THEORIES AND THE IMPACT OFGLOBALIZATION ON EXCHANGE RATE IN NIGERIA

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Abstract

The paper contributes to the pro and anti-globalization arguments Nigeria. Specifically its objectives are to assess the impact of trade openness and FDI, as measures of globalization on exchange rate in Nigeria and to propagate some theories of globalization as well as determine which of them is relevant in Nigeria. It employs the Error Correction Model econometrics technique with secondary data from Central Bank and the Bureau of National Statistics, of Nigeria between 1981 and 2014. The long run result reveals that while openness has a negative and weak impact on exchange rate in Nigeria, Foreign Direct Investment has a positive but insignificant impact on exchange rate. It recommends among others that Nigeria should pursue policy to stimulate FDI so that it can benefit from globalization in ensuring exchange rate stability while it will be wise for Nigeria to engage in some levels of protectionism in the pursuit of exchange rate stability, since openness is negative.It concludes that internal policy remains the panacea. The study conforms Nigeria to the transformationalists theory of globalization.

Keywords: Globalization, Exchange Rate, Openness, Foreign Direct Investment, Hyperglobalists, Transformationalist and Skeptics

JEL Classification Codes: O11 and F63

Introduction

There is a growing concern about the impact of globalization on macroeconomics goals in developing countries. This study evaluates the impact of globalization on exchange rate in Nigeria, as a way of effectively contributing to the interdependency and imperialism arguments. Globalization implies external influence on domestic economy and makes the world a global village. Symonides (1998) believes that globalization is generally the process of growing interconnection and interdependence in the modern world. It is generated by growing economic, cultural and political cooperation and links, as well as by the need to respond together to global problems which can be solved only on a terrestrial scale.To Ibrahim (2002) and Ibrahim (2005) for example, globalization is not a single unified phenomenon but a syndrome of processes and activities, which embody a set of ideas and a policy framework organized around the global division of labour and power. Therefore there is no generalized agreement of what globalization is consist of. Globalization can be seen from three dimensions, namely global culture, political order and global economy. To obadan (2008), the term globalization conjures the image "of a borderless world" where there are no barriers to the flow of goods, services, finances and factors of production. It grew in the period of the 1990s and its role in the economy has been special through trade and financial flows. The Structural Adjustment Programme, coupled with the activities of the Breton-wood institutions namely, IMF and the World Bank publicized globalization in Nigeria. Different authors however have different meaning of globalization, with different jargons that have been used to describe it (Obadan, 2008; Symonides, 1998; Iyoha, 2004a and 2009; Akinboye, 2008 and Aremu and Aiyegbusi 2011).Stabilization and management of exchange rate has been a major objective of successive governments in Nigeria. Obviously, globalization can easily be seen playing a big role since most of Nigeria's trade with the rest of the world are not done in the local currency, but in foreign currency, resulting to higher demand for foreign exchange in the globalized world.

Nigeria has witnessed exchange rate instability since it gained independence in October1960, even on quarterly or monthly basis. In particular, this became worse by 1987 as an effect of the Structural Adjustment programme (SAP). Data from the Central Bank of Nigeria reveals that from an exchange rate of o.55, 0.60, 0.64 and 0.65 of the Naira to the America Dollar in the quarter of 1981, it jumped to 3.76, 4.04, 4.03 and 4.24 in the quarters of 1987 (in favour of the dollar). By the quarters of 2009, it was 146.88, 147.76, and 150.92 and then fell slightly to 149.16 and hooves around 196.72 in the last quarter of 2015 and first quarter of 2016. This has deep implications for globalization through trade, especially in an import dependent country for capital goods.

The ambition of Nigerian government to become a factor in the international financial system meant that it restructured her base from agricultural production to oil, which put pressure from the international community, thereby creating a welfare loss to its citizens. The resulting

implementation of (SAPs) in response to Nigeria's debt crisis and the renewal of the emphasis on privatization led to increases of trade and production (Adelikwu, 2007 and Loto, 2011). Adelikwu (2007) also reports that Agricultural production which hitherto highly contributed tremendously to GDP fell from N1, 414.6 million in 1960 to N345, 009.9 million in 1995. Globalization then means that Nigeria main trade policy and practice had been through the instrument of trade liberalization, which has exposed Nigeria to the .fluctuations in global prices, a disincentive for exports and higher demand for foreign exchange.

