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Full Length Research Paper

An evaluation of the contribution of globalization and capital account liberalization on economic development: the case of Nigeria

Uma Kalu Ebi and Obidike Paul C

[1]Department of Economics and Development Studies, Federal University, Ndufu Alike-Ikwo, Ebonyi State, Nigeria
[2]Department of Banking and Finance, Abia State University, Uturu, Nigeria
E-mail-pcobidike@gmail.com,

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The study focused on finding out the extent globalization and capital account liberalization have supported Nigerian economic development from 1975 to 2009. The study employed both Augmented Dickey-Fuller (ADF) and Phillips-Perron to examine the features of the data for analysis. The state of integration of the variables led to test for co-integration, which showed a long-run relationship among variables. Error correction model (ECM) was eventually employed. The result revealed that some of the explanatory variables such as capital account liberalization, proxied by current account balances (CAB) and foreign direct investment (FDI) impacted positively on real gross domestic product (RGDP), a proxy for economic development, but at an insignificant level. Trade openness and foreign exchange reserve also show statistically insignificant on RGDP. Consequently, among the recommendations made are: policy makers should target on macroeconomic stability, by avoiding structural distortions and creation of business-friendly environment to enhance domestic production capacity; thorough reforms, especially financial reform should be vigorously pursued.

Keywords: Capital account, contribution, evaluation, economic development, globalization, liberalization.

INTRODUCTION

Globalization is a welcome development to developing economies in consideration of capital inflow, technological transfer, high quality manpower, and varieties of goods and services that it enables a country to acquire. This is because capital deficiency has been noted by scholars to be the major obstacle to development of Nigerian economy. Suffice it to state that globalisation has been seen to play desirable roles in many countries of the world, especially the developing economies (Eboh et al 2010). Undoubtedly, globalization as a process, is one of those dynamic and very relevant factors of growth in international capital flows which arise from capital account liberalization. So, globalization is therefore perceived as an inevitable path to economic development of developing country like Nigeria.

*Corresponding Authors Email: kaluskyebng@yahoo.com

Developing economies, such as Nigeria have always been advised to open up to foreign capital flows through the liberalization of the capital account transactions. This is based on the premise that liberalizing capital account would permit financial resources to flow from capital surplus countries, where expected returns are low, to capital deficit countries where expected returns are high. This can be well achieved by capital account liberalization which is a systematic and progressive removal of administrative and legal restrictions on international capital transactions and the implementation of various macroeconomic policy reforms. Stronger inflows would be realized as international investors and residents who had placed their capital abroad react to the improved investment environment.

In an attempt to ameliorate the balance of payment problems and stimulate economic growth, most developing nations including Nigeria, now recognize the impact of globalization and foreign direct investments

both in terms of attracting external resources and in terms of the spillovers of such external resources in the form of technological, managerial and marketing expertise(Sjoholm, 1999). Thus, the strategies adopted towards foreign private investment in most developing nations comprise a combination of investment incentives designed to promote capital inflow as well as regulatory measures aimed at maximizing the country's net benefits from the capital inflows. Nonetheless, the different results concerning spillovers from FDI suggest that such effects are not automatic but are affected by various economic and technological factors, which may be country specific.

Many economies such as Asia, specifically, South Korea, Taiwan and Hong Kong in part financed their economic development with foreign capital. Besides, the developments in Central and Eastern Europe, have given support to the significance of foreign capital flow in economic development of nations. Capital inflows in those emerging European countries generated multiplier effects in terms of increase in idle resource utilization and enhance the level of output and domestic savings, which encourage rising aggregate economic activity and income generation.

