	63006.2	-5.1	0.2
1985	11720.8	5536.9	17257.7	68916.1	9.4	0.3
1986	9047.5	5974.7	15022.2	71075.9	3.2	0.2
1987	29578.1	15695.4	45273.5	70740.6	-0.6	0.6
1988	31191.8	18088.4	49280.2	77752.3	10.0	0.6
1989	57971.2	30860.2	88831.4	83495.0	7.3	1.1
1990	109886.1	45717.9	155604.0	90342.0	8.3	1.7
1991	121533.7	89488.2	211021.9	94614.1	4.7	2.2
1992	205613.1	143151.2	348764.3	97431.4	3.0	3.6
1993	218770.1	166100.4	384870.5	100010.0	2.3	3.8
1994	206059.2	162788.8	368848.0	101350.0	1.3	3.6
1995	950661.4	755127.7	1705789.1	103530.0	2.2	16.5
1996	1309543.4	562626.6	1872170.0	107020.0	3.4	17.5
1997	1241662.7	845716.7	2087379.4	110400.0	3.2	18.9
1998	751856.7	837518.9	1589375.6	113,000.0	2.4	14.1
1999	1189006.5	862525.3	2051531.8	116000	2.7	17.7

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

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