The controversy surrounding globalization that has resulted in two paradigms such as the interdependency– the pro globalization and the imperialism – the anti-globalization is still ranging (Stiglitz, 2003) even though globalization is what every nation can longer run away from (Obadan, 2008). Nigeria as a country aims at a desirable foreign exchange between the dollar and Naira as a macroeconomic objectives, in order to facility healthy trade, and for overall development. However, how efficient this aim is also heavily depends on the role of globalization since the price of the most important foreign exchange earnings is exogenously determined, given the stark reality that the country does not operates in autarky (Oriakhi, 2001, Iyoha, 2004 and Ayanwale, 2007). But whether globalization has been the detrimental factor in Nigeria's depreciation of exchange rate has remained unknown since Nigeria is not the only country being globalized. We notice that most studies have so far investigated how exchange rate affects economic growth, trade, FDI etc. That is, it has only been used as an independent variable. Little or no attention has been paid to how these variables affect exchange rate. Such may exist, but none is to our knowledge. This is one of our very simple jobs here – to contribute and fill this such literature gap.

This study aims at a more exhaustive research in the bid to fill the above gap left unresolved by other writers on the subject. That is, what role is globalization playing in the depreciation of the naira with respect to the dollar. (Afzal, 2007; Daouas, 2001; Eriemo, 2014; Iyoha, 2004a and 2009 Obadan, 2003a and 2003b). The paper regresses the main measures of globalization; namely trade openness and FDI as the prime independent variables on exchange rate in Nigeria and analyses their impacts they both have on the dependent variable – exchange rate. The also hit on the theories of globalization so that teachers and researchers of the subject would no longer mistake trade theories for globalization theories.

The main objective of the study is to empirically evaluate the impact of globalization on Nigeria's exchange rate in Nigeria. It thus:
empirically consider the impact of Trade Openness and FDI, as a measures of globalization on exchange rate in Nigeria; and
popularize some theories of globalization for the purpose of pedagogy and research, as well as determine which of these theories is appropriate for Nigeria.

This concentration of the study is economic globalization and exchange rate in Nigeria, using data covering the 1981 to 2014. Data for the regression proceed the era of SAP since shortly before SAP (which began in 1986) since Nigeria has been involved in external economies.
The rest of the paper will examine the theoretical and empirical literature on globalization and exchange rate, the theoretical framework underlying the model to be specified, as well as empirical testing, presentation and interpretation of result, with summary the findings, recommendation and then conclusion.

2. Literature Review

2.1. Theories of Globalization

2.1.1. Transformationalists

The transformationalists (Scholte, 2000; Zoran, 2008; Obadan, 2008) are more moderate in terms of emphasis on ubiquity and linearity of the globalization process, as well as assessing the progressivism of its effects. But they do not accept skeptic thesis about globalization either. To them, the unarguable fundamental changes in the organization of society that globalization brings are the growing overall integration and acceleration of socioeconomic dynamics through "compression" of space and time.

There are also thoughts that the liberal economic policy, which is closeto globalization (Obadan, 2008), creates political repercussion by groups whose interests are negatively affected. It is difficult to predict how much and in what direction this political backlash influences future developments in the global economy. (Zoran, 2008).

Transformationalists are more moderate in terms of progressivity and outcomes of globalization, when compared to hyperglobalists. Globalization is not linear-progressive in character, but represents a stream of capitalistic development, subject to cycles and probabilism. The underlying influence of globalization on socio-economic trends is not questioned, but its final effects are uncertain. So that globalization is not deterministic.