Globally, virtually many economists have agreed that successful capital account liberalization should be preceded by macroeconomic stabilization, domestic financial sector reform, current account liberalization and prudential regulation of the financial sector (Fisher and Resin, 1994, Mckinnon 1973 and 1993, Frenkel 1982 and Edwards 1984). Henry (2003) points that capital account liberalization in a generic sense is about allowing capital to flow freely into and out of a particular country. This connotes a deliberate policy that allows domestic businesses to borrow from foreign banks, foreigners are allowed to purchase domestic debt instruments as well as invest in the domestic stock market, which impact positively in the host economy.

Among the adopted strategies for attracting foreign direct capital inflows is capital account liberalization. The world being a global village implies that Nigeria should not be left out in its efforts to join other developing countries in the trend of openness of economy and the liberalization of capital account for fast economic development. Studies such as Fischer (1994 and 1998), posit that liberalization of capital account would lead to global economic efficiency and facilitate the allocation of world savings to those who are able to use them most productively. Capital is known as a major setback in the development of developing economies. The lack of capital which is reflected by low rate of capital formation as a result of low per capita income, general poverty, low saving and high marginal propensity to consume, unproductive, conspicuous consumption, low marginal efficiency of capital and so on cannot help reposition the country. As such globalization is believed to be a panacea for reviving the ugly trend in most less developed economies.Domar (1937) points out that it is actually capital rather than labour are the main factor limiting growth in less developed countries. Hence, it has been opined that less developed countries can greatly succeed from large capital inflows when they formulate and implement sound macroeconomic, fiscal, banking, capital market, foreign policies and some other institutional and regulatory reforms. In a similar vein, Kose (2006) points out that the major benefits of capital account liberalization to developing countries may be obtained not from its direct contribution to increased (GDP) growth or reduced consumption volatility, but rather from its capacity to provide a set of "collateral" benefits of facilitating the transfer of managerial, technological know-how and capital accumulation. The liberalization of these transactions is expected to improve a country's balance of payments, smoothens temporary shocks on income and consumption, reduce borrowing costs and spur economic growth.

Nigeria has strategized in different ways to reposition its openness as a panacea for attracting foreign inflow of capital. Economic globalisation, which has encouraged inflow of capital, is expected to help change the ugly trend. Suffice it to note that lack of capital over heads needed in the manufacturing sector by the Multinational Corporations remains a serious setback. They are the agents of globalisation and have to an extent contributed to adding values to crude resources of Nigeria. The effect is shifted back to Nigerians in form of high prices of output (Eboh et al, 2010).

Surprisingly, much has not been realised considering the degree of attainment in similar efforts by Asian countries of South Korea, Taiwan, Hong Kong, Malaysia, Indonesia and Thailand, among others. Capital flow to these countries have been on the increase from 1986, averaging 30 percent, between 1986 and 1994, climbing up to 97.3 in 1995. Over the same period, capital inflow of just 3.7 percent went to sub – Saharan Africa while only a trickle of 1.6 percent to Nigeria (Essien and Onwioduokit 1999).

Disappointedly, capital flows to Sub-Saharan Africa (SSA) as at 1987 has not been more than 9.75 percent. Specifically, for Nigeria, there has been a steady decline from the level of 7.3 percent in 1989 to 1.56 percent in 1994, between 1997 and 2001 it averaged 27.1 percent and in 2005, it was 17.9 percent (UNCTAD 1999). In view of this, this work is set out to evaluate the contributions of globalisation and capital account liberalization on the Nigerian economy over the years considering the great effort made in this direction.

In view of the aforementioned, the main objective of this study is to examine the impact of trade openness, current account liberalization, foreign exchange reserve and foreign direct investment as attributes of globalization and capital account liberalization on economic development of Nigeria from 1980 to 2009. The paper will

be presented in this order, section one focused on review of literature; methodology of study, result of data analysis and discussion make up section three while the last section dwell on recommendations and conclusion.

