THE IMPACT OF GLOBALIZATION ON THE NIGERIAN ECONOMY FROM 1978 – 2007

BY

EGWUONWU, MACNOAH EBERE

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BEING A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE (M.SC) IN FINANCIAL MANAGEMENT TECHNOLOGY (FMT) TO THE

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CERTIFICATION

This is to certify that this Research Project work title – the Impact of Globalization on the Nigerian Economy from 1980 – 2005 was carried out by Egwuonwu, MacNoah Ebere, (20044449188), of the Department of financial Management Technology Post Graduate School of the Federal University of Technology, Owerri, under the supervision of DR. A.B.C. Akujuobi and is hereby submitted as having partially satisfied, the requirements for the award of the degree of Master of Science (M.Sc.) in Financial Management Technology of the University.

SIGNATURE **DATE**

…….. ……

DR. A.C. AKUJUOBI

PROJECT SUPERVISOR

……. ……

DR. N.C. NWEZEAKU

HEAD OF DEPARTMENT

…….. ……

THE DEAN SMAT PGS

…… ……

EXTERNAL SUPERVISOR

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

In recent times, various issues have dominated scholarly discourses, and one of the most controversial amongst them is Globalization. Several authors have critically examined its varied usages and ideological applications.

According to Giddens (1990:64), globalization can be defined as the intensification of world wide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa. In the opinion of Aina (1997:8), globalization depicts the transformation of the relation between states, institutions, groups and individuals. He said it is the universalization of certain practices, identities and structures. Significantly, Globalization is the expression of a global restructuring that has occurred in recent decades in the structure of modern capitalist relations.

Although the influence of the international community permeates contemporary social relations, this trend is not altogether new. Globalization began through an endless series of economic transactions which linked Europe, Asia, Africa and the Americas. The trade in slaves from West Africa and the profits made from it boosted the industrialization of Britain and the European industrial revolution in general. Between 1870

and 1914, the world economy knitted together in a way that had previously been inconceivable, (Theobald, 1994 and Worseley 1994). This marked the beginning of unequal relations between Africa and Europe based on a Euro – centric economic division of labour that served to benefit the industrialized world. It was made possible only by the European powers arrogating to themselves vast areas of the world's surface. This they did through conquests and colonization.

Current globalization therefore, does not reflect a clear break from the past. As a global economic doctrine, globalization was intensely promoted in the 1980's through the World Bank/IMF inspired programmes.

Went (2000), reflects these in the observation that the term globalization is abused in at least three ways. First, in its use by international organizations such as IMF, World Bank and G8 to control and restrict the policy making abilities of governments especially on developing countries like Nigeria. That was done by the structural Adjustment Programme (SAP). Second, the use of the concept for the justification of unpopular policies in developing countries. Third, in the employment of globalization for justifying the increasing acquisition of power by international political and economic organization such as the United Nations (UN), European Union (EU), and the World Trade Organizations (WTO). As part of economic globalization, the structural Adjustment Programme (SAP) with its market

orientation is presented as inevitable and having no alternative (Olukoshi, 1998).

The current wave of globalization can be named as a desperate bid by international capitalism to recover lost grounds. This is a fact based on the ideological shifts towards alternative paradigms which African countries like Nigeria adopted since independence

- Especially with the collapse of the Sonet union and the unchallenged capitalism (sawyer 1998). Thus bid was facilitation by the debt crisis experienced by African countries since the 1980's with Nigeria having the worst experience. This period and region was hijacked by the Euro-American mentored institutions
- Especially the International Monetary Fund (IMF) and the World Bank.(Loxley 1995) from the new point of the IMF, the economic crisis in Nigeria is a product of structural distortion in the economy due to the overvalued exchange rates, import regulation and huge public sector expenditure. Other factors that supported the view –point of the IMF are poor investment management's low returns on capital, high wage structure, and low productivity of workers, import substitution industrialization and its policy environment. Other contributors are over-extended inefficient and unproductive public enterprises, and their undue protection by government and, discriminatory

credit policies against the public sector. (Onimode 1989, Olukoshi 1995, Becckman 1990, and Adesina 1994).

The underlying argument by the IMF/World Bank is that economic growth became blocked by the presence of unsustainable imbalances in the national economy between aggregate demand and aggregate supply. They claimed that this imbalance resulted to growing deficits in the balance of payments, high rates of domestic inflation and huge and growing public sector deficits.

Solutions to the problems were therefore, conceived through short-term economic stabilization programmes involving a sharp restriction of domestic demand through monetary and fiscal measures, and longer term adjustment instruments. This entailed the application of supply side policies to promote the production of exports and import substitutes – some of which employed exchange rate instruments involve policy elements that emphasize neo-liberal economic policies while economic stabilization policies were put in place from the late 1970's, the formal adoption of the economic globalization in Nigeria began with the introduction of the structural Adjustment programme (SAP) in July 1986. The programme has tended to favour the advanced capitalist countries rather than the debtor African countries like Nigeria. It was observed from the outset of the debt crisis in 1982 through 1990 that for each and every month for 108 months, debtor countries reunited to their creditors an

average of seven billion ($7.0 billion) dollars in interests payments alone, according to Harris (1989:19), the overriding agenda of the International Monetary Fund (IMF) and the World Bank is the construction, regulation and support of a world system where multinational corporation like – British Airways, Peugeot Automibe Nigerian Plc, Souete Generale and move capital without restrictions from nation states.

The immediate effects of the economic Stabilization Act of 1982 were the shortage of foreign exchange and the scarcity of imported raw materials and the spare parts for industrial production. These were followed by a fall in the utilization of installed capacity of most industrial enterprises Olukoshi (1989) records that with capacity utilization ranging between 20 percent to 40 percent in the industrial sector, about 101 companies surveyed by the manufacturers Association of Nigeria has shut down for periods of between 7 and 12 weeks by July 31, 1983, with about 200,000 workers laid off,

With the foregoing above, there is therefore, a need to examine the impact of globalization on the Nigerian economy.

1.2 THE STATEMENT OF THE PROBLEM

With the assertion that globalization has not favoured most developing economies especially that of Nigeria, this work intends to analyze the degree of impact of economic globalization on the Nigeria's industrial performance is with an extension of discussing the coping strategies employed by the

participants in the industry in dealing with the challenges of globalization.

1.3 OBJECTIVE OF THE STUDY

This research study is aimed at the following objectives:

i. To ascertain how globalization has led to the de-industrialization of and dwindling Nigeria economy.
ii. To determine how globalization can enhance the growth of industrialization and the economy of Nigeria.
iii. To make useful recommendations based on the findings.

1.4 RESEARCH QUESTIONS:

The research questions are:

i. Does globalization cause de-industrialization and dwindling of the Nigerian Economy?
ii. To what extent can globalization enhance the growth of the industrialization of Nigeria and her economy?

1.5 HYPOTHESES

The following hypotheses are formulated for the study:

HO_1: Globalization has no significant impact on the industrial sector of Nigeria.

HO_2: There is no significant relationship between globalization and economic development of Nigeria.

1.6 SIGNIFICANCE OF THE STUDY

The justification of the of this research study is apparent for fact that the Federal Government of Nigeria, the participants in the economic sector the academic would derive a lot of benefits out of it. The government, on its part, would acquire statistics for economic policy making of economic policy making. As industrialization is the bedrock of economic development, the government will want to use the data to persuade industrialists and the new entrants towards pushing Nigeria side by side other industrialized economics. The application of the study would increase the standard of living of Nigerians in that it would highlight ways of making the industrial sector more resourceful towards enhancing the industrialization level of the Nigeria economy and motivating more hands to raise per capita income.

The academic on its perspective, would see the greater need to redesign its programmes to incorporate courses leading to efficient industrial management. Skill specialization through knowledge acquisition would be on the increase.

The study would be of immense assistance to all and sundry.

1.7 SCOPE/LIMITATIONS OF THE STUDY

This study will focus primarily on the globalization of the Nigerian economy, the various forms of globalization especially its economic aspect and its impact on the industrial sector and

the economic development of Nigeria from 1991 to 2005. In looking at the impact on the economy and especially the industrial sector note will be taken of the published historical data relating to globalization, and the different economic indices such as:

i. Total imports
ii. Total exports
iii. Foreign Direct investments.
iv. Portfolio Investments
v. Income Inflows and outflows
vi. Industrial Sector.
vii. Gross Domestic Product.

The study will be limited to investigation on the historical data. To accomplish the stated objectives of this study, an overview showing the relationship between some of the various globalization and general economic indices will be carried out as follows:

1. A study of the relationship between the growth rates of Gross Domestic Products (GDP) and total imports, total exports, Foreign Direct Investments, Portfolio Investments. Income flows and outflows and industrial sector of the Nigerian economy.
2. An overview showing the relationship between globalization and the Nigerian economy with its attendant impact using appropriate statistics.

3. Give a conclusive picture to the effect that globalization ought to boost the Nigerian economy but has boost reached such expectation in Nigeria presently.

However, in the course of this study, the writer was faced with the following problems:

- Some of the libraries visited were not fully equipped consequently, there was the problem of incomplete data;
- The websites of most international economic organizations were not updated making accessibility very difficult.
- Unavailability of a comprehensive and up to data at the CBN Owerri which was the only accessible CBN office within the area and the difficulty of getting the cooperation of the staff.
- This study is highly technical and it was difficult go thing materials which made it time consuming as a lot of time was spent gathering information and materials for this topic.

The inflationary trend, high transport costs of shutting in between in between libraries, and browsing the internet websites are writing the intended extended research work of this study. However, we expect the entire exercise to be worth its value as contributions to existing body of knowledge will be made as well as new grounds set up for exploration.

1.8 PLAN OF THE REPORT

The research study is organized in five chapters. The chapter one, which is the on going Introduction is sectionalized into: background of the study; statement of the problem; objectives of the study; research question; hypotheses; significant of the study and this plan of the report.

The chapter two is entitled: The literature review. It is in sections sub-titled as follows: Introduction; theoretical frame work.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

In this chapter entitled literature review the secondary data that the researcher gathered in the course of work on the topic. We shall see the theoretical framework comprising of definitions of globalization, dimensions of globalization, its history, characteristics, protagonists and antagonists. We shall also review its, characteristics protagonists and antagonists. We shall also review its measurement parameters. The interaction of globalization and the Nigerian economy in view of its industrial sector will also be considered.

2.1 THEORETICAL FRAMEWORK

2.1.1 DEFINITIONS

From Wikipedia, Globalization is an umbrella term for a complex series of economic, social, technological, cultural and political changes seen as increasing interdependence, integration and interaction between people and companies in desperate locations. As a term – globalization- has been used as early as 1944 but economists began applying it around 1981. Theodore Levitt (1983) is usually credited with its courage. The more an encompassing phenomenon has been perceived in the context of sociological study on a world wide scale.

The term-globalization – is used to refer to these collective changes as a process, or else as the cause of turbulent change. The distinct uses include.

- Economically and socially positive: Globalization is seen as an engine of commerce; one which brings an increased standard of living. This appears as prosperity to developing countries and further wealth to First World and Third World countries. This new claim of economic prosperity brings about social prosperity.

Secondly, it is used as an economically, socially, and ecologically negative phenomenon. This view shows globalization as an engine of "corporate in perialism"; one which tramples over the human rights of developing societies, claims to bring prosperity, yet often simply amounts to plundering and profiteering. Negative effects include cultural assimilation via cultural imperialism, the export of artificial wants, and the destruction or inhibition of authentic local and global community, ecology and cultures.

Various authorities and institution have defined Globalization differently, though a close studies of all those shows interrelationships. The International Monetary Fund, (IMF), stresses Globalization as the growing economic interdependence of countries worldwide through increasing volume and variety of cross-border transaction in goods and

services, free international capital flows and more rapid and widespread diffusion of technology.

In a review by Riggs (1999) Globalization is a process that has been going on for the past 5000 years, but it has significantly accelerated since the devise of the soriet Uniion in 1991. He stated that elements of globalization include: trans-border capital, labour, management, heros, images and data flows. He said that the main engines of globalization are the transnational corporations (TNCs or MNCs), transnational media organizations (TMCs), intergovernmental organizations (IGOS), non-governmental organizations (NGO's), and alternative government organizations (AGOS), He concludes that globalizations from a humanist perceptive, entails both positive and negative consequences. It is both narrowing and widening the income gaps among and within nations, intensifying and diminishing political domination, and homogenizing and pluralizing cultural identities.

Further the review by Riggs (1999) cited globalization as a process along four dimensions, economic globalization, formation of world opinion, democratization, and political globalization. This was rounded off with the assertion that changes along one of these dimensions elicited changes among the other dimensions.

Still in that review, globalization was seen as a term that entered popular discourse during the late 1980's which, instead of clarifying issues of world development became a buzzword that rather seemed to add confusion and misunderstandings by its distinguished five different dimensions by its distinguished five different dimensions. These include: economic globalization, political globalization, common ecological constraints cultural values and institutions, and globalization of communication.

Riggs, (1999) cited globalization as a concept referring to basic, more or less rapid change in the technical, social, political, and territorial organization of investment, production, trade and aid. He identified common shifts to include: trans-nationalization of communication, commerce, production, ownership, consumption, socio-cultural reproduction and politics; the increased segmentation and volatility of market demand; the organizational decentralization of firms and the enhanced flexibility of production; the strategic ascendance of finance capital and specialized services relative to manufacturing; the transfer of public resources to private hands; the proportional relocation of manufacturing activity from the United States and Western Europe to East Asia as well as poor geographic areas; and deterioration in the average pay, stability, and other conditions of employment.