2.1.2. Theoreticians

The theoreticians, expressed skepticism with regard to ubiquity of the process of globalization. They are also characterized by the criticism towards globalization. In that sense they emphasize that the level of integration and openness of today's economy is not unprecedented. International trade and capital flows were more important relative to GDP in the pre-1914 period (the first wave of globalization) than in the contemporary economy. Also, instead of a destructible character of globalization in relation to the hierarchy and the nation-state, they emphasize the significant role of national economies in pursuing economic liberalization and promotion of cross border activity.

Within this belief, assessments of the non-sustainability of the current unification of the world are also present, because it raises radical resistance within individual cultures, which in the end can

lead to a conflict of civilizations. As a matter of fact, they articulatedcynicism in both the impacts of globalization and its ubiquity, as well as all it produces.

2.1.3. Structural, Conjectural and Social-Constructivist.

Structural explanations perceive globalization as a lawful process, essential to socioeconomic crescendos. Globalization presents an logical result of the development of humanity, led by the lucidity of technology and capital accumulation. Determinism present in this kind of approach is evident. Conjuctural explains globalization by considering consequence of unification of techno-economic tendencies with precise historical conditions and policies, which determine its character. This approach deals with the cyclic character of globalization, the causes of its acceleration or slowdown in certain periods. Social constructivist explanations are more interested in the origin of ideas about globalization, and the ways in which they became part of scientific and everyday discourse. By setting appropriate tendencies in the world economy and their classification under the concept of globalization, the process became socially and ideologically constructed.

In this way, the idea of globalization itself becomes in a certain sense, through the influence on the awareness of actors, the initiator of the further process of global integration (Held and McGraw, 2008).

It can be concluded therefore that each of the previous explanations can fit into one of the main directions of contemporary theories of globalization - hyperglobalists, transformationalists or skeptics.

2.2. Measurements and Drivers of Globalization

Fischer (2000) postulates that globalization has tended to mean different things to different people at the same time. But economic globalization is of most important than the other forms; like the cultural and political globalization, and it is change towards greater international economics through trade, financial flow and foreign direct investment (Obadan, 2008; Obadan 2003a).

Most economists however noted that trade openness and market constitute the platforms of economic globalization (Afzal, 2007; Obadan, 2008).Oaikhenan and Udegbunan (2012) also used trade openness as a measure of the impact of globalization on economic growth in Nigeria. However, quiet a number of writers and researchers have used FDI to measure globalization (Iyoha and Guobadia, 2009a). According to Orozalieva (2010), FDI measure applies mostly to countries that are rich in natural resources or skillful and inexpensive labour. Lee and Vivarelli (2006) used two ex-post measurable definitions of globalization, namely: trade openness and FDI.

Drivers of globalization mean those factors that have hastenedthe pace and strengthen the muscles of globalization. Many authors have seen trade, investment and capital flows as the driving force of globalization. In particular, Mason (2001); Mussa (2000); Obadan (2003, 2008), all articulated

the various drivers of globalization as trade, investment, capital flows, technological improvement, macroeconomics factors, individual and society taste (Alimi and Atanda, 2011; Quattara, 1997; Obadan, 2003; 2008; Acemoglu, 1998;Mason, 2001and Mussa, 2000).

3. Theoretical Framework, Model Specification and Estimation Technique

3.1. Theoretical Framework and Model Specification

Nigeria is endowed with surplus labour, but the bulk of which is unskilled and expensive because of the activities of trade unions. Although Orozalieva (2010) believes that in such an economy, FDI will not be a good measure of globalization, the author also admitted that a country with rich natural resource can used FDI as a measure of globalization. Moreover, other authors have consistently used FDI to measure globalization since no evidence of high wage enough to scare investors has be reported in Nigeria (Obadan and Okojie 2010) .