Review of literature

Globalization is not a new phenomenon as it has progressed throughout the course of history, dating back to the late 19th century. The history was somehow disrupted and the speed slowed down until the new era of global integration, which facilitated the removal of barriers to trade and capital flows as well as the advancement in communications and computer technologies, which have made easy the collection and processing of data needed for decision making. Consequently, the world exports of goods and services have more than tripled since 1983. These changes have also stimulated demand for cross-border finance, against the background of financial liberalization in many countries, promoted a pool of global capital and liquidity to meet such demand.

The impact of international trade on economic growth has been widely debated in the literature, from Adam Smith's absolute advantage and Ricado's comparative advantage to Mills efficient employment of productive process. The current debate is no longer on the importance of trade, as most economists agree that there are benefits that come with trade rather it is on the method and use of trade as a development tool in connection with capital account liberalization (Krueger 1990).

Amsden (1991) hold that the plight of a low-wage country that cannot compete in the labour-intensive industries against the higher productivity of a higher-wage country is resolved by introducing either inward direct foreign investment, from more technologically advanced countries or further exchange rate devaluations. Krueger (1990) attributes the rapid development of the Asian countries such as Korea, Singapore, Taiwan, and Hong-Kong to the rapid growth of exports.

In broad terms, classical theorists advance the claim that FDI and multinational corporations (MNCs) contribute to the economic development of host countries through a number of channels. These include the transfer of capital, advanced technological equipment and skills. In addition is the improvement in the balance of payments, the expansion of the tax base and foreign exchange earnings, the creation of employment, infrastructural development and the integration of the host economy into international markets. These claims about FDI have been amplified by the phenomenal economic growth of the newly industrialized countries, Hong Kong, Taiwan, Singapore and South Korea, especially in the 1980s and early 1990s and more recently by China's impressive economic growth (Obidike, 2012; UNCTAD 2003).

In the traditional theory of internal trade, capital account liberalization was seen as allowing foreigners to hold domestic capital leading to welfare gains by leading to a higher capital stock and higher GDP growth as well as GNP growth as labour gained at the cost of both domestic and foreign capital. Developing countries were assumed to face scarcity of capital. This assumption is discussed in the framework of the two-gap approach to development. The analysis shows that developing countries should be net borrowers in the development process. Capital flows were welcome as far as they eased the foreign exchange constraint by borrowing externally on the government account. Today dismantling capital controls is also welcomed to relieve liquidity constraints. The advantage is seen in the optimal levels of investment that can be reached by the free access to global savings both by the government and private market participants (Macdonald, 1982; MacDougall, 1968).

Scholars have strong argument for opening the capital account which is based on the doctrines of the modern theory of international finance, which emphasize the element of risk in international financial markets. The theory asserts that if the price for bearing risks varies across countries, then there are welfare gains in trading in international markets analogous to the trading of commodities. It would not be advisable for investors to put all their eggs in one basket. An individual investment portfolio should be a mix of assets with different risk/return profiles. The welfare gains are seen in risk diversification by economic agents. Risk diversification can not only take place by holding a portfolio of different domestic assets, but also by diversifying internationally. A Mexican investor, for example, whose portfolio is confined only to Mexican assets, runs more risk than one who can diversify risk internationally. The differences in absolute riskiness of countries, low correlation of risk outcomes across countries, and difference in investor preferences, all account for the benefits that accrue because of portfolio diversification. Cross –border diversification is seen as advantageous in both assets and liabilities.

Economists also argue that opening capital account provides opportunities for inter-temporal consumption smoothing. Time and liquidity constraints differ across countries. This would mean that aging economies tend to post excess savings and hence a surplus in the balance of payments on current account which they will run down later in the form of net inflows. A country suffering from temporary shock will prefer to run a current account deficit to smooth consumption over time. Trade in financial assets would thus relive liquidity constraints.