Jeffrey Hart (2001) has identified five concepts represented by globalization, which he lists as follows:

(i) The existence of a global infrastructure;

(ii) Global harmonization or convergence of some important characteristic feature;

(iii) Borderlines;

(iv) Global diffusion of some initially localized phenomenon; and

(v) Geographical dispersion of core competences in some highly desirable activities.

A paper by Nwezeaku (2005) says Globalization is a phenomenon which has lowered the almighty barriers of international trade giving rise to the increased flow of ideas, people, goods, services and capital across frontiers. Its greatest impact on the world economy is that it has rendered markets relatively accessible. In its wake, it has brought increasing prosperity to prosperity to multinationals. In places, globalization has led to increased standard of living. It has also brought some modest diffusion of sophisticated technology to developing countries.

2.1.2 DIMENSIONS OF GLOBALIZATION

For the fact that scholars in such academic disciplines as History, Geography, Sociology, Economics, Psychology, Anthropology, Political Science and Communications exist, there is the tendency to focus on a selected dimension of

globalization that interest the particular scholars because they relate to their fields of specialization and the discourse communities which become their frames of reference.

Indeed, it is truly difficult to study globalization in a holistic perspective, it is both easier and more gratifying to slice of some aspect of the whole and look at it as though it encompassed the global pattern.

To start with, History and Geography provide frameworks that focus on the temporal and spatial dimensions of globalizations as noted above. However, each discipline provides a wealth of analytic information that goes far beyond their time/space platforms. Indeed, they are rich with descriptions and theoretical analyses that help us understand the dynamics, the causes and consequences, of the whole canvas of globalization. The following disciplinary dimensions of globalization have been diagnosed.

Historical Dimensions of Globalization:

This is a matter of dating periods of globalization and the analyses of events and relations that occurred during any such period.

Sociological Dimensions:

Sociology offers a perspective based on social action, how people relate to each other at diverse levels. This also stresses

the norms and patterns that control individual perceptions, leading to ambivalence, social conflict and disruptions.

Economic Dimensions / Economic Globalization:

Economists are concerned with the exchange of goods and services, trade, money, markets, savings and capital as fundamental factors in the processes of globalization.

Political Globalization:

Political Scientists, accustomed to looking at governance, states, politics and administration as a major focus of attention, will naturally focus on those aspects of globalization that involve states, public institutes and policies, at many levels and in many patterns ranging from violent conflict to peaceable accommodation.

Ethnographic Globalization:

Anthropologists often think, among other things, about cultural patterns as they arise within a community or affect the more complex relationships of peoples adhering to diverse and overlapping cultures. We need terms that identifying with ethnographic perspectives and more specifically, to the important role of ethnicity, of national identify and community as factors affecting personal identify and interactive patterns in a global system and all its localities.

Informational Globalization

Communications specialists study how information is exchanged, stored, and used, with increasing emphasis on the new technologies of the internet for recording and exchanging data. The information revolution and its relation to globalization

is a remarkable contemporary development that is extraordinarily important for the study of globalization.

Health and Disease Dimensions:

Physicians and health experts study the spread and incidence of diseases and worry about how to enhance the wellbeing of humans and other living things.

Demographic Globalization:

Demographers look at the rise and fall of human populations and the factors that explain or result from such changes.

Psychological Globalization:

Psychologists focus their attention on individuals and their mental problems – in a global perspective. They look at how individuals react to forces at work in a global system.

Metaphysical Globalization:

Comparative Religion is a discipline that supports research on how metaphysical beliefs and related practices affect and are affected by globalization. Other dimensions of globalization include humanistic globalization, bordering on the study of arts, literature, music and dram, linguistic dimensions; technological globalization – including the revolution in computer applications and the internet; and educational dimensions, amongst others not mentioned.

However, in this research study our concentration shall be on the economic globalization which was defined by Heydebrand in the review by Riggs (1999) as an increase in the levels and rates of the transnational expansion of finance capital (foreign

direct investments and portfolio investments), economic and corporate concentration, and trade. He continued to define the current ware of economic globalization as the third phase of a historical transnational expansion of industrial and finance capitalism that started around 1850 in Europe and greed until about 1913 under British auspices, was interrupted by World War 1, the October 1917 Russian Revolution and a subsequent 70-year hiatus from about 1919 to 1989 and resumed its expansion after the collapse of the soviet empire in 1989/90.

2.1.3 HISTORY OF GLOBALIZATION

Following the diverse applications and understanding of the word, different groups have differing histories of globalization. In general use within the field of economics and political economy, globalization is world wide expansion of the division of labour. It can also refer more specifically to an increasing volume of trade between nations based on stable institutions that allow firms in different nations to exchange goods and services with minimal friction.

The term "liberalization" came to mean the acceptance of the neoclassical economic model which is based on the unimpeded flow of goods and services between economic jurisdictions. This led to specialization of nations in exports, and the pressure to end protective tariffs and other barriers to trade. The period of the gold standard and liberalization in the 19th century is often called the "First Era of Globalization". Based on the Pax

Britanica and the exchange of goods in currencies pegged to specie, this era grew along with industrialization. The theoretical basis was David Ricardos work on comparative advantage and say's Law of General Equilibrium. In essence, it was argued that nations would trade effectively, and that any temporary disruption in supply or demand would correct themselves automatically. The institution of the gold standard came in steps in major industrialized nations between approximately 1850 and 1880, though exactly when various nations were truly on the gold standard is contentiously debated.

The First Era of Globalization is said to have broken down in stages beginning with the First World War, and then collapsing with the crisis of the gold standard in the late 1920's and early 1930's. Countries that engaged in that era of globalization, including the European core, some of the European periphery and various European offshoots in the Americas and Oceania, prospered. Inequality between those states fell, as goods, capital and labour flowed remarkably freely between nations.

Globalization, in the era since World War ii, has been driven by trade negotiation rounds, originally under the auspices of GATT (General Agreements on Tax and Tariffs), which led to a series of agreements to remove restrictions on free trade, the Uruguay round (1984 to 1995) led to a treaty to create the World Trade Organization (WTO), to mediate trade disputes.

Other bilateral and trilateral trade agreements, including sections Europe's Maastricht Treaty and the North American Free Trade Agreement, have also been signed in pursuit of the goal of reducing tariffs and barriers to trade.

2.1.4 NATURE AND EXISTENCE OF GLOBALIZATION

There is much academic discussion about whether globalization is a real phenomenon or only an analytical artifact (a myth). Although the term is widespread, many authors argue that the characteristics attributed to globalization have already been seen at other moments in history. Also many note that such features, including the increase in international trade and the greater role of multinational corporations are not as deeply established as they may appear.

Some authors prefer the term internationalization rather than globalization. In internationalization, the role of the state and the importance of nations are greater, while globalization in its complete form eliminates nation states. So, they argue that the frontiers of countries in a broad sense, are far from being dissolved, and therefore this globalization process is not happening and probably will not happen considering that in world history internationalization never turned into globalization.

However, the world increasingly shares problems and challenges that do not obey nation-state borders. Most notably,

pollution of the natural environment, and the movement previously known as anti-globalization has transformed into a movement of movements for globalizations from below, seeking through experimentation, forms of social organization that transcend the nation-state and representative democracy. Where as the original arguments that globalization is taking place can be refuted with stories of internationalization, as above, the emergence of a global movement is indisputable and therefore we can speak of a real process towards a global human society of societies. Other authors have argued that we are in transition to a planetary phase of civilization. The exact form and character of the global society is contested and will be determined by the choices we make in the critical decades ahead.

Some maintain that globalization is an imagined geography. It is seen as a political tool of ruling neo-liberalists, who are attempting to use certain images and discourses of world politics to justify their political agenda. Writers of books claim that by representing a picture of a globalized world, the Bretton Woods institutions can demand that countries open up their economies to liberalization under Structural Adjustment Programmes (SAP) that encourage governments to fund privatization programmes ahead of welfare and public services.

2.1.5. CHARACTERISITICS OF GLOBALIZATION

Globalization/internationalization has become identified with a number of trends, most of which may have developed since World War II. These include greater international movement of commodities, money, information and people. Other trends are: the development of technology, organizations legal systems, and infrastructures to allow this movement the actual existence of some of those trends is debated.

Economic Characteristics

These include:

(i) Increase in international trade at a much faster rate than the growth in the world economy;

(ii) Increase in international flow of capital including foreign direct investment;

(iii) Creation of international agreements leading to organizations like the WTO and economic cartels such as OPEC.

(iv) Development of global financial systems;

(v) Increased role of international organizations such as WTO, IMF that deal with international transactions;

(vi) Increase of economic practices like outsourcing and off sharing by multinational corporations.

Cultural Characteristics

This is evidently seen as

(i) Greater international cultural exchange,

(ii) Spreading of multi-culturalism, and better individual access to cultural diversity, for example through the export of Hollywood, Bollywood and Nollywood movies. However, the imported culture can easily supplant the local culture, causing reduction in diversity through hybridization or even assimilation. The prominent form of this is westernization.

iii. Greater international trade and tourism.

iv. Greater immigration including illegal immigration.

v. Spread of local consumer goods (food) to other countries.

v. World in the sporting events such as FIFA World Cup and the Olympic Games.

vii. Formation or development of a set of universal values.

Technological/ Legal Characteristic

These appear as:

i. Development of a global telecommunications infrastructure and greater transborder data flow, using such technologies as the internet, communication satellites, submarine fiber coptie cable, and wireless telephones.

ii. Increase in the number of standards applied globally like copyright laws and patents.

iii. The push by many advocates for an international criminal court and international justice movements.

It is often argued that even terrorism has undergone globalization with attacks in foreign countries that have no direct relation with the country.

Barriers to international trade have been considerably lowered since World War II through international agreements such as the General Agreements on Tariffs and Trade (GATT). Particular initiatives carried out as a result of GATT and the WTO, for which GATT is the foundation, have included:

Promotion free trade of goods in terms of reduction or elimination of tariffs ; and construction of free trade zones with small or no tariffs; Again, reduced transportation costs of goods, especially from development of containerization for ocean shipping, and reduction or elimination of capital controls are nor left out. In addition, goods pass through reduction, elimination or harmonization of intellectual property laws across nations and supranational recognition of intellectual property restrictions. An illustration can be seen in patents granted by China being recognized in the United States.

2.1.6 ANTI- GLOBALIZATION/GLOBAL JUSTICE

Critics of the economic aspects of globalization contend that it is and, as its proponents tend to multiply, an in exorable process that flows naturally from the economic needs of everyone. The critics typically emphasize that globalization is a process that is mediated according to elite imperatives, and

thus raise the possibility of alternative global institutions and polities which they believe address the moral claims of poor and working classes through0ut the globe, as well as environmental concerns in a more equitable way.

In terms of the controversial global migration issue, disputes revolve around both its causes, whether and to what extent it is voluntary or involuntary, necessary or unnecessary; its effects, whether beneficial, or socially and environmentally costly, proponents tend to see migration simply as a process whereby white and blue collar workers may go from one country to another to provide their services on their part, critics tend to emphasize negative causes such as economic, political and environmental insecurity, and cite as one notable effect the , the link between migration and the enormous growth of urban slums in developing countries. According to "The challenge of slums", a 2003 Un-Habitat report, "the cychiest nature of capitalism, increase demand for skilled versus unskilled labour, and the negative effects of globalization contribute to the enormous growth of slums, some of the negative effects of globalization include particularly the global economic booms and busts that ratchet up inequality and distribute new wealth unevenly.

Various aspects of globalization are seen as harmful by public interests activities as well as strong state nationalists. This movement has no unified name.

There are a wide variety of kinds of “anti-globalization”. In general critics claim that the results of globalization have not been what was predicted when the attempt to increase free trade began, and that many institutions in what in the system of globalization have not taken the interests of power nations, the working class, and the environment into account t.

Economics arguments by fair trade theorists claim that unrestricted free trade benefits those with more financial leverage at the expense of the poor.

Many see globalization as the promotion of corporatist agenda, which is intent on constricting the freedoms of individuals in the name of profit. They also claim that the increasing autonomy and strength of corporate entities increasing shapes the political policy of nation-states.

Some “anti globalization groups argue that globalization as necessary imperialistic, is one of the diving reasons behind the trag war and is forcing Sarringi to flow into the United States rather than developing nation. It can therefore be said that globalization is another term for a form if Americanization, as it is believed by some observers that the United States could be one of the few countries (if nor the only one) to truly profit from globalization.

Some argue that globalization imposed credit-based economics, resulting in unsustainable growth of debt and debt crises.

The financial crises in South east Asia that began in 1991 in the relatively small, debtridden economy of Thailland but quickly spread to Malaysia, Indonesia, South Korea and eventually were felt all around the world. This demonstrated the new risks and volatility in rapidly changing globalize markets. The IMF's subsequent "bailoud" money came with conditions of political change in form of government spending limits, attached. This was viewed by cities as undermining national sovereignty in neo – colonists pointed to the meltdowns as proof of the high human cost of the indiscriminate global economy.