We rely on the Mundell – Fleming model of a small open macroeconomics. Obaseki and Ojo (1998) pointed out that the Nigeria economy is liberalized and fully opened to the extent that it is influenced by factors such as the competitiveness of the external sector, the level of the exchange rate, investment, among other things (Mussa, 1984). Many authors see international trade and liberalization as the heart of economic globalization (Abdulkadir, 1981;Obaseki and Ojo, 1998; Obadan, 2008, Obadan and Okojie 2010 and Ndiyo and Ebong, 2003). Thus, the paper too utilizes trade openness and FDI to measure globalization. Thus:

EXR = f(OPEN, FDI, GDP, M2) …………………………………………….. (1)

Where:

EXR = Exchange Rate, OPEN = Trade Openness, FDI = Foreign Direct Investment

GDP = Gross Domestic Product and M2 = Money Supply (Control variables).

Therefore, the regression model is specified as follows:

$EXR_t = \beta o + \beta_1 lnOPEN_t + \beta_2 lnFDI + \beta_3 lnGDP_t + \beta_4 lnM2_t + \mu_t$ …………… (2)

Equation (2) can also be specified as an error correction model as:

$$\Delta EXR = \psi \sum_{t=1}^{l} \alpha \Delta OPEN_{t-i} + \sum_{t=1}^{r} \lambda \Delta FDI_{t-1} + \sum_{t=1}^{s} \varphi \Delta GDP_{t-1} + \sum_{t=1}^{v} \omega \Delta M2_{t-1} + \eta ecm(-1) + \varepsilon_t \quad (2a)$$

Where: Δ is lag operator

$ecm(-1)$ is one period lag of the residual, it is the equilibrium term

ψ is the constant term

$\alpha, \lambda, \varphi, \omega$ are respective parameters

ε_t is the error term

The parameter estimates associated with all the independent variables in the models show the short run effects of changes in these variables or short run changes in the dependent variable. The absolute value of the parameter estimate associated with the error correction term shows how quickly the equilibrium is restored (Gujarati, 2003).

3.2. Estimation Technique

As seen in the specification, the study employs the Error Correction Model (ECM) econometrics regression technique and obtained secondary data between 1981 and 2014. These data were obtained from both the Central Bank of Nigeria and the Bureau of National Statistics of Nigeria. The Augmented Dickey Fuller unit root test of long run stability of variables is carried out. The study uses the Johansen and Juselius (1990) two test statistics to determine the number of co-integration vectors, using the Microfit 4.0 for Windows Software. The first test is Trace Test and the second test is the Maximum Eigenvalue Test. The acceptance of co-integration between two series implies that there exists a long run relationship between them and this means that an ECM exists.

4. Analysis of Result and Summary of Findings.

4.1. Analysis of Result

The analysis of the data starts with the unit root tests of variables since most time series data are prone to spurious correlation. This is to enable us examine the time series properties of the variables in the model. Basically, two unit root tests are conducted to ascertain whether the variables are stationary at levels and whether they are stationary in differences. Having established the existence of co-integration among the variables, the long run equilibrium and short run dynamics relationship between the variables in the model are represented by the Error Correction Model (ECM).

The null hypothesis of a unit root is rejected against the alternative if the calculate t-statistic is more than the critical t-value (in absolute terms). The result of the unit root test is reported in table below, using the Augmented Dickey-fuller test (Dicky-Fuller, 1981):

Table 1: Unit Root Test

Variables	ADF-statistic	95% critical value	Remarks
DLEXRT	-7.6456	-3.4458	Stationary
DLOPEN	-9.1675	-3.4469	Stationary
DLFDI	-10.0997	-3.4508	Stationary
DLM2	-7.3114	-3.4458	Stationary
DLRGDP	-21.6600	-3.4469	Stationary

A close observation of the unit root test results reported in table 1 shows that time series variables are stationary, since their respective ADF value are greater than the 5 percent critical value (in absolute terms). These stationary variables are not characterized by a random walk (mean reverting). In other words, the tests indicate that the variables are stationary at first difference.

Co-Integration Tests

Having established that the variables are characterized by a unit process, we proceed to carry out the co-integration test. As a necessary but not sufficient condition for co integration, each of the variables must be integrated of the same order, where the order of integration must be greater than zero (0). Co integration test is use to determine the existence of long run equilibrium relationship among the variables of interest in a model. The co-integration test as concluded by Adams (1992) posits that if the residual from the linear combination of the non-stationary series are themselves stationary, we can accept that the I(1) series are co-integrated, and as such, a long run relationship exist among the variables. If the residuals are found to be stationary, the variables are regarded as co-integrated.