The more integrated a developing country is with world markets, the greater will be the possibility to the

dynamic advantage of financial intermediation. Benefits from improved international competition leading to the breaking up of the oligopolistic structure and a more efficient domestic financial system by intensifying competition between financial intermediaries is seen as one of the positive outcomes of capital account liberalization. By squeezing intermediating margins leading to a reduction in the cost for borrowings and an increase in returns to lenders. Greater liquidity leads to a deepening of markets with well-capitalized markets participants. The quality of assets improves as a result and also with improved depth and the possibilities of hedging risk and diversification. Developing countries can also gain from financial innovations at lower cost since the cost of developing them has already been carried out in their countries.

The free movement of capital leads to additional benefits in the form of the flow of technology and intellectual property. The free movement of capital is expected to bring about convergence of interest rates and tax rates and structures. A liberalized capital account is also seen as way to discipline domestic policies. The declining effectives of capital controls may be another reason for removing them. Growing trade integration and the presence of multinationals provides opportunities for financial integration even if controls on capital account transactions are in place.

The economists of the Orthodox School see liberalization from the point of solving a global problem and that capital mobility adds new resources, technology, management and competition to capital deficit economies in a way that improves efficiency and stimulates change in a positive direction. The Asian Tigers' case drove home the growth driven force of capital mobility when FDI flows were encouraged with the liberalization of capital account transactions. While in the suggestion of the New-classical theorists, they maintain that free flows of external capital should equilibrate and smoothen a country's consumption or production paths. Grilli and Milesi-Ferreti (1995), Dooley (1996); Quinn (1997); Henry (1997); and Demirguc-Kunt and Detragiache (1998) in their works-confirmed that capital account liberalization, is a necessary strategy to attract private capital flows to substitute declining aids in developing countries.

While there appears to be broad consensus regarding the impact of capital inflow on key monetary and financial variables, there is a wider range of opinion with respect to their impact on the real sector (Oyejide, 2005). One general view is that foreign capital inflows provide an opportunity to utilize international resources to supplement limited domestic resources to enhance the growth of the economies of developing countries (Gavin *et al*, 1997). In this context, foreign capital inflows put to good use can finance investment and stimulate economic growth of the recipient country (Reinhart, 2005). Even though Rodrik (1998) has an opposite view derived from empirical analysis, this view shows that capital flows have no significant impact on economic performance once the impact of key variables such as the level of education, initial level of income and quality of institutions are controlled. An attempt to reconcile these views is based on the "absorptive capacity" prospective. This assertion suggests that real sector effects of foreign investment on the economy of a recipient country are contingent on key characteristics such as initial income, education and level of financial development. When these characteristics are below certain threshold levels, capital inflows tend to have an ambiguous or even negative effect on growth (Durham, 2000).

Literature abound on how firms and industries adopt new technologies and knowledge owing to import and openness to trade, which is achieved through reverse engineering, direct inputs into production, and communication with foreign partners. A number of recent studies that use aggregate data conclude that trading with countries that are relatively intensive in research and development (R&D) leads to higher productivity growth in host countries (Coe and Helpman, 1995).

Grossman and Helpman (1990) concluded that countries that have adopted an outward-oriented development strategy have grown faster and achieved higher levels of standard of living than their counterparts who engaged in protectionist trade policies. They argue further that the less developed countries stand to gain more in international trade since they do not have capital, both human and physical, to bring about new products by way of research and development (R&D). Michaely (1977) tested the hypothesis "that a rapid growth of exports accelerates the economy's growth of a country.

Balassa (1978) argues that export-oriented policies provide incentive to sales in both domestic and foreign markets, and as such, lead to an efficient allocation. He further observes that the correlation between export growth and output growth provides an indication of the total effects of export on economic growth and concluded that "trade orientation has been an important factor contributing to inter-country differences in the growth of output.