Many global institutions that have a strong international influence are not democratically ruled, nor are their leaders democratically elected. Therefore, they are considered by some as supernational undemocratic powers.

The main opposition is to unfettered globalization which refers to neo-liberal or/and liaises – faire capitalism that are guided by government. Another opposition is to what are claimed to be quasi – governments such as the International Monetary fund and the World Bank that are nor help responsible to the populations that they govern but instead respond mostly to the interests of corporation . Many conferences between trade and

finance ministers of the cone globalizing nations have been met with large, and occasionally violent, protests from opponents of corporate globalism.

Some “anti-globalization” activities object to the fact that the current globalization globalizes money and corporations globalizes money and corporations, but not people and unions. This can be seen in the strict immigration controls in nearly all countries, and the lack of labour rights in many countries in the developing world.

Another more conservative camp opposed to globalization is state centric nationalists who fear globalization is displacing the rate of nations in global polities. They also point to NGO’s as encroaching upon the power of individual nations.

The movement in very broad includes chunk groups, natural liberation factors, left wing parties, environmentalists, peasant unionists, anti-racism groups, anarchists, those in support of re-localization and others. Most of these anti-globalization movements are reformists that argue for a more humane form of capitalism. Others are more revolutary arguing for what they believe is a human system that capitalism. However, most opposers are not in unity and so lack common direction and centralization.

2.1.7 PRO-GLOBALIZATION/GLOBALISM

Pro-globalists consider that the first phase of globalization, which was market-oriented, should be completed by a phase of building global political institutions persecuting the will of world citizens.

Supporters of free trade point out that economic theories of comparative advantage suggest that free trade leads to a more efficient allocation of resources, will all countries involved in the trade benefiting in general, this leads to lower prices, more employment and higher output.

Libertarians and other proponents of laissez- faire capitalism or higher degrees of political and economic freedom in the form of democracy and capitalism in the developed world are both ends in themselves and also produce higher levels of material wealth. They see globalization as the beneficial spread of liberty and capitalism.

Critics argue that worldwide statistics strongly support globalization:

- The percentage of people in developing countries living below US & 1 per day has halved in only twenty years, although some critics argue that more detailed variables measuring poverty should be studied;
- Life expectancy has almost doubled in the developing world since the Second World War and is starting to close

the gap to the developed world where the improvement has been smaller. Infant mortality has decreased in every developing region of the world. Income in equality for the world as a whole is diminishing;

- Democracy has increased dramatically from almost no nation with universal suffrage in 1900 to 62.5% of all nations in 2000.

The proportion of the world's population living in countries where per-capita food supplies are less than 2,200 calories per day decreased from 56% in the ruid-1960s to below 10% by the 1990s.

- Between 1950 and 1999, global literacy increased from 52% to 81% of the world. Women made up much of the gap: Female literacy as a percentage of male literacy has increased from 59% in 1970 to 80% in 2000:
- The percentage of children in the labour force has fallen from 24% in 1960 to 10% in 2000;
- There are similar trends for electric power, cars, radios, and telephones per capita, as well as the proportion of the population with access to clean water.

However, some of these improvements may not be due to globalization, or may be possible without the current farm of globalization or its perceived negative consequences to which the global justice movements objects.

Some pro-capitalists are also critical of the World Bank and the IMF, arguing that they are corrupt bureaucracies controlled and financial by status, not corporations. Many loans have been given to dictators who never carried out promised reforms, instead leaving the common people to the pay the debts later. They also note that some of the resistance to globalization comes from special interest groups with conflicting interests, like Western World Unions.

2.1.8 MEASUREMENT OF GLOBALIZATION

Unit most recently, the extent of globalization of a nation-tock or culture in a particular year has been measured employing simple proxies like flows of trade, migration or foreign direct investment. A more sophisticated approach to measuring globalization is the recent index calculated by the Swiss think tank KOF, the index measures the three main dimensions of globalization which are economic, social, and political.

In addition to three indices measuring these dimensions, an overall index of globalization and sub-indices reforming to actual economic flows, economic restrictions, data on personal contact, data on information flows, and data on cultural proximity is calculated.

According to CSGR Globalization Index, Economic globalization can be measured by four variables; namely: Trade, Foreign

Direct Investment (FDI), portfolio Investment Income. By this index, trade implies exports plus imports of goods and services as a proportion of GDP of a nation. Foreign Direct Investment (FDI) points at inflows plus outflows of foreign direct investments as a proportion of the Gross Domestic Product, (GDP). On its parts, portfolio investment is defined as inflows plus outflows of portfolio investments as a proportion of GDP while income means the employee compensation paid to non-resident workers and investment income from foreign assets owned by domestic residents plus employee compensation paid to resident workers working abroad and investment income from domestic assets owned by foreign residents, as a proportion of GDP.

2.2.0 GLOBALIZATION AND THE NIGERIAN ECONOMY.

In the views of Aina (2006), Nigeria, Africa's most populations country has an estimated population of about 140.1 million people. This country emerged from a civil war of 1967-1970 with a devastated economy. However, a meaningful recovery process started with the advent of petroleum in the mid 1970s. The economy was basically a grarian. The relative share of agriculture, livestock, forestry and fishing which was 65.6% in 1960 -1961 has declined with the agricultural sub-sector accounting for only 32% per annum in the 1990s despite the fact that the sector still constitutes the source of employment and live hood for about three-quarters of the population. Until

early 1980, Nigeria has a insignificant record of foreign debt its currency, the naira was completely strongly with other foreign currencies. Yet, by mid-1980's, the economy started declining as foreign reserves became almost exhausted, and foreign debt started accumulating at an alarming rate as the naira lost its value in exchange with other currencies.

The World Bank World Development Report indicated that the country's Gross Domestic Product (GDP) in 1980 was US & 13 billion, which puts it as the 20th on rank in terms of GDP size. From 1986 -1987, the country was hit by the triple disaster of political instability, economic stagnation and the pursuance of inappropriate and ill-fated structural adjustment programs. This devalued the currency, assets and productive resources available for use, and left the country economic managers with the problems of correcting any distortion affection any of the four major prices- of exchange rate, interest rate, domestic price level, and wage rate. Other problems include: avoiding regression in employment and external balance; avoiding devolution; and creating an incentive and opportunity system as a way of improving the economy.

In this process, the level of industrialization and technology development is so low that it whittles (reducing by a continuous gradual process) the competitiveness of the economy in a globalize world to the point that foreign actors would have to give more, and have little or nothing to receive,

since globalization is the channel of redistributing technology. This is to say that with the challenges of industrialization and technology development, the Nigerian economy is posed to encounter a Herculean task of effecting globalization transaction aimed to Nigeria's advantage.

The lack of zeal of domestic corporate executives to engage investments in the industrial sector exposes finance capital to the hazard of foreign invasion. This implies that foreign investors could take this advantage to expropriate the wealth of the nation, and this hamper the strength of the Nigerian economy because capital is mobile. This is possible as globalization is about interconnectedness and interdependence with the finance capital available in the economy being moved at will to the economy of other nation-states. Thus, globalization has brought about the domination of the Nigerian economy since its basic exports promotes economic diversification in the domestic selling, placing the Nigerian economy in an uncompetitive file space in the global trade circle.

2.3.0 THE INDUSTRIAL SECTOR OF NIGERIA AND GLOBALIZATION

In the opinion of Nwezeaku (2005) Globalization is a phenomenon which has lowered the almighty barriers of international trade giving rise to the increase flow of ideas, people goods, services and capital across frontiers its greatest

impact on the world economy is that it has rendered markets relatively accessible. In its wake, it has brought increasing prosperity to multinationals. In places, globalization has led to increased standard of living. It has also brought some modest diffusion of sophisticated technology to developing countries. His review cited a recent World Bank study showing that countries that embraced globalization have done better on the average in terms of economic growth, per capita income and standard of living when compared with countries averting the embrace.

However, there has been a lot of controversy on recent times over the desirability or otherwise of the globalization phenomenon. Most developed countries construe globalization as purely an America device to dominate the world economy. This was supported by Kissinger (1999) contending that the essence of globalization is to create a level playing field for the benefit of the united states corporations while making it a killing field for ordinary people in the less developed countries (LDCS).

The negative aspects of globalization as it affects the world's poorest countries and people who still on less than US & 1 a day, the result of rapid and unprecedented economic change, the disappearance of local industries as well as the loss of local control over economic polices and national developments have fuelled the controversy.

Nwezeaku (2005) reviewed further that for more than a decade how, many developing and emerging economies have been in deep crises. Some of the manifestations of these crises include: unprecedented distress in the banking sector, corporate bankruptcies, job losses, and increased fiscal burdens, depletion of foreign exchange reserves, depressed economic activities, and heavy domestic and foreign debt burdens political and social turbulence. This development has led to controversies as to the desirability or other rise of globalization.

It would then appear that a developing country like Nigeria with its fragile economic base, rounds of civil disturbances, famine, over population, deteriorating social conditions, and poorly developed human capital is likely to be devastated by any disturbance, if it embraces fully, the idea of globalization.

Nevertheless, the striking question here is: has globalization impacted on Nigerian's industrial growth in any way?

2.3.1 PHASE OF NIGERIA'S INDUSTRIAL SECTOR

Still in the view of Nwezeaku (2005), some phases can be identified, in Nigeria's bid to be cited as a manufacturing nation. First was the pre-independence phase, this was characterized by lack of planning and aimless location of industries that made little or no impact on the economy. Second was the post-colonial era, characterized by the establishment of import substitution industries. The fluid phase

(the oil boom phase) was characterized by direct government investment in steel production, petroleum refining, and the production of liquefied natural gas, edible salt and inorganic fertilizer. It was a period of indigenization with intense economic activity, but with poor result as government attempts at diversification with steel, petrochemical, fertilizer and vehicle assembly yielded little reticurus (Anyamu, 1997).

The fourth and last phase was in the 1980s and 1990s. This phase was marked by dividing government services, resulting from falling oil prices, which forced government to indirect emphasis on the strategy of encouraging the use of local raw materials for manufacturing. It also encouraged heavy public sector investment and protection of private investments.

2.3.2 PORTFOLIO AND DIRECT INVESTMENT FLOWS IN NIGERIA.

Manufacturing activity in Nigeria has also been plagued by poor reputation resulting from instability in both the economic and political spheres leading to an over-cautions reaction from the international community. This gave rise to the paucity of foreign investments both in equity and foreign direct investment, which the country needed most. For example, in 1990 the total foreign private investment in Nigeria or foreign capital inflow stood at 27.9% which was about 0.03% of GDP. It increased to 0.10% in 1991, peaked at 1.4% in 1993 only to decline rather sharply to 0.29% in 1994. In actual fact, there

were rather negative net portfolio investments outflows from 2994 to 1998 resulting largely from unconducive investment climate.

However, from 1999 to 2002, Nigeria recorded positive net portfolio investments which would be attributed to the internationalization of the Nigerian capital market and a conscious effort by the government to promote foreign investment.

TABLE 1: FOREIGN PORTFOLIO AND DIRECT INVESTMENT FLOWS IN NIGERIA 1990 – 2000.

YEAR	PORTFOLIO INVESTMENT	DIRECT INVESTMENT
	USD (Millions)	USD (Millions)
1990	- 54.1	583.0
1991	- 60.1	697.9
1992	- 21.3	836.1
1993	-17.1	1345.3
1994	- 9.3	1015.7
1995	- 82.2	1079.3
1996	- 172.6	1593.5
1997	- 66.6	1539.4
1998	- 8.3	1051.3
1999	11.0	1004.9
2000	502.5	1140.7
2001	826.8	1183.5
2002	133.5	1868.0

Source: Central Bank of Nigeria Annual Report and Statement of Accounts.

The largest in flow of both foreign portfolio investment and foreign direct investment was recorded in 2001, when it peaked at US & 2,010.3 million which was a direct result of investment by the Global system of mobile communication companies. Over these years capital inflows into Nigeria has been most discouraging and significantly low.

Several situations in Nigeria have given rise to low industrial development. Indeed, the manufacturing establishments in Nigeria are mere assembly plants piecing together parts imported into the country. There are clearly to backward or forward linkage with activities in other sectors of the economy. Nonetheless, when the export performance is considered, it would seem as if the economy has become more open to globalization especially in recent years probably due to the increasing importance of crude oil in the world market. The undue dependence of oil has, however, hampered the scope of diversification of the economy. It has also rendered the entire economy vulnerable to shocks in the international oil market while industrialization and developments around crude oil in the world market.

In all, a major way to measure the impact of globalization on Nigeria's economy is to examine the relationship between the Gross Domestic Product (GDP) and certain indicators of openness of a country towards globalization.

2.4 THE GLOBALIZATION PROCESS

2.4.1 THE LIBERALIZATION OF TRADE, FINANCE AND INVESTMENT

Economic globalization is not a new process, for over the past five centuries. Firms in the economically advanced countries have increasingly extended their outreach through trade and production activities (intensified in the colonial period) to territories all over the world. However, in the past two to three decades, economic globalization has accelerated as a result of various factors, such as technological developments but especially the policies of liberalization that have swept across the world.