Table 2: Residual Based Co-integration Test

ADF Lag	ADF test statistic	95% critical value	Remarks
1	-9.3833	-7.0536	Stationary

From the reported results in the table, it is observed that the ADF test statistic value of -9.3833 is greater than the 5% critical ADF value of -7.0536 (in absolute terms). This clearly indicates that the residuals are stationary. Indeed, there is co-integration between exchange rate and the selected regressors in the model. As such, a long run equilibrium relationship exists among the variables of the model.

4.4 Error Correction Model (ECM)

This section presents the error correction model result as well as the analysis. It has been established that the standard procedure of obtaining the short-run dynamics of a model described by an error correction model is the use of autoregressive distributed lag (ARDL) model. In order to establish the long run relationships between the dependent variable and the independent variables in the two models, we subject the two models to co-integration test. Having established the existence of co-integration based on Johansen co-integration test, we proceeded to estimate the error correction model (ECM). The significance of the ECM is to indicate how disequilibrium in the dependent variable can be adjusted in the short -run. The result of the ECM for the model is presented in the table below:

Parsimonious Error Correction Model: DLEXRT based on Autoregressive Distributed Lag (ARDL) Model

Regressor	Coefficient	Standard Error	T Ratio[Prob]
Ddlopen	-.0080153	.092650	-.086512[.931]
dDLOPEN1	.13687	.085092	1.6085[.111]
dDLFDI	.015080	.016762	.89971[.370]

dDLM2	.34036	.24260	1.4030[.164]
dDLRGDP	.16185	.20583	.78632[.433]
dINPT	.033759	.025463	1.3258[.188]
ECM(-1)	-.85055	.10272	-8.2801[.000]
R-Squared .67736	R-Bar-Squared .63169	F-stat. 15.6792[.000]	DW-statistic 2.0198

From the above result, we use ARDL selected based on R-BAR Squared criterion. We expressed dDLEXRT as a function of openness (DLNOPEN), foreign Direct Investment (DLFDI), money supply (DLM2), Growth Rate of GDP (DLRGDP). A critical look at the result as reported in the table shows that the adjusted coefficient of determination - R-Bar squared - in the model explains about 63 per cent of the systematic variation in the dependent variable (dDLEXRT) is being accounted for by the independent variables. This shows a befitting goodness of fit as about 37 per cent of the systematic changes in DLEXRT are left unaccounted for by the model, but attributed by the error term in the short run.

The F-statistics value of 15.7 shows that the overall model is significant at 5 per cent level. We therefore accept the hypothesis that all the slope coefficients are simultaneously significantly different from zero and as such the overall model is significant in explaining the changes in DLEXRT over the sample. The Durbin-Watson statistic of 2.01 reveals that there is no presence of first order serial correlation in the model.

On the individual coefficient, the result shows that, DLOPEN1, DLFDI, DLM2 and DLRGDP have positive but insignificant impact on DLEXRT. Except DLOPEN that has a negative and insignificant impact on the dependent variable. Thus, this result validates the hypothesis that there is an insignificant relationship between DLEXRT and all the variables in the model. The can be attributed to the fact that the activities of parallel market for exchange rate, which put pressure on exchange rate between the dollar and the naira make it nearly possible for the exchange rate to be determined without the influence of the independent variables in the model. It then implies that policies to eliminate the parallel market operators may be needed to stabilize the value of the naira in relation to the dollar in Nigeria.

More so, the result shows that one percent increase in DLOPEN1, DLFDI, DLM2 and DLRGDP (DLOPEN) will lead to percentage increase (decrease) in DLEXRT by 0.13687, 0.015080, 0.34036 and 0.16185 (0.0080153) respectively in the short run. Hence, the two variables, which measure globalization, have very little effect on exchange rate in Nigeria.