Osamor et al (2013) studied the impact of globalization on the performance of Nigerian commercial banks using panel data and regression analysis. The result revealed that globalization proxied by foreign direct investment, foreign trade and exchange rate have positive impact on the profit after tax of banks. Kakreem et al (2013) studied globalization and economic growth in Nigeria using descriptive statistics and correlation analysis. The result showed among others that inflation significantly contributed to economic growth, proxied by real gross domestic product and interest rate fluctuated so much at the period of study. Exchange rate was inversely related to the real gross domestic product. In his study of globalization and the Nigerian economy,

Obaseki (2000) concludes that Nigeria has not benefitted enough from globalisation due to over dependence on crude oil exports, low manufacturing exports and the under-development of the domestic, financial markets. The opportunities pointed are increased specialization and efficiency, economies of scale in production and increased global welfare, while the challenges are the design of appropriate .framework to ensure that domestic monetary management is not impaired, and that the domestic economy is not unduly destabilized owing to adverse developments in other parts of the world

MODEL, DATA AND METHODOLOGY

The period between 1960 and 1971 could be regarded as a transitional period for the Nigerian economy because it covered the immediate post independence era and civil war period. For that reason and also due to non availability of data, the period was not covered by the study. Numerous factors influence the inflow of capital in the country. In this work, the researchers evaluate the influence of some key factors such as current account liberalization, trade openness, foreign exchange reserve and foreign direct investment repositioned as a result of globalization and capital account liberalization on real gross domestic product, a measure of economic development.

The study covers a period of thirty five (35) years (1975-2009). Capital account liberalization means eliminating the rules and regulations in capital flows. It stands as a parameter for measuring the degree of openness of an economy, signaling the rate of inflow and outflow of capital from one economy to another without undermining the territorial integrity and independence (Stiglitz, 2000 and 2002). It is expected that the more an economy liberalizes, due to globalization, the greater the inflow of capital which will impact on the aggregate economic activity. In this study, current account balances (CAB) is taken as a proxy for liberalization.

Trade openness (TOP) promotes the efficient allocation of resources through comparative advantage, allows the dissemination of knowledge and technological progress and encourages competition in domestic and international markets. One indicator of openness is the relative size of the export sector. A decrease in tariffs will increase openness and vice-visa. Globalization encourages openness, which is believed to improve export, thereby impacting positively to aggregate economic activity, other things being equal.

Foreign exchange reserves (FEXR) help to cushion the impact of cyclical changes in the balance of payment and help offset unanticipated shocks, which can lead to reversals of capital flows. Reserves also help sustain confidence on both domestic policy and exchange rate policy. Reserves also help to maintain competitiveness in export goods and act as an intervention factor in domestic interest rate through buying and selling of domestic currency at the inter-bank market. Increased foreign transaction, especially exports and foreign investment has a way of increasing reserve needed for economic activity.

Foreign direct investment (FDI) is a major outcome of globalization, in the sense that the environmental repositioning, design of macroeconomic and fiscal policies and incentives are expected to have attracted many foreign investors in the country. Given the expected outcome of globalization, it is our intention to examine the extent all these attributes of globalization and capital account liberalization have impacted on the aggregate economic activity measured by the gross domestic product (RGDP).

In view of all the above stated, the functional form of our model is

$RGDP = f\,(CAB, TOP, FEXR, FDI)$

$RGDP_t = \beta_o + \beta_1 CAB_t + \beta_2 TOP_{2t} + \beta_3 FEXR_{3t} + \beta_4 FDI_{4t} + U_t$ ………… (1)

Where : $RGDP_t$ = Real Gross Domestic Product in periods t.

CAB_t = Current Account balances in period t. the capital account liberalization depends on the extent of the liberalization of CAB.

FDI_t = Foreign Direct Investment in periods t. A proxy Account Liberalization.

$FEXR_{4t}$ = Foreign Exchange Reserve in period t.

TOP_{7t} = The share of total trade in Gross Domestic Product (GDP) in periods t.

U_t = Error term or stochastic variable (s).