The most important aspects of economic globalization are the breaking down of national economic barriers; the international spread of trade, financial and production activities, and the growing power of transnational corporations and international financial institutions in these processes. While economic globalization is a very uneven process, with increased trade and investment being focused in a few countries, almost all countries are greatly affected by this process. For example, a low–income country may account for only a minuscule part of world trade, but changes in demand for or prices of its export commodities or a policy of rapidly reducing its import duties can have a major economic and social effect on that country. That country may have a marginal role in world trade, but

world trade has a major effect on it, perhaps a far larger effect than it has on some of the developed economies.

The external liberalization of national economies involves breaking down national barriers to economic activities, resulting in greater openness and integration of countries in the world markets. In most countries, national barriers are being removed in the areas of finance and financial markets, trade and direct foreign investment.

Of the three of liberalizations (finance, trade and investment), the process of financial liberalization has been the most pronounced. There has been progressive and extensive liberalization of controls on financial flows and markets. The demise of the Bretton Woods system in 1972-1973 opened up an international trade in foreign exchange that has expanded at spectacular rates. The volume traded in the world foreign exchange market grew from a daily average of $15 billion in 1973 to over $900 billion in 1992 and now far exceeds $1,000 billion. Much of these transactions are speculative in nature, as it is estimated that only a small portion (less than 2 percent) of the foreign exchange traded is used for trade payments.

Due to the interconnectedness of financial markets and systems and the vast amounts of financial flows, there is a general and increasing concern about the fragility and vulnerability of the system, and the risk of breakdown in some

critical parts or in the general system itself, as a fault developing in one part of the world or in the system can have widespread repercussions.

The concerns about a possible global financial crisis have been heightened by the East Asian financial crisis that began in the second half of 1997 and which spread to Russia, Brazil and other countries, causing the worst financial turmoil and economic recession in the post-World War II period.

Trade liberalization has also gradually increased, but not as such a spectacular pace as with finance. World exports rose from $61 billion in 1950 to $315 billion in 1970 and $3,447 billion in 1990. The share of world exports in world GDP rose from about 6 percent in 1950 to 12 percent in 1973 and 16 percent in 1992 (Nayyar, 1997). The increased role of trade has been accompanied by the reduction in tariff barriers generally in both developed and developing countries, due partly to autonomous policies and partly to the series of multilateral trade rounds under the General Agreement on Tariffs and Trade (GATT). However, high tariffs still persist in developed countries in sectors such as agriculture and textiles and for selected manufactured products, which are areas in which developing countries have a comparative advantage. Moreover, there has been an increased use of non-tariff barriers which have affected the access of developing countries to the markets of developed countries.

There has also been a steady growth in liberalization of FDI, although again on a smaller scale than in the case of international financial flows. Much of FDI and its increase is due to flows among the advanced countries. However, since the early 1990s, FDI flows to developing countries have risen relatively, averaging 32 percent of the total in 1991 – 1995 compared with 17 percent in 1981 -1990. This coincides with the recent liberalization of foreign investment policies in most developing countries. However, much of this FDI has centred in only a few developing countries. Least developed countries (LDCs) in particular are receiving only very small FDI flows, despite having liberalized their policies. Thus, FDI is insignificant as a source of external finance to most developing countries, and is likely to remain so in the next several years.

A major feature of globalization is the growing concentration and monopolization of economic resources and power by transnational corporations and by global financial firms and funds. This process has been termed "Trans-nationalization", in which fewer and fewer transnational corporations are gaining a large and rapidly increasing proportion of world economic resources, production and market shares. Where a multinational company used to dominate the market of a single product, a big transnational company now typically produces or trades in an increasing multitude of products, services and sectors. Through mergers and acquisitions, fewer and fewer of

these TNCs now control a larger and larger share of the global market, whether in commodities. Manufactures or services. The top 200 global corporations accounted for $3,046 billion of sales in 1982, equivalent to 24 percent of world GDP ($12,600 billion) that year. By 1992, their sales had reached $5,862 billion, and their equivalent value to world GDP ($21,900 billion) had risen to 26.8 percent (Clairmont, 1996:39).

2.4.2 RISING INEQUALITY AND THE EFFECTS OF GLOBALIZATION

"Globalization" is a very uneven process, with unequal distribution of benefits and losses. This imbalance leads to polarization between the few countries and groups that gain, and the many countries and groups in society that lose out or are marginalized. Globalization, polarization, wealth concentration and marginalization are therefore linked through the same process. In this process, investment resources, growth and modern technology are focused in a few countries (mainly in North American, Europe, Japan and East Asian Newly Industrializing Countries, NICs). A majority of developing countries are excluded from the process or are participating in it in marginal ways that are often detrimental to their interests; for example, import liberalization may harm their domestic producers and financial liberation may cause instability.

Globalization is thus affecting different categories of countries differently. This process can broadly be categorized as follows: growth and expansion in the few leading or fully participating countries; moderate and fluctuating growth in some countries attempting to fit into the globalization / liberalization framework; and marginalization or deterioration experienced by many countries unable to get out of acute problems such as low commodity prices and debt, unable to cope with problems of liberalization and unable to benefit from export opportunities.

The uneven and unequal nature of the present globalization process is manifested in the fast-growing gap between the world's rich and poor people and between developed and developing countries, and in the large differences among nations in the distribution of gains and losses.

The United Nations Development Programme's (UNDP) *Human Development Report* 1992 estimated that the 20 percent of the world's population in the developed countries receive 82.7 percent of total world income, while the 20 percent of people in the poorest countries receive only 1.4 percent (UNDP, 1992). In 1989, the average income of the 20 percent of people living in the richest countries was 60 times higher than that of the 20 percent living in the poorest countries. This ratio had doubled from 30 times in 1950.

The Human Development Report 1996 showed that over the past three decades, only 15 countries have enjoyed high growth, while 89 countries were worse off economically than they were 10 or more years earlier. In 70 developing countries, the present income levels were less than in the 1960s and 1970s. "Economic gains have benefited greatly a few countries, at the expense of many," said the report. Since 1980, 15 countries (Mainly Asian) have had growth rates much higher than any seen during industrialization in the West. However, economic decline for most parts of the developing world has lasted far longer and gone deeper than during the Great Depression of the 1930s. While the rich countries mostly rebounded from the depression within four to five years, the "lost decade" of the 1980s is in effect still continuing for hundreds of millions of people in many countries of Asia, Africa and Latin America. In some cases people are poorer than 30 years ago, with little hope of rapid improvement.

Wider inequalities among countries as well as among income groups within countries, which are closely associated with globalization processes, have been examined in detail in UNCTAD's *Trade and Development Report, 1997* (TDR.97). It shows that since the early 1980s the world economy has been characterized by rising inequality, and North-South income gaps have continued to widen (UNCTAD, 1997: chaps. IV-VI). In 1965 the average per capita income of the Group of Seven (G7) leading industrial countries was 20 times that of the

world's poorest seven countries; by 1995 it was 39 times as much. Polarization among countries has also been accompanied by increasing income inequality within countries. The share of the richest 20 percent has risen almost everywhere since the early 1980s while those at the bottom have failed to see real gains in living standards (in many countries the per capita income of the poorest 20 percent now averages less than one-tenth that of the richest 20 percent) and the share of the middle class has also fallen. The increasing inequality is noted in more and less successful developing countries alike, and in all regions, including East Asia, Latin America and Africa.

In the analysis of *TDR.97*, these trends are rooted in a set of forces unleashed by rapid liberalization that make for greater inequality by favouring certain income groups over others. They include the following: growing wage inequality in both the North and the South between skilled and unskilled workers (due mainly to declining industrial employment of unskilled workers and large absolute falls in their real wages); capital gaining in comparison with labour, with profit shares rising every where; the rise of a new frontier class due to financial liberalization and the rapid rise in debt (with government debt servicing in developing countries also distributing income from the poor to the (rich); and the benefits of agricultural price liberalization being reaped mainly by traders rather than farmers.

There are some particularly disturbing aspects of the increased inequality. Firstly, the increased concentration of national income in the hands of a few has not been accompanied by higher investment and faster growth. "It is this association of increased profits with stagnant investment, rising unemployment, and reduced pay that is the real cause for concern" (UNCTAD, 1997: chap. VI). Secondly, some of the factors causing greater inequality in a globalizing world at the same time deter investment and slow down growth. For example: the fast pace of financial liberalization has delinked finance from international trade and investment; higher interest rates due to restrictive monetary policies have raise investment costs and led entrepreneurs to focus, instead, on buying and selling second-hand asserts; the premium placed by global finance on liquidity and the speedy entry into and exit from financial markets for quick gains has undermined the "animal spirits" needed for longer-tern commitments to investment in new productive assets; while corporate restructuring , labour shedding and wage repression have increased job and income insecurity (UNCTAD, 1997: chap. VI).

2.5 KEY ISSUES IN TRADE

OPENNESS to international trade is not a recent phenomenon for developing countries. In the colonial period, they had related to the world market mainly as exporters of raw

materials while importing manufactures. This division of labour is still prevalent for a large number of developing countries, whose exports comprise mainly a few commodities; perhaps, the most important aspect of globalization in trade for a majority of developing countries, whose exports comprise mainly a few commodities. Perhaps the most important aspect of globalization in trade for a majority of developing countries is the continuing declines in the terms of trade for their commodity exports *vis-à-vis* their imports of manufactures. The decline has become more acute in recent years, and has been responsible for the transfer of a huge volume of real resources from commodity-exporting developing countries through the mechanism of income losses arising from terms-of-trade changes. Other problems facing developing countries have been the pressures for import liberalization under loan conditionality; the imbalances in the Uruguay Round agreements; the lack of benefits relative to expectations accruing from their having to fulfill several of the WTO agreements. These issues are discussed below.

2.5.1 TRADE LIBERALIZATION

The benefits and costs of trade liberalization for developing countries constitute an increasingly controversial issue. The conventional view that trade liberalization is necessary is necessary and has automatic and generally positive effects for development is becoming challenged empirically analytically. It

is timely to examine the record and to formulate appropriate approaches towards trade policy in developing countries.

There is a paradox in the approach developing countries in general and many scholars take towards this issue. On the one hand, it is almost invariably repeated that "We are committed to trade liberalization, which is positive for and essential to growth and development". On the other hand, many developing countries also notice and are now actively complaining that trade liberalization has produced negative results for their economies or has marginalized them.

The notion that all are gainers and there are no losers in trade liberalization has proven to be overly simplistic. Some counties have gained proven to be overly simplistic. Some countries have gained more than others; and many (especially the poorest countries) have not gained at all but may well have suffered severe loss to their economic standing. Only a few countries have enjoyed moderate or high growth in the last two decades while an astonishing number have actually suffered declines in living standards (measured in per capita income). The UNDP's *Human Development Report 1999* states: "The top fifth of the world's people in the richest countries enjoy 82 percent of the expanding export trade and 68 percent of FDI-the bottom fifth, barely more than 1 percent. These trends reinforce economic stagnation and low human development. Only 33 countries managed to sustain 3 percent annual growth

during 1980-1996. For 59 countries (mainly in sub-Saharan Africa and Eastern Europe and the CIS) GNP per capita declined. Economic integration is thus diving developing and transition economies into those that are benefiting from global opportunities and those that are not" (UNDP. 1999:31).

A clear explanation of why trade liberalization has had negative results is found in *TRD.99.* The report found that for developing countries (excluding China) the average trade deficit in the 1990s was higher than in the 1970s by 3 percentage points of GDP while the average growth rate was lower by 2 percentage points. In discussing why trade deficits have been increasing faster than income in developing countries, the report concludes: "The evidence shows that a combination of declining terms of trade, slow growth in industrial countries and big bang' liberalization of trade and of the capital account in developing countries has been a decisive factor" (UNCTAD, 1990a: chap. VI).

On the role of rapid trade liberalization in generating the wider trade deficits, the UNCTAD report said: "It (trade liberalization) led to a sharp increase in their import propensity, but exports failed to keep pace, particularly where liberalization was a response to the failure to establish competitive industries behind high barriers. With the notable exception of China, liberalization has resulted in a general widening of the gap between the annual growth of imports and exports in the

1990s, but the impact was particularly severe in Latin America, where the gap averaged about 4 percentage points"

One conclusion that can be drawn from the report is that if trade liberalization is carried out in an inappropriate manner in countries that are not ready or able to cope or which face conditions that are unfavourable, it can contribute to a vicious cycle of trade and balance-of –payments deficits, financial instability, debt and recession.

The UNCTAD report's findings correspond with some recent studies that show there is no automatic correlation between trade liberalization and growth. Countries that rapidly liberalized their imports did not necessarily grow faster than those that liberalized more gradually or in more strategic ways.

For example, in a study of 41 least developed countries, the UNCTAD senior researcher Mehdi Shafaeddin (1994) found "no clear and systematic association since the early 1980s between trade liberalization and devaluation, on the one hand, and the growth and diversification of output and growth of output and exports of LDCs on the other. In fact, trade liberalization has been accompanied by deindustrialization in many LDCs, and where export expanded it was not always accompanied by the explosion of supply capacity". By contrast, the paper attributes the success or failure of GDP and industrial growth to the volume of investment and availability of imports. "The design

of trade policy reforms has also been an important factor in performance failure."

The Harvard University economist Dani Rodrik (1999) argues that developing nations must participate in the world economy on their own terms, not the terms "dictated" by global markets and multilateral institutions. Nothing the premise that reducing barriers to imports and opening to capital flows would increase growth and reduce poverty in developing countries, Rodrik's study concluded: "The trouble is, there is no convincing evidence that openness, in the sense of low barriers to trade and capital flows, systematically produces these results. The lesson of history is that ultimately all successful countries develop their own brands of national capitalism. The states which have done best in the post-war period devised domestic investment plans to kick-start growth and established institutions of conflict management. An open trade regime, on its own, will not set an economy on a sustained growth path".

A major problem faced by developing countries in the trade liberalization process is that a country may be able to control how fast to liberalize its imports (and thus increase the inflow of products) but cannot determine by itself how fast its exports grow. Export performance partly depends on the prices of the existing exported products (and developing countries have suffered from serious declines in the prices of their commodity exports and their terms of trade) and also on having or

developing the infrastructure, human and enterprise capacity for new exports (which is a long-term process and not easily achieved).

Export performance in developing countries also depends on whether there is market access for the country's potential exports, especially in developed countries. Herein lies a major problem beyond the control of the South, for as is well known there are many tariff and non-tariff barriers in the North to the potential exports of developing countries. Unless these barriers are removed, the South's export potential will not be realized. As an UNCTAD note on TDR.99 put it: "Developing countries have been striving hard, often at considerable cost, to integrate more closely into the world economy. But protectionism in the developed countries has prevented them from fully exploiting their existing or potential competitive advantage. In low-technology industries alone, developing countries are missing out on an additional $700 billion in annual export earnings as a result of trade barriers. This represents at least four times the average annual private foreign capital inflows in the 1990s (including FDI)" (UNCTAD, 1999b).

Thus, trade liberalization can (and often does) cause imports to surge without a corresponding (or correspondingly large) surge in exports. This can cause the widening of trade deficits, deteriorating in the balance of payments and the continuation

or worsening of external debt, which act to constrain growth prospects and often result in persistent stagnation or recession.

2.6 FINANCIAL LIBERALIZATION

Globalization in the financial sector has been driven by several factors. Among the major ones are the policy choice of an increasing number of countries (starting with developed economies, then taken on by many developing countries) of financial deregulation and liberalization (the opening-up by a country to international capital flows); the development of technology, especially electronic communications (facilitating massive cross-border movements of funds); the emergence of new financial instruments (such as derivatives) and financial institutions (such as highly-levered hedge funds); and the collapse of the international fixed exchange rate system (thus making it possible for profit to be made from speculation on changes in the rates of currencies).

Financial liberalization is a relatively recent phenomenon, but it has contributed to severe financial turmoil and economic losses to several developing countries that have integrated into the global financial markets. The developing countries had been drawn into the process of financial liberalization partly due to advice given by international financial institutions and to the mainstream view that there were great benefits to be derived from opening up to inflows of international capital. However, the risks of also opening up to the volatility of short-term

capital flows and to financial speculation and manipulation were not emphasized by the same devisors. Many developing countries that underwent the process of financial liberalization did not take precautionary measures or adhere to guidelines to minimize the risks. Instead, they went the opposite direction by deregulating, removing existing capital controls, allowing private banks and companies to take foreign-currency loans, and allowing the trading abroad of their local currency.

Having deregulated and liberalized their capital accounts, many developing countries were unable to defend themselves from the huge flows of international funds whose volumes have expanded dramatically in the past two decades, and from the new financial instruments and institutions (especially highly leveraged funds) that have emerged in the field of financial speculation.

2.6.1 VOLATILITY AND NEGATIVE EFFECTS OF SHORT-TERM CAPITAL FLOWS

The latest round of financial crises that hit emerging markets, starting with Thailand in mid-1997 and spreading rapidly to other East Asian countries before also affecting Russia and Brazil, has dramatically exposed the negative effects caused by volatile short-term capital flows and the grave risks and dangers that accompany financial liberalization in developing countries. The latest crisis has also exposed the fallacy of the

orthodox view that opening up to global finance would bring only or mainly benefits and little costs to developing countries. The Asian crisis followed a period of financial liberalization, which contributed to a build-up of the countries' vulnerability to external financial forces. When large inflows of short-term capital took place, it led to an asset price bubble, which burst when speculative currency attacks and large capital outflows caused sharp currency depreciations which spread via contagion to other countries. The depreciation multiplied the burden of servicing foreign debt, which had been built up in a relatively short period, especially by the local companied and banks. When Indonesia, the Republic of Korea and Thailand ran out of foreign reserves to service the debts, they approached the IMF to bail them out with massive loans.

Almost alone among international agencies, UNCTAD had been warning for several years about the dangers and costs of financial liberalization. In the early and mid-1990s, its *Trade and Development Reports and Discussion Papers* had raised the alarm about the volatility of short-term capita; and the serious destabilizing economic and social effects of financial liberalization, especially for developing countries. The Asian crisis validated the UNCTAD analysis and warnings. The crisis has also stimulated a general questioning of the orthodox approach and the start of a change in opinion and perhaps of paradigm.

An UNCTAD Secretary-General Rubens stated, in his closing speech at UNCTAD X in February 2000: "When trouble came, starting in Thailand in 1997, it brought with it a reversal of opinion. That episode revealed that sheer size of the financial flows that the industrial world could generate, relative to the normal size of flows of developing countries. The swift entry, and even swifter exit, of such massive flows made clear for all to see the havoc that can be unleashed on small and fragile financial systems that are open to such tidal waves of finance. Despite the commitment of many international agencies to the complete liberalization of capital markets right up to (and beyond) the hour of Asia's crisis, the same agencies now say that they can see some virtues in certain types of capital controls…..positive processes of integration into the world economy are the goal. This has never changed. However, the liberalization measures that are necessary to this end must be phased in a prudent and orderly manner. They must take account of specific local circumstances; they must be complemented by appropriate domestic policies and accompanied by institution-and capacity-building. Only then can they hope to succeed" (Ricupero, 2000).

Also at UNCTAD X, Yilmaz Akyuz, Head of the UNCTAD Macroeconomic and Development Policies branch Summed up the lessons of the crises that hit Asia and other regions as follows: "The crisis has shown that when policies falter in managing integration and regulating capital flows, there is no

limit to the damage that international finance can inflict on an economy. It is true that control and regulation over such flows may reduce some of the benefits of participating in global markets. However, until systematic instability and risks are adequately dealt with through global action the task of preventing such crises falls on governments in developing countries" (Akyuz, 2000).

One of the most incisive analyses of the Asian crisis is presented in the *Trade Development Report, 1998* (TDR.98: UNCTAD, 1998:53-109). It shows that financial crises are very much part of the global system and the Asian case is only one such. It gives a critique of how the IMF response converted a liquidity problem into a solvency crisis. Finally, it also proposes a range of crisis management measures, including a debt standstill and capital controls.

As *TDR.98* shows, the East Asian experience is only one in a series of many financial crises (for example, in the Southern Cone of Latin America in the late 1970s, Latin America in the 1980s, European countries in 1992, Mexico in 1994) over the past two decades. These crises are caused by the intrinsic and volatile nature of the global financial system after the closure of the fixed exchange rate system in the early 1970s.

2.7 ISSUES IN INVESTMENT LIBERALIZATION

RECENT increased interest on the issue of investment liberalization and the desirability or otherwise of an

international framework on investment policy and rules has been sparked by the proposal of the developed countries to introduce a legally binding international regime on foreign investment. This proposal had emerged in a number of forums, especially at the OECD and the WTO.

Within the OECD, a Multilateral Agreement on Investment was the subject of intense negotiations by its member countries. It was the intention that OECD countries would first sign the MAI and then the treaty would be opened for accession to developing countries. However, the MAI negotiations have stopped, after protests by civil society and disagreement among the OECD members.

On a separate track, in the WTO, some developed countries in 1995 and 1996 also proposed negotiations towards a Multilateral Investment Agreement (MIA). It was proposed that WTO general principles relating to trade (including reduction and removal of cross-border barriers, national treatment, most favoured-nation treatment) as well as the integrated dispute settlement system (which enables retaliation and cross-sectoral retaliation) would now be applied also to investment. Many developing countries had objected to the issue of investment *per se* being brought onto the agenda of the 1996 Singapore WTO Ministerial Conference. However, discussion did take place in Singapore, and a decision was taken to establish a working group to examine the relation between trade and investment.

This was meant to be only an educative process for an initial two-year period, and any decision to have negotiations for an agreement would have to be taken only on the basis of explicit consensus. In 1999, several developed countries led by the European Union were advocating that the investment issue be included in a purposed new round of multilateral trade negotiations to be launched at the Ministerial Conference in Seattle. However, several developing countries voiced the view that the "Study process" in the WTO working group should continue for some more years and that there should not be negotiations for an investment agreement, at least not at this stage. With the collapse of he Seattle meeting, there is at present on programme for negotiations for an investment agreement in the WTO and the working group will presumably resume its study process.

A reading of the draft text of the MAI in the OECD and the European Commission's 1995 paper on "A level playing field for FDI worldwide" shows that the MAI and the EC vision of an investment agreement in the WTO were basically similar in objectives and content. Both aimed at protecting and advancing the rights of international investors vis-à-vis host governments and countries. The main elements include the right of entry and establishment of foreign investors and investments; the right to full equity ownership; national treatment (treating foreign investors at least as well as local investors); the right to free transfer of funds and full profit

repatriation; protection of property from expropriation; and other accompanying measures such as national treatment rights in privatization. A more recent EU paper at the WTO has proposed a more "diluted" version of an investment agreement in the WTO, with a "positive list" approach, in which members may list the sectors for liberalization and the extent of liberalization, and where the scope would be limited to FDI (unlike the OECD-MAI's broad scope that included all kinds of foreign capital). There is no doubt, however, that even the diluted proposal is aimed at increasing the pressure on developing countries to liberalize their foreign investment rules and to extend national treatment privileges to foreign investors. These pressures have increased the need for developing countries to examine the nature of foreign investment and review appropriate policies for managing foreign investment.

2.7.1 THE BENEFITS AND RISKS OF FOREIGN INVESTMENT

There has been a significant increase in foreign investment, including to developing countries, in recent years. Since the early 1990s, FDI flows to developing countries have risen relatively, averaging 32 per cent of the total in 1991-1995 compared with 17 per cent in 1981-1990. This coincides with the recent liberalization of foreign investment policies in most developing countries. However, again, there is a high concentration of these FDI flows to developing countries: much

of the FDI is centred in only a few countries. LDCs in particular are receiving only very small FDI flows, despite having liberalized their policies. Thus, FDI is insignificant as a source of external finance to most developing countries, and is likely to remain so in the next several years.

The last few decades have also witnessed a significant shift of perspective in many developing countries towards foreign investment. In the 1960s and 1970s there was considerable reservation and mistrust on the part of governments of many developing countries, as well as many development economists, towards foreign investment. Starting with the 1980s, however, there has been a growing tendency for viewing foreign investment more positively. A new orthodoxy came into being, that as a form of foreign capital, investments are superior to loans because investments (unlike loans) would not land the host country in a debt crisis. Indeed, foreign investment is being seen as a panacea for removing the obstacles to development.

Just as originally, the view of many may have been extremely unfavourable to foreign investment, the pendulum could have swung to the other extreme to extent that some now view foreign investment as an unalloyed blessing. In reality, there are both benefits and costs accompanying foreign investment. The task for policy-makers and analysis alike is to ascertain the determinants of the benefits and costs, and attempt to devise

policies to increase the benefits and reduce the costs, with the aim of ensuring that there be net benefits.

This is especially so when little seems to be known of the effects of investment liberalization. At an OECD-organized workshop on FDI and the MAI in Hong Kong in March 1996, the keynote speaker, Dr. Stephen Guisinger of the University of Texas, said that: "Very little is known about repercussions of foreign direct investment liberalization on host economies… The link between investment liberalization and macroeconomic performance has received scant attention from researchers".

Studies by the Malaysian economist Ghazali bin Atan (Ghazali, 1990; 1996) on the effects of FDI on savings, financial inflows and outflows, trade and growth conclude that successful growth in developing countries is premised essentially on raising the domestic savings rate to a high level and productively investing the savings. This is more important than the role of foreign capital, including FDI. The East Asian growth success is based mainly on high domestic savings rather than FDI. Foreign capital can help to supplement domestic savings but this has its downside.

There are three types of foreign capital inflow considered in Ghazali's studies: aid, debt and FDI. Foreign direct investment has many advantages (bringing in productive capital, foreign

expertise, brand names, market linkages, aiding in industrialization, exports, employment).

However, there are also disadvantages or costs to FDI. These impacts need to be managed to ensure a net positive outcome. The study found that FDI has a negative effect on domestic savings, as it gives room for the recipient country to increase its consumption. FDI generates positive and negative effects on the flow of foreign exchange on two accounts: financial and trade. On the financial side, FDI brings in capital but also leads to a stream of outflows of profit and other investment income. This outflow increases through time as the stock of foreign capital rises. Thus, FDI has a tendency to lead to "decapitalization". Comparing aid, debt and FDI, the study finds that because of the much higher rate of return of FDI compared to the rate of interest paid on aid or debt, the "decapitalization" effect of FDI is greater than that of aid or debt.