$\beta_1 - \beta_4$ = Coefficients of the independent variables On apriori bases β_1, β_2, β_3 and β_4 are expected to be greater than one, that is have a positive relationship with economic development. β_o is the intercept, μ_t is white noise error term while $_t$ is time trend. If globalisation and capital account liberalization are advantageous to Nigeria, they should contribute positively to economic development.

Data

The study will employ annual time series data to estimate the model. The data were obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin, Annual Reports and Statements of Accounts as well as the Economic and Financial Reviews of the CBN and also the publications of the National Bureau of Statistics (NBS). The data cover the period 1975 to 2009. This is the period in which a lot of repositioning were made by various resource managers to improve globalization and trade liberalization.

Table 1. Augmented Dickey-Fuller and Phillips-Perron Unit Root Test Results.

Variable	ADF Statistic Level form	PP Statistic Level form	ADF Statistic 1st difference	PP Statistic 1st difference	ADF Statistic 2nd difference	PP Statistic 2nd difference	Order of integration ADF	Order of integration PP
RGDP	-3.64634*	-3.6394*	-3.64634*	-3.64634*			I(1)	I(1)
	-2.95402**	-2.9511**	-2.95402**	-2.95402**				
	-2.6158***	-2.6143***	-2.6158***	-2.6158***				
	(0.94035)	(1.3512)	(-5.1748)	(-5.1663)				
CAB	-3.69967*	-3.6394*	-3.7114*	-3.64634*	-3.7114*		I(2)	I(1)
	-2.97626**	-2.96112**	-2.9610**	-2.95402**	-2.9610**			
	-2.6274***	-2.61430***	-2.6299***	-2.6158***	-2.6299***			
	(10.5345)	(-0.6856)	(-1.6210)	(-3.9399)	(-17.8110)			
TOP	-3.63940*	-3.6394*	-3.64634*	-3.64634*			I(1)	I(1)
	-2.96112**	-2.9511**	-2.95402**	-2.95402**				
	-2.6143***	-2.6143***	-2.6158***	-2.6158***				
	(-2.79543)	(-2.6236)	(-8.9695)	(-17.4765)				
FEXR	-3.7114*	3.6394*				-3.6537*	I(0)	I(2)
	-2.9610**	-2.9511**				-2.9571**		
	-2.6299***	-2.6143***				-2.6174***		
	(-4.60456)	(1.2068)				(-6.4109)		
FDI	-3.7114*	-3.63940*	-3.64634*	-3.64634*			I(1)	I(1)
	-2.9610**	-2.96112**	-2.95402**	-2.95402**				
	-2.6299***	-2.61430***	-2.6158***	-2.6158***				
	(5.10459)	(3.2353)	(-7.2691)	(-7.14066)				

Source: Authors' E-view estimated results. *(**) *** denote Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) statistic at 1% 5% and 10% level of significant. Figures in parentheses are the critical values of ADF and PP respectively.

METHODOLOGY

In the evaluation of the stated model, we employ the method of ordinary least square because of its popularity in estimating time series econometric models and also, the parameter estimates have the BLUE property. However, firstly is to examine the time series features of the data by testing for stationarity. In testing for unit root, the Augmented Dickey-Fuller (ADF) unit root test which is derived from Dickey and Fuller (1979, 1981) and also Phillips-Perron (PP) unit root test (introduced by Phillips 1987, Perron 1988and Phillips and Perron (1988) is used to confirm the stationarity or non-stationarity of the variables. In employing ADF and PP tests, the null hypothesis is that the variables have unit root (that is not stationary) while the alternative hypothesis is that there is no unit root in the variable (that is, Stationary). But the decision rule is to reject the null hypothesis if the absolute values of the ADF and PP statistic values are greater than the critical values at chosen levels of significance. Johansen co-integration test will be conducted on the integrated variables to ascertain if there is long-run relationship between the dependent and the explanatory variables. The presence of co-integration takes us to error correction model (ECM) (Table 1).