On the trade side, FDI has a positive effect through higher export earnings and savings on imports (for products locally produced), but a negative effect through higher imports of intermediate and capital goods. It may also have a negative effect in heavily reliant on large imports of capital and intermediate goods. The high import content reduces the positive trade effect. Ghazali's study shows that generally there is a weak positive trade effect. In order for FDI to have a

positive effect on the balance of payments, there must be a strong enough positive trade effect to offset the negative decapitalization effect. However, due to the weak positive trade effect, or even a negative trade effect in some cases, there is tendency for FDI to cause a negative overall effect on the balance of payments. Without careful policy planning, the negative effect could grow through time and become serious as profit outflow builds up.

Moreover, too rapid a build-up of FDI could lead to "de-nationalization", where the foreign share of the nation's wealth stock increases relative to the local share. To avoid any economic or social problems that this may cause, Ghazali proposes that the rate of growth of domestic investment should exceed FDI growth.

Regarding the effect of FDI on economic growth, there re direct effects (which are generally positive) and indirect effects (which are generally negative, due mainly to the decapitalization effect). While the inflow of new FDI exerts a positive effect, the outflow of investment income arising from the accumulated foreign capital stock exerts a negative effect's.

Given the various ways in which FDI affects the host economy, Ghazli (1996:8-9) proposes that for FDI to be used successfully (with net overall benefit), the following conditions should be met:

(i) Availability of foreign capital does not detract from own savings effort;
(ii) The factor payment cost must be minimized and prudently managed;
(iii) Encourage or require joint ventures so that part of the returns accrues to locals and is retained by the local economy;
(iv) Get foreign firms to list themselves on local bourses;
(v) To enhance positive trade effects, FDI must be concentrated in the tradeable sector, especially in export-based activities;
(vi) Local content of output should be raised over time to improve the trade effect;
(vii) The growth of domestic investment should exceed FDI growth;
(viii) To avoid reliance on foreign capital, developing countries should increase the savings rate and maintain sound economic and political conditions.

Ghazali's conclusions are that: "The above are among preconditions for ensuring successful use of FDI. Countries using FDI without regard to the above conditions would do so at their own peril. Any moves designed to prevent host countries from instituting such policies, however they are couched, are moves designed to keep developing countries at the bottom of the global economic ladder… With the correct

policies, however, FDI can be of great help to host countries. Without the correct policies, however, the use of FDI can lead to severe problems especially with regard to the long-term viability of the recipient's balance of payments".

Several other recent studies have come to similar conclusions on the benefits and costs of FDI and the need for a regulatory policy framework.

In a survey of the effects of FDI on development, *TDR.97* (pp. 91-98) and *TDR.99* (pp. 115-123) differentiate between different types of FDI, discuss its potential for causing financial instability and assess its impact on the balance of payments. *TDR.99* estimates that mergers and acquisitions formed half or two-thirds of world FDI flows in the 1990s. For developing countries, excepting China, the recent FDI boom has consisted predominantly of M&A, its share of total FDI to developing countries being 72 per cent in 1988-1991. Thus, much of FDI to developing countries is not in the form of "Greenfield Investment" which creates new productive assets, but consists of the purchase of existing assets, especially through privatization and in the services sector.

TDR.97 shows that contrary to its image of being a source of stable funding, FDI can also be a source of considerable financial instability. Even when FDI is governed by long-term considerations, aggregate FDI flows can respond rapidly to

changes in short-term economic conditions. Retained earnings (or profit reinvestment) are a major form of FDI, and some of these are invested in financial assets rather than physical assets. Changes in the rate and volume of reinvestment can result in fluctuations and instability of FDI flows to a country. Moreover, as pointed out by a World Bank study, a foreign direct investor can borrow funds locally in order to export capital and thereby generate rapid capital outflows; thus, it need not be the case that FDI is more stable than other forms of capital inflow.

On FDI's balance-of-payments impact, *TDR.99* (like Ghazali) also distinguishes two types of effects: net transfers (which compare FDI inflows with associated payments abroad such as profits, royalties and licence fees) and the trade effect (comparing exports from FDI with imports associated with FDI). Examining three case studies, it finds that in Malaysia the activities of foreign firms had a negative impact on both net transfers and the trade balance in the 1980s and early 1990s. Similarly, in Thailand FDI had a negative net impact on the trade balance in the late 1980s and early 1990s on top of rising payments abroad for profits and royalties, and these features of FDI contributed to external imbalances that played an important role in the country's subsequent crisis. For Brazil, the UN Economic Commission for Latin America and the Caribbean (ECLAC) secretariat has warned that "in the near future there will be a significant deterioration in the balance of payments of

translational corporations in the Brazilian economy". This is due to a trend of increasing remittances, rising concentration of FDI in the non-tradable sectors, and the exhaustion of privatization-linked FDI.

The report also notes a worrying trend: there is a decreased association between FDI and export growth in developing countries. It quotes the conclusion of the Bank for International Settlements that for South and East Asian countries, there was a significant weakening of the relation between FDI and export growth in the 1990s (as compared to the 1980s) and this was a factor contributing to the payments problems and the crisis in East Asia. UNCTAD's own data for a larger number of countries shows this weakening of the link between FDI inflows were associated with less rapid export growth in 1991-1996 than during 1985-1990. A major factor was the increasing concentration of FDI in services sectors, which do not yield much export earnings (UNCTAD, 1999a: 123).

In a study on FDI and development, the South Centre (1997) lists the possible benefits of FDI as technology transfer; increased production efficiency due to competition from multinationals; improvement in quality of production factors such as management (including in other firms); benefits to the balance of payments through inflow of investments funds; increases in exports; increases in savings and investments and hence faster growth of output and employment.

The acknowledge costs include the possible negative effects on the balance of payments due to increased imported inputs and profits remitted abroad; the high market power of multinationals, which can lead to non-competitive pricing and its resulting overall inefficiency in resource allocation; adverse impact on the competitive environment; and discouragement of development of technical know-how by local firms. If it fails to generate adequate linkages with the local economy, FDI will have fewer spillover beneficial effects and may on balance be harmful if the other negative features above exist. Other costs are transfer pricing (which diminishes host-government tax revenues); distortion of consumption patterns due to brand names of multinationals (with detrimental effects when costly foreign foods from FDI supplant local and more nutiritious foods in the diet of the urban poor): and the net loss of jobs when capital-intensive FDI displaces labour-intensive local firms.

There are also environmental and natural-resource costs associated with FDI, and the risk of FDI in the media facilitating western cultural hegemony. Also, politico-strategic interests are at stake if FDI constitutes a large component of total investment that involve loss of local control over strategic sectors, infrastructure and natural resources; while decisions made abroad can impact on the local economy and society, and sometimes even the country's sovereignty may be at stake.

These factors have to be taken into account in an overall net evaluation of the costs and benefits of FDI.

Although there are arguments encouraging any kind or volume of FDI, the study concludes that an undiscerning policy towards FDI may cause serious long-run economic difficulties, harming a country's development prospects. Not all FDI is conducive to development-some kinds may do more harm than good-and a policy to accept any and all FDI may habour trouble for a country's future development prospects. To limit the risks end avoid undesirable effects, the study recommends that governments adopt a selective policy towards FDI by determining the composition of capital inflows and intervening to manage these inflows including FDI; a selective policy with respect to specific projects, e.g., confining FDI to priority sector; and prudence with respect to total FDI flows and stock to avoid more financial fragility. It concludes: "A global investment regime that took away a developing country's ability to select among FDI projects would hinder development and prejudice economic stability".

2.7.2 POLICIES FAVOURING LOCAL FIRMS AND DOMESTIC ECONOMY

Many developing countries also have policies that favour the growth of local companies. For instance, there may be taxi

breaks for a local company not available to foreign companies; local banks may be given greater scope of business than foreign banks; only local institutions may be eligible for research and development grants; and local firms may be given preference in government business or contracts.

Governments justify such policies and conditions on the grounds of sovereignty (that a country's population has to have control over at least a minimal but significant part of its own economy) or national development (that local firms need to be given a "handicap" or special treatment at least for some time so that they can be in a position to complete with more powerful and better endowed foreign companies). Most developing countries would argue that during the colonial era, their economies were shaped to the advantage of foreign companies and financial institutions. Local people and enterprises were therefore at a disadvantage and now require a considerable length of time where special treatment is accorded to them, before they can compete on more balanced terms with bigger foreign companies.

2.7.3 CRITIQUE OF ATTEMPTS AT INTERNATIONAL INVESTMENT AGREEMENTS

The proposals for a multilateral investment agreement, either at the OECD or at the WTO, seek to radically broaden the scope

of freedom of movement and operation of foreign investors and their investments, and to provide more rights for them. Correspondingly it would severely narrow and restrict the rights and powers of States to regulate the entry, establishment and operations of foreign companies and their investments. It also makes host developing countries far more susceptible to legal action by foreign investors and their home governments due to strict dispute settlement procedures. Such an agreement would have serious consequences for developing countries.

Firstly, it is unlikely that the claimed benefits of such an agreement will be realized by most developing countries. Its proponents claim that an investments to developing countries that join it, and that this in turn is an indispensable condition of their development as it would spur economic growth. The main assumption is that foreign investment and its free movement only generates benefits for the host country and does not result in costs, and that thus any increase will necessarily contribute to development. This assumption cannot be empirically supported.

Given these complex realities, it is obvious that foreign investment has to be prudently and well managed, so that the benefits are well brought out and the costs reduced, end that the former exceed the latter. As this will happen only under certain conditions, the policy-makers in the host developing countries need an array of policy instruments in an attempt to

achieve net positive results. In the past and presently, these instruments have included careful screening of investments, a wide range of performance requirements (including on technology transfer, establishment of joint ventures and local content), and controls on capital inflows end outflows (especially on loans and short-term capital). It is precisely these policy instruments that the proposed investment agreement is aiming to dismantle and make illegal. This would deprive developing countries of the opportunity or even the possibility of ensuring net benefits from foreign investment, and it would more tilt the balance so that foreign investment would probably result in costs outweighing the benefits in many cases.

But even if a country is willing to take the risks of increased and unregulated inflows, there is no guarantee (and in many cases no likelihood) that there will be an increase in foreign investment in the first place. The flow of foreign investment is determined by many factors, of which the treatment and protection of investments is only one, and usually not the most significant at that. Other factors are the opportunities for sales and profits, the size of the market, the general level of development of a country, the state of the infrastructure and quality of labour skills, political and social stability, the availability of natural resources to exploit, and the location of the country. A developing country that joins the investment agreement but does not possess some or most of the above

qualities is likely not to experience an increase in foreign investment. Many countries that liberalized their foreign investment regimes under structural adjustment programmes have not seen a rise in foreign investment inflow.

Indeed, it is likely that the least developed countries would be at the greatest disadvantage. More advanced developing countries have more of the attractive qualities profitable market, infrastructure, skilled labour). An LDC can offset its lack of a attractiveness by offering better treatment, protection or incentives. But if most or all developing countries were to join a multilateral investment agreement, then the LDCs would lose this advantage.

An MAI-type investment agreement would also potentially cause the following effects on developing countries: significant loss of policy autonomy over investment matters; erosion of sovereignty (including over natural resources) and of local ownership end participation in the national economy; and negative effects on the national financial position (Khor, 1999).

2.8 BALANCING OPPORTUNITIES AND PROBLEMS RESULTING FROM GLOBALIZATION

Among the biggest dilemmas for developing countries is whether they should open themselves up to the globalization process (in the hope of obtaining some of the benefits) or take

a more cautions approach to avoid risks (which would attract criticisms from the mainstream institutions that are sure to lecture the countries concerned that they would be left behind).

The challenge is whether developing countries can take advantage of the liberalization process, which to a large extent is being pushed on them externally, while at the same time avoiding or minimizing the disruptive consequences on their societies and economies. The ability to manage liberalization and globalization will be a crucial aspect of national policy-making in the years ahead. At this point the danger is that most developing countries, under great pressure from agencies such as the WTO, the IMF and the World Bank, will go along with the trend and institute more as well as rapid liberalization policies, without a clear idea of the conditions needed to successfully address the associated risks.

Instead of rapid liberalization, a selective approach to liberalization is more appropriate. The aim of this would be to strike a careful balance between opening the domestic market (to benefit consumers) and protecting it (to take into account especially the interests of small producers).

A useful summary of the opportunities and challenges of globalization has been given in the UNCTAD Secretary-General's report to the ninth session of the Conference (UNCTAD, 1996a). The main opportunities it lists are: trading opportunities arising from the Uruguay Round; opportunities

from international capital flows and financing of development (UNCTAD warned of the risks involved as well, and noted that the majority of developing countries did not enjoy these facilities); opportunities provided by international production through FDI; and increased opportunities for economic cooperation among developing countries (ECDC) to boost South-South cooperation.

The UNCTAD report also warns of the risks, stating that "the processes of globalization and liberalization can also give rise to a number of potential negative consequences and challenges to development". It gives details of the following three problems: loss of policy autonomy (the range of policy instruments available to developing countries has narrowed as a result of economic liberalization policies and stringent multilateral disciplines); financial openness and the risk of instability and disruption to development sentiments of external investors; and the phenomenon of marginalization (in which some developing countries, especially LDCs, are unable to benefit from or meaningfully participate in globalization due to structural supply-side weaknesses and debt).

Although the UNCTAD report provides a useful summary of some important implications of globalization, it is by no means exhaustive. The summary does, however, point to the immense difficulties that face many (perhaps most) developing countries in their trying to survive or thrive in a globalization economy. The LCDs have too many problems such as debt and low

commodity prices, and too weak an infrastructure and capacity to develop industrial exports. At the same time they face the threats of local firms and farms being overrun by foreign products and companies as their countries liberalize. Even the stronger developing countries find great difficulties in being able to manage and balance the costs and benefits of globalization, as the recent financial crisis in East Asian countries has shown.

CHAPTER THREE
RESEARCH DESIGN AND METHODOLOGY

3.0 INTRODUCTION

This chapter deals with the methods and approaches adopted in the conduct of this study and other methods of measurement in use in the subject area.

3.1 RESEARCH DESIGN

This research is designed to collect data through the documentary method, which involves several issues of reports and statistical bulleting from both the Central Bank of Nigeria and Nigerian Stock Exchange.

The research design adopted two approaches.

(1) The descriptive design

(2) The analytical design

The descriptive approach uses ratio/percentages to highlight the relationship of the globalization to the Gross Domestic Product (GDP).

The analytical design followed the descriptive design in logical sequence by trying to establish a mathematical relationship and how significant the relationship between globalization, Total imports, Total exports, Foreign Direct investments, Portfolio Investments, Income Inflows and outflows, Industrial Sector. and gross domestic product (GDP).

In summary, the research design is concerned with the fundamental question of how the study is brought into the scope of the research and how they are employed to yield the desired data through the scientific methods of collecting data.

3.2 METHODS OF DATA COLLECTION

For the purpose of data analysis in this research study, only secondary data were used. The secondary data, mainly quantitative, include Central Bank of Nigeria's monthly and Annual Reports, Central Bank of Nigeria's Briefs, Central Bank of Nigeria's Statistical bulletin, Bullions and Financial and Annual reports of various issues, Seminar papers presented by top functionaries of the Nigerian financial sector. Another source of secondary data were collected from Federal Office of Statistics (FOS) which are in the form of Annual Abstracts of statistics, Digest of statistics, and Trade Summary.

These were the most viable sources for the macro-economic variables needed. Of course, only secondary sources such as the ones mentioned above could suffice for macro-economic analysis by virtue of the nature of those variables.

3.3 METHODS OF DATA ANALYSIS

The data obtained from the various sources were further analyzed using the following:

(a) Percentages and ratios were used to describe the relationship between the globalization in relation to the

size of the economy using variables of the study and Gross Domestic Product (GDP). Equally this is to determine the ability of globalzation to contribute to the Nigerian economy as shown by the Gross Domestic Product (GDP)

(b) Test of Significance and Measure of association: Here the parametric test of regression analysis is used to isolate the specific effects of the globalization policy on selected indices in order to assess the extent to which they may have impacted on economic growth.

Multiple regression was employed because we want to examine how significant is the relationship between the gross domestic product (GDP) as the dependent variable and the following globalization indices; Total imports, Total exports, Foreign Direct investments, Portfolio Investments, Income Inflows and outflows, Industrial Sector as the independent variables in a regression function. The calculated T-value was obtained and compared with the tabulated T-value and were used to indicate the explanatory power of significance of the relationship.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 INTRODUCTION

In this chapter, an attempt is made to present and interpret the results obtained from the quantitative analysis of our research data through the regression results of the relationship between the gross domestic product (GDP) as dependent variable and Total imports, Total exports, Foreign Direct investments, Portfolio Investments, Income Inflows and outflows, Industrial Sector as the independent variables for the period. The results obtained for the periods are then used to determine whether there is any significant impact of the globalization on the economy.

TABLE 4.1

NIGERIA'S GROSS DOMESTIC PRODUCT, TOTAL IMPORTS, TOTAL EXPORTS, FOREIGN DIRECT INVESTMENTS, PORTFOLIO INVESTMENTS, INCOME INFLOWS AND OUTFLOWS AND INDUSTRIAL PRODUCTION SECTOR FOR THE PERIOD 1991 TO 2005. (N= MILLION)

YEAR	GDP AT 1990 PRICES (Y)	TOTAL IMPORT (X1)	TOTAL EXPORTS (X2)	FOREIGN DIRECT INVEST. (X3)	PORTF. INVEST. (X4)	INCOME INFLOW & OUTFL. (X5)	INDUST. PROD. (1985= 100) (X6)
1978		-7,374.3	6632.6	134.4	-	-1474.6	90.4
1979		-230.0	10,106.8	184.3	-	-1,724.4	120.3
1980		-210.2	14186.0	-404.1	-	-3,462.2	119.0
1981	251,052.3	-181.8	11,023.3	-334.7	-	-2,948.4	115.6
1982	246,726.6	-10,016.6	8,206.4	290.0	-	-2,779.9	122.9
1983	230,380.8	-8,283.9	7,502.5	264.3	-	-2,070.7	96.4
1984	227,254.7	-6,788.2	9,088.0	360.4	-	-2,001.9	91.6
1985	253,013.3	-6,655.7	11,720.8	434.1	-	-2,617.7	100.0
1986	257.784.4	-913.9	8,920.5	735.8	151.6	-6,202.6	103.5
1987	255,997.0	-13,222.4	30,360.6	2,452.8	4353.1	-14,167.2	122.1

1988	**275,409.6**	**0.0**	**31,192.8**	**1,718.2**	**2,611.8**	**12,786.0**	**108.8**
1989	**295,090.8**	**-27,200.9**	**57,971.2**	**13,877.4**	**-1,618.8**	**-23,678.8**	**125.0**
1990	**472,648.7**	**-39,771.2**	**109,886.1**	**4,686.0**	**-435.2**	**-28,998.3**	**130.6**
1991	**328644.5**	**-76855.8**	**-121533.7**	**6916.1**	**-594.9**	**-39314.4**	**138.8**
1992	**337288.6**	**-124612.7**	**205613.1**	**14463.1**	**36851.8**	**-54257.7**	**136.2**
1993	**342540.5**	**-146955.4**	**218765.2**	**29675.2**	**-396.4**	**-106224.5**	**131.7**
1994	**345228.5**	**-144727.3**	**206059.2**	**22229.2**	**-203.5**	**-66367.4**	**129.2**
1995	**352646.2**	**-578491.9**	**82569.6**	**75940.6**	**-6785.0**	**-202535.1**	**128.8**
1996	**367218.1**	**-449691.1**	**1125690.6**	**111295.0**	**-12056.6**	**-211089.7**	**132.5**
1997	**377830.8**	**-681723.0**	**1091131.4**	**110452.7**	**-4785.8**	**-225691.2**	**140.6**
1998	**388468.1**	**-707527.6**	**689077.9**	**80750.4**	**-637.5**	**-175948.7**	**133.9**
1999	**393107.2**	**-792997.5**	**1188969.8**	**92792.5**	**1015.7**	**-238052.5**	**129.1**
2000	**412332.0**	**-886520.2**	**1945723.3**	**115952.2**	**51079.1**	**-362412.7**	**138.9**
2001	**413783.2**	**-1234709.4**	**1867954.0**	**132481.0**	**26317.1**	**344014.0**	**144.1**
2002	**451785.7**	**-1517713.8**	**1749964.1**	**225972.0**	**24871.4**	**-382724.9**	**145.2**
2003	**495007.2**	**-2087173.1**	**3098184.9**	**259250.4**	**23634.1**	**-423991.6**	**147.0**
2004	**527576.0**	**-1994515.4**	**4620085.2**	**249157.7**	**23629.5**	**-570304.0**	**151.2**
2005	**563043.7**	**-2269476.1**	**6310247.9**	**303328.8**	**376573.9**	**-706715.3**	**158.8**
2006							
2007							

SOURCES: Central bank of Nigeria – Annual Reports and statistical Bulletin , Power Holding Company of Nigeria (PHCN), National Bureau off Statistics, Nigerian National Petroleum Corporation , Federal Ministry of Mines and Power and steel.

Note : minus (-) sign indicates increase in reserves;
Plus (+) sign indicates decrease in reserves

TABLE 4.1A: NIGERIA'S GROSS DOMESTIC PRODUCT, TOTAL IMPORTS, TOTAL EXPORTS, FOREIGN DIRECT INVESTMENTS, PORTFOLIO INVESTMENTS, INCOME INFLOWS AND OUTFLOWS FOR THE PERIOD 1986-2006. (N=MILLION)

YEAR	GDP AT 1990 PRICES (Y1)	TOTAL IMPORT (X1)	TOTAL EXPORTS (X2)	FOREIGN DIRECT INVEST. (X3)	PORT. INVEST. (X4)	INCOME INFLOW & OUTFL. (X5)
1986	**257,052.3**	**-913.9**	**8,920.5**	**735.8**	**151.6**	**-6202.6**
1987	**255,997.0**	**-13,222.4**	**30,360.6**	**2,452.8**	**4353.1**	**-14,167.2**
1988	**275,409.6**	**0.0**	**31,192.8**	**1,718.2**	**2,611.8**	**12,786.0**
1989	**295,090.8**	**-27,200.9**	**57,971.2**	**13,877.4**	**-1,61818**	**-23,678.8**
1990	**472,648.7**	**-39,771.2**	**109,886.1**	**4,686.0**	**-435.2**	**-28,998.3**
1991	**328644.5**	**-76855.8**	**121533.7**	**6916.1**	**-594.9**	**-39314.4**

1992	**337288.6**	**-124612.7**	**205613.1**	**14463.1**	**36851.8**	**-54257.4**
1993	**342540.5**	**-146955.4**	**218765.2**	**29675.2**	**-396.4**	**-106224.5**
1994	**345228.5**	**-144727.3**	**206059.2**	**22229.2**	**-203.5**	**-66367.4**
1995	**352646.2**	**-578491.9**	**82569.6**	**75940.6**	**-6785.0**	**-202535.1**
1996	**367218.1**	**-449691.1**	**1125690.6**	**111295.0**	**-12056.6**	**-211089.7**
1997	**377830.8**	**-681723.0**	**1091131.4**	**110452.7**	**-4785.8**	**-225691.2**
1998	**388468.1**	**-707527.6**	**689077.9**	**80750.4**	**-637.5**	**-175948.7**
1999	**393107.2**	**-792997.5**	**1188969.8**	**92792.5**	**1015.7**	**-238052.5**
2000	**412332.0**	**-886520.2**	**1945723.3**	**115952.2**	**51079.1**	**-362412.7**
2001	**413783.2**	**-1234709.4**	**1867954.0**	**132481.0**	**26317.1**	**344014.0**
2002	**451785.7**	**-1517713.8**	**1749964.1**	**225972.0**	**24871.4**	**-382724.9**
2003	**495007.2**	**-2087173.1**	**3098184.9**	**259250.4**	**23634.1**	**-423991.6**
2004	**527576.0**	**-1994515.4**	**4620085.2**	**249157.7**	**23629.5**	**-570304.0**
2005	**563043.7**	**-2269476.1**	**6310247.9**	**303328.8**	**376573.9**	**-706715.3**
2006	**595821.6**	**-2275277.4**	**5752747.7**	**573835.0**	**117218.9**	**-306391.3**

SOURCES: Central bank of Nigeria-Annual Reports and statistical Bulletin, Power Holding Company of Nigeria (PHCN), National Bureau off statistics, Nigeria National Petroleum Corporation, Federal Ministry of Mines and Power and Steel.

Note: minus (-) sign indicates increase in reserves;
Plus (+) sign indicates decrease in reserves

$$Y_1 = F\ (X_1 + X_2 + X_3 + X_4 + X_5\ )\ \text{thus:}$$

$$Y_1 = a_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e_1\ .....H_1$$

TABLE 4.1B: NIGERIA'S INDUSTRIAL PRODUCTION SECTOR, TOTAL IMPORTS, TOTAL EXPORTS, FOREIGN DIRECT INVESTMENTS, PORTFOLIO INVESTMENTS, INCOME INFLOWS AND OUTFLOWS FOR THE PERIOD 1986-2006. (N=MILLION)

YEAR	**INDU. PROD. (1985= 100 Y2**	**TOTAL IMPORT (X1)**	**TOTAL EXPORTS (X2)**	**FOREIGN DIRECT INVEST. (X3)**	**PORT. INVEST. (X4)**	**INCOME INFLOW & OUTFL. (X5)**
1986	**103.5**	**-913.9**	**8,920.5**	**735.8**	**151.6**	**-6202.6**
1987	**122.1**	**-13,222.4**	**30,360.6**	**2,452.8**	**4353.1**	**-14,167.2**
1988	**108.8**	**0.0**	**31,192.8**	**1,718.2**	**2,611.8**	**12,786.0**
1989	**125.0**	**-27,200.9**	**57,971.2**	**13,877.4**	**-1,61818**	**-23,678.8**
1990	**130.6**	**-39,771.2**	**109,886.1**	**4,686.0**	**-435.2**	**-28,998.3**
1991	**138.8**	**-76855.8**	**121533.7**	**6916.1**	**-594.9**	**-39314.4**

1992	**136.2**	**-124612.7**	**205613.1**	**14463.1**	**36851.8**	**-54257.4**
1993	**131.7**	**-146955.4**	**218765.2**	**29675.2**	**-396.4**	**-106224.5**
1994	**129.2**	**-144727.3**	**206059.2**	**22229.2**	**-203.5**	**-66367.4**
1995	**128.8**	**-578491.9**	**82569.6**	**75940.6**	**-6785.0**	**-202535.1**
1996	**132.5**	**-449691.1**	**1125690.6**	**111295.0**	**-12056.6**	**-211089.7**
1997	**140.6**	**-681723.0**	**1091131.4**	**110452.7**	**-4785.8**	**-225691.2**
1998	**133.9**	**-707527.6**	**689077.9**	**80750.4**	**-637.5**	**-175948.7**
1999	**12.9.1**	**-792997.5**	**1188969.8**	**92792.5**	**1015.7**	**-238052.5**
2000	**138.9**	**-886520.2**	**1945723.3**	**115952.2**	**51079.1**	**-362412.7**
2001	**144.1**	**-1234709.4**	**1867954.0**	**132481.0**	**26317.1**	**344014.0**
2002	**145.2**	**-1517713.8**	**1749964.1**	**225972.0**	**24871.4**	**-382724.9**
2003	**147.0**	**-2087173.1**	**3098184.9**	**259250.4**	**23634.1**	**-423991.6**
2004	**151.2**	**-1994515.4**	**4620085.2**	**249157.7**	**23629.5**	**-570304.0**
2005	**158.8**	**-2269476.1**	**6310247.9**	**303328.8**	**376573.9**	**-706715.3**
2006	**161.2**	**-2275277.4**	**5752747.7**	**573835.0**	**117218.9**	**-306391.3**

SOURCES: Central bank of Nigeria-Annual Reports and statistical Bulletin, Power Holding Company of Nigeria (PHCN), National Bureau off statistics, Nigeria National Petroleum Corporation, Federal Ministry of Mines and Power and Steel.