At the level form of the test using Augmented Dickey-Fuller (ADF), only foreign exchange reserve (FEXR) was stationary whereas Phillips-Perron test shows stationarity of the same variable at order two. The ADF shows current account balances (CAB) to be integrated at order two while Phillips-Perron critical value show integration of same variable at order one. However, both tests confirmed RGDP, TOP AND FDI to be integrated of order one. This is based on the critical values of ADF and PP statistic, therefore, we accept the alternative hypothesis of having no unit root (stationary) since the absolute values of ADF and PP statistic are greater than the critical values at 1%, 5% and 10% respectively and reject the null hypothesis of non-stationarity. However, considering the two tests (ADF, PP) and for consistency, we focus on Phillips Perron test. Given that the principal variable, real gross domestic product has same integration with majority of the independent variables, we suspect the presence of co-integration. Hence, Johansen co-integration is employed to ascertain if there is any co-integrating factor (Table 2).

Table 2. Co-integrating Test Result between RGDP and Independent Variables

Eigen value	Trace Statistic	5% critical value	Probability	Hypothesized No of CE (s)
0.833873	91.30367	69.81889	0.0004	None*
0.423454	32.06849	47.85613	0.6084	At most 1
0.164757	13.89539	29.79707	0.8465	At most 2
0.136353	7.954305	15.49471	0.4703	At most 3
0.090126	3.116808	3.841466	0.0775	At most 4

Source: Authors' E-view estimated result. *(**) denotes rejection of the hypothesis at 5% significance level

Table 3. Model dependent Variable Log (RGDP)

Variable	Co-efficient	Std error	T-statistic	Probability
Log(CAB)	0.086765	0.062060	1.398093	0.1731
Log(TOP)	-0.604542	0.318531	-1.897909	0.0681
Log(FEXR(-i)	-0.058344	0.081735	0.713813	0.4813
Log(FDI)	0.087656	0.098206	0.892572	0.3797
ECM(-1)	5.32E-06	1.28E-06	4.161314	0.0003
C	12.32559	1.038452	11.86920	0.0000
F-statistic	31.08476			0.000000
R squared	0.847348			
Adj-R squared	0.820089	Durbin Watson Statistic 1.557802		

Source: E-view estimated result conducted by authors at 5% significant level.

The Eigenvalue, trace statistic and probability indicate the existence of one co-integrating factor at 0.05 significant level. This shows the rejection of the null hypothesis of no co-integration and acceptance of the alternative hypothesis of co-integration, which implies a long-run relationship between the dependent and the explanatory variables (Table 3).

The variables CAB and FDI meet the apriori expectation as they have positive relationship with the real gross domestic product. Trade openness and foreign exchange reserve do not meet our apriori expectation. The impact of each of the explanatory variable on economic development is statistically insignificant as shown by the respective probability that is high than the 5% critical value . The error correction model shows the degree of adjustment from deviation from path of equilibrium. It shows that the error correction term (ECM) for the estimated equation is statistically significant, although the sign is contrary to our expectation but adjustment rate is significant as shown by the probability value. The R-sqaured and Adjusted R-squared are respectively 85% and 82% which show the goodness of fit of the regression line. It means that the explanatory variables account considerable variation in economic development. The overall combined effects of the explanatory variables are statistically significant as shown by the probability of the F-statistic. The Durban Watson statistic shows absence of any serial positive auto-correlations as the value approximate to 2.