Note: minus (-) sign indicates increase in reserves;
Plus (+) sign indicates decrease in reserves

$Y_2 = F (X_1 + X_2 + X_3 + X_4 + X_5)$ thus:

$Y_2 = a_1 + c_1X_1 + c_2X_2 + c_3X_3 + c_4X_4 + c_5X_5 + e_2$ .....H_2

4.2 PRESENTATION OF DATA

The sample to be used is compiled from various issues of the Central Bank of Nigeria annual statement of account, and Federal Office of Statistics (FOS) bulletin. The data covered a twenty-year period from 1986 to 2006.

4.3 HYPOTHESES TESTING

4.3.1 THE INFLUENCE OF GLOBALIZATIN ON INDUSTRTIAL DEVELOPMENT

The hypothesis tested states thus.

HO_1: Globalization has no significant impact on industrial sector of Nigeria.

The results of this hypothesis are therefore presented in Table 4.2

TABLE 4.2: HYPOTHESIS 1 REGRESSION RESULT/OUTPUT

0.844 = R = coefficient of correlation

0.712 = R^2 = coefficient of determination

0.615 = Adj R^2 = coefficient of determination adjusted for errors

8.766767 = Std. Error of the Estimate

21 = Observations

Y = Dependent Variable

VARIABLE	COEFFICIENT		Std.Error	E(Df=15)	Significant
1^	B0 =	124.224	2.859		
X1 = IMP	B1 =	-5.97E-006	0.000	-1.334	0.202
X2 = EXP	B2 =	-4.64E-008	0.000	-0.010	0.992
X3 = FDI	B3 =	6.11E-005	0.000	1.446	0.169
X4=PORTAN	B4 =	1.68E-005	0.000	0.390	0.702
X5=NETFLOW	B5 =	3.46E.006	0.000	0.262	0.797

ANOVA TABLE

	SS	DF	MS	F=7.402	0.001
Regression	2845.009	5	569.002		
Residual	1153.081	15	76.872		
Total	3998.090	20			

NB: *** = Significant at 1%, ** Significant at 5%,

F-ratio DF(5,15) 1% = 4.56, 5% = 2.90,

T-ratio DF(15) 1% = 2.9467, 5% = 2.1315

4.3.1.1 TEST OF MODEL SIGNIFICANCE

The first test to be carried out in the test of model significance using the analysis of variance or ANOVA, for short. From the results of Table 4.2, we have the F-ratio calculated as 7.402, while the tabulated F-ratio at degrees of freedom (5,15) are given as follows:

1% = 4.56

5% = 2.90

DECISION RULE

With the F-ratio calculated (7.402) > F-ratio tabulated (4.56, 2.90) at both 1% and 5% levels of significance respectively, we reject Ho and accept Ha, to conclude that Globalization has a significant impact on the industrial sector of Nigeria, for the period under investigation.

4.3.1.2 TEST OF SIGNIFICANCE OF THE EXPLANATORY VARIABLES

Having tested the model significance, we now test for the individual effect of the explanatory variables namely, import, export, foreign direct investment, portfolio investment and netflow on industrial development stated differently. The T-ratio is employed to test for the contribution of each of the above mentioned explanatory variables on globalization.

From the Table 4.2 results, the T-ratio calculated for the variables are given as follows:

Import = X1 = 1.334

Export = X2 = 0.010

FDI = X3 = 1.446

Portfolio Investment= 0.390

Net flow = 0.262

While the tabulated Taxation, degree of freedom (15) are

1% = 2.9462

5% = 2.1315

DECISION RULE

Since the T-ratio calculated (1.334, 0.010, 1.446, 0.390, 0.262) < T-ratio tabulated (2.9467, 2.1315) for both 1% and 5% levels of significance, we therefore accept Ho and thus conclude that none of the explanatory variables namely: import, export, foreign direct investment, portfolio investment and netflow, is a significant contributor to industrial development of Nigeria, still for the period under investigation, 1986-2006.

4.3.2 THE INFLUENCE OF GLOBALIZATION ON ECONOMIC DEVELOPMENT

HO2: There is no significant relationship between globalization and economic development.

Also the results of hypothesis 2 are presented in Table 4.3

0.909 = R = coefficient of correlation

0.811 = R^2 = coefficient of determination

0.748 = Adj.R^2 = coefficient of determination

adjusted for errors

48484.61466 = Std. Error of the Estimate

21 = Observations

Y = Dependent variables

TABLE 4.3 HYPOTHESIS 2 REGRESSION RESULT/OUTPUT

VARIABLE	COEFFICIENT		Std.Error	E(Df=15)	Significant
	B0 =	3158856	15809.264		
X1 = IMP	B1 =	-0.022	0.025	-0.893	0.386
X2 = EXP	B2 =	0.020	0.025	-0.805	0.434
X3 = FDI	B3 =	0.276	0.234	1.181	0.256
X4=PORTAN	B4 =	-0.063	0.238	-0.264	0.796
X5=NETFLOW	B5 =	-0.017	0.073	0.239	0.814

ANOVA TABLE

	SS	DF	MS	F=7.402	0.0000
Regression	1.5E=011	5	30331634241		
Residual	1153.081	15	2350757858		
Total	3998.090	20			

NB: Repeat as in Table 4.2

4.3.2.1 TEST OF MODEL SIGNIFICANCE

As in hypothesis 1, analysis of variance test is carried out in order to test for test is carried out in order to test for the model significance. From Table 4.3, F-ratio calculated is given as 12.903, while the tabulated F-ratio at degrees of freedom (5,15) are given as follows:

1% = 4.56

5% = 2.90

DECISION RULE

Similarly, with the F-ratio calculated (12.903) > F-ratio tabulated (4.56, 2.90) at both 1% and 5% levels of significance respectively, we reject Ho and accept Ha, to conclude that a significant relationship exists between globalization and economic development, for the period, 1986 – 2006.

4.3.2.2 TEST OF SIGNIFICANCE OF THE EXPLANATORY VARIABLES

In order to test for the contribution of the individual explanatory variables namely, import, export, foreign direct investment, portfolio investment and netflow on economic development, we equally compare the T-ratio calculated with the T-ratio tabulated. We have the T-ratio calculated as follows:

Import = X1 = 0.893

Export = X2 = 0.805

FDI = X3 = 1.181

Porfolio Investment = 0.264

Netflow = 0.234

However, the T-ratio tabulated are given as:

1% = 2.9467

5% = 2.1315

DECISION RULE

Obviously, with the T-ratio calculated (0.893, 0.805, 1.181, 0.264, 0.234) < T-ratio tabulated, at both 1% and 5% of significance, we accept Ho and reject Ha, and therefore state that none of the export, foreign direct investment, portfolio investment and netflow, is a significant contribution to economic development of Nigeria, in the period under investigation, 1986-2006

4.4 DISCUSSION OF RESULTS

These results are discussed along the lines of the investigated hypotheses.

4.4.1 HYPOTHESIS 1: GLOBALIZATION AND INDUSTRIAL DEVELOPMENT

The results in table 4.2 reveal that a significant relationship exists between globalization and industrial development of Nigeria. This is supported by a high correlation value (84.4%) among all the variables taken together. Also, following these are the results of the R-square and the adjusted R-square, which are frosted as 71.2% and 61.5%, respectively. Suffice it to say, therefore, that from this model, globalization as independent variables, have been able to explain at least 71% of the total variation in the level of industrial growth in Nigeria and at least 61% even after adjusting for errors.

The resulting estimated model from this relationship is given as:

INP_E = 124.22 – 5.97E-006IMP_t – 4.64E-008EXP_t + 6.11E-005FDI + 1.68E-005PORTINV + 3.46E – 006NETFLOW… 4.1

Model 4.1 above, shows a positive relationship exists between industrial development and foreign direct investment, portfolio investment and netflow as explanatory variables. However, a negative relationship is seen to exist between industrial development and total import and export for the period under investigation while in all cases except under export the model appears to have met our a prior expectation, the negative sign of export is in fact, worrisome as ordinarily one would have expected total export to contribute positively to the level of industrial growth.

In line with this poor performance of the export trade are the results of the individual contributions of all the variables. To say the least none of the explanatory variables is a significant contributor to industrial development. However, the order of importance is thus:

FDI > IMP > PORTINV > NETFLOW > EXP [1.446] [1.334] [0.390] [0.262] [0.010]

These results again, speak for themselves while the highest contribution appears to come from foreign direct investment,

(1.446), followed by import (1.334), portfolio investment (0.390) and Netflow (0.262), the least contribution was recorded under the total export with a T-valure of 0.010.

4.4.2 HYPOTHESIS 2: GLOBALIZATION AND ECONOMIC DEVELOPMENT

The results of Table 4.3, appear to follow the patterns in Table 4.2. For instance, a significant relationship exists between globalization and economic development in Nigeria. Corroborating this result are the results of such test statistics as R, R-square an adjusted R-square. Evidently, with R-value of 90.1%, a high relationship appears to exist between all the variables taken together. Also, the variations in globalization have been able to explain at least 81% of the total variation in the level of economic development, and still, up to 74% after adjusting for the errors.

These results produced the following estimated model, $GDP = 315588.56 - 0.022IMP_t + 0.02EXP_t + 0.276FDI_t - 0.063PORTINV_t - 0.017NETFLOW$…4.2

Whereas import, export and foreign direct investment with the negative, positive and positive signs respectively, appear to have met the a priori expectations, portfolio investments and netflow, bearing negative coefficients appear to have failed the a priori expectation test.

Similarly, none of these explanatory variables exerts a significant impact on the level of economic development of Nigeria. However, while the highest contribution seems to come from foreign direct investment (1.181), followed by import (0.893), export (0.264), the least result was recorded under net-flow (0.239), in that order.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

This study evaluated the impact of globalization from 1986 to 2006, a period of twenty-one years. Stating two major hypotheses, the following findings were mode:

i. There is a significant relationship between globalization and the level of industrial development.

ii. There is a significant relationship between globalization and the level of economic development in Nigeria

iii. Whereas, import and export contribute negatively to the level of Nigeria's industrial development, foreign direct investment, portfolio investment and netflow exert positive effects on the level of Nigeria's industrial development.

iv. Whereas, import, portfolio investment and netflow contribute negatively to the level of economic development, export and foreign direct investment make positive contribution.

5.2 CONCLUSION

From the findings above, this study reaches the following conclusions.

i. Though Globalization has a significant relationship with both the level of industrial and economic development in Nigeria,it is far from being a significant contributor to

both the industrial and economic development effort in Nigeria.

ii. Whereas globalization under industrial development appears to meet the a priori test in terms of import, foreign direct investment, portfolio investment and netflow,it failed to do so in terms of value of exports to other countries.

iii. Similarly, under economic development globalization in terms of import, seems to meet, the a priori expectation, but failed to do so in terms of portfolio investment and netflow.

5.3 RECOMMENDATIONS

The following findings and conclusions therefore, inform the recommendations thus:

i. For globalization to bring about positive and significant effects on the levels of industrial and economic development, the current war on corrupt practices needs to be made more realistic. This will increase investors' confidence (especially foreign investors) as more investments stand to be encouraged culminating in an economy-wide development.

ii. Closely linked to this, is also the need to monitor effectively, our public expenditure so as to ensure that funds are channeled into socially desirable targets that can impove the economy.

iii. Similarly, the government needs to pay more attention to the level of infrastructural development. The situation where the cost of doing business in Nigeria is so high when compared with other countries because of high energy cost, bad roads and wear-total lack of other amenities, does not put the country at a competitive edge.

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