DISCUSSION OF RESULT

The outcome of the data analysis has show the extent of contribution of some chosen variables transformed over the years through globalization and liberalization on the economic development of Nigeria. Capital account liberalization resulting from globalization has played a role in Nigeria as shown by the positive relationship with the real gross domestic product but at an insignificant level. The implication is that the liberalization of capital account has not contributed so much in the development of Nigerian economy at the period of study. The capital inflow into the country is still low in influencing economic development in Nigeria. Besides, the co-efficient of the trade openness has not been sufficient to impact greatly to Nigerian economy. Standard trade theory captures the gains from openness as movement towards the production possibility frontier. Singh and Jun (1995) study indicates that export is a significant determinant of foreign capital inflow, in Nigeria, although there is inflow as denoted by our result but it is not certainly as desired. Furthermore, foreign exchange reserve has been growing in Nigeria over the years one would have expected

significant impact on the Nigerian economy. The statistical result seems unrealistic because of the negative sign of the co-efficient of foreign exchange reserve. Foreign direct investment is believed to be a panacea to most of Nigerian's macroeconomic problems such as unemployment reduction, advanced technology and increased manufacturing capacity utilization, among others which suppose impact greatly on real gross domestic product. But the result shows an insignificant effect. One can attribute all these to inconsistent policies of the country, ,high cost of doing business, infrastructure deficiency, high import duties, double taxation, high level of illegal capital flight, intermittent religious crisis in the northern part of the country, kidnapping and most recently the terrorism experienced in the country that do give a wrong and discouraging signals to prospective investors, absorptive capacity and policy sequencing.

Recommendations

Globalization and capital account liberalization have impacted favourably in many countries of the world and Nigeria should not be left out. This presupposes reframe of fiscal and macroeconomic policies, and economic stabilization so as to have sufficient benefit of this economic revival paradigm. In this respect, it is our conviction that the following will help greatly.

(i) Thorough financial and business environment reforms, especially the infrastructure is imperative. Poor road network, irregular power and water supply and high cost of housing, among others have been serious problems to investors in Nigeria. Reforms will go a long way to reposition, encourage and smooth both domestic and foreign investment.

(ii) Tax reform is necessary because investors are in business and as such take consideration of factors like taxation and other costs in deciding area of investment. High import duties have scared most Nigerian importers to other nearby countries where there are little or no import duties on some goods. Odusola (2006) points out that most taxes in Nigeria are under the control of the federal government, which often results to multiple taxes in Nigeria, thereby raising the cost of doing business in Nigeria. The result is losses of revenue from importers .Imports destined for Nigeria are still diverted to ports of neighbouring countries which is due to relatively high port duties.

(iii) Insecurity of life and property need urgent solution in Nigeria. Many foreign investors were scared away in recent past by Niger Delta Militia prior to Federal Government positive intervention. The impact of the actions of the rebels has long lasting effect in the minds of those expatriates who had ugly experience. Besides, the terrorists attack of Nigerians by the “Boko Haram' has injured greatly the image of Nigeria in the world economy. Given the efforts of the government so far, there is need for global creation of awareness and orientation that Nigerian is now very safe for investment.

(iv) It is imperative that policy makers should target on macroeconomic stability, by avoiding structural distortions and creation of business-friendly environment to enhance domestic production capacity. The view of Eboh et al (2011) which posit that anti- inflationary policy like non-expansionary monetary and fiscal policies as well as inflation-adjusted interest rate policy should be pursued to attract foreign investors and discourage capital flight in the country.

(V) Various government regulatory agencies such as the Nigerian Investment Promotion Commission (NIPC), Corporate Affairs Commission, and the Central Bank of Nigeria, among others should live up to their responsibilities in all angles to encourage and ensure effectiveness in trade activity and investment.

CONCLUSION

The study has examined the contribution of globalization and capital account liberalization on economic development of Nigeria over the years. The study has shown that much still need to be done to improve globalization so as to reap the benefit from it. This implies reforms, proper regulation and consistent macroeconomic policy. It is believed by the researchers that good environment, sufficient security of life and property are essential ingredients required to attract more investors into the country. In addition, regulatory bodies such as the Economic and Financial Control Commission (EFCC), the Nigerian Custom Service, Immigration Department and Independent Corrupt Practices and other Related offences Commission (ICPC) have to be up and doing in sanitizing the economy and make Nigeria very safe for investment by all and sundry.

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