The result of the ECM above shows that the error correction factor is negative and highly significant at the 1% level. Thus, the ECM will rightly act to correct any deviation of the dependent variable from its long run equilibrium. This shows a dynamic adjustment from the short run to the long run equilibrium. The speed of adjustment is reasonably high, this is shown

by the coefficient of the ECM (-0.85055) which means that a very significant adjustment to long-run equilibrium is completed during the current year. In other words, the disequilibrium in the previous years should adjust back to the long run equilibrium in the current year.

The Long Run Analysis

Having analyzed the empirical result of the short run dynamic model, we proceed to analyze the empirical estimates of the counterpart long run model. The estimated result of the long run model is presented in table below:

Long Run Result: dependent variable is exchange rate (DLEXRT)

Variable	Coefficient	Std. error	t-ratio	Probability
DLOPEN	-.31213	.21098	-1.4794	.142
DLFDI	.039458	.033249	1.1867	.238
DLM2	.063131	.39439	.16007	.873
DLRGDP	.19028	.24412	.77949	.437
INPT	.039690	.029499	1.3455	.181

The result of the estimates of the long run model is reported in the table the above. The coefficient estimates, asymptotic t-ratios, standard errors and probabilities are reported in the results.
An examination of the result shows that the coefficient of openness has **the negative sign** and it is not significant at the 5 percent level. This is an indication that in the long run, openness, which is a measure of globalization, has a weak impact on exchange rate.

On the other hand, Foreign Direct Investment (FDI), another measure of globalization, is seen **to be positive**, and the coefficient fails the significance test at the 10% level. Money Supply (M2) has a positive sign and its statistical significance is also not attained even at the 10% level. The growth rate of GDP has a positive but insignificant relationship with the exchange rate.

Summary of Findings

The overall summary of the long run result reveals that while openness has a negative and weak impact on exchange rate in Nigeria, Foreign Direct Investment, money supply and growth rate of GDP has a positive but insignificant impact on exchange rate.

5. Conclusion and Recommendations

In conclusion, the study reveals that globalization, as measured by openness and FDI, has no significant impact in the determination of exchange rate stability in Nigeria – whether positive (in the case of openness) or negative (in the case of FDI). This means that it comes down to internal policies of Nigeria to stimulate the measures if it must benefit from globalization in the bid to ensure exchange rate stability. Hence, the study can safely discard the hyperglobalists

(structuralists) and the theoreticians or skeptics (social constructivists), but conforms to the transformationists or the conjectural.

We recommend as follows:

- Since FDI, a measure of globalization has a positive effect on exchange rate, Nigeria should pursue policy to stimulate FDI so that the country can benefit from globalization in ensuring exchange rate stability. This has to do with improvement in infrastructure, preference for institutional efficacy, dialogue with various aggrieved group to ensure peace and security, even if it means cash transfer to the poor and the vulnerable in order to ensure public enthusiasm and popular cooperation.
- Contrarily, it will be wise for Nigeria to engage in some levels of protectionism in the pursuit of exchange rate stability, since variable openness, another measure of globalization is negative. While it is understood that no nation lives in autarky in order to ensure welfare of the citizens, especially for commodities that are not produced in sufficient quantity, Nigeria should monitor its boarder to ensure that only the items that are necessary are imported into the country. This will make the country to be less import depended, which will put less pressure on the demand for the dollar. In order to effectively do this, the country must be more productive and reduce waste.
- Since it is found that none of the independent variable significantly affect exchange rate in Nigeria, it implies that the country cannot rely on trade and the other means to earn foreign exchange in order to increase the supply. Therefore, Nigeria should resort to the alternative of high involvement in international politics with key economic institutions such as the World Bank and the International Monetary Fund.
- Money supply is also positive but insignificant. Therefore, the country should moderately engage in expansionary monetary policy in order to stimulate economic activities and productivity so as to ensure import substitution and less dependent on imported goods. If this is done, there will be lesser demand for foreign exchange, which will in turn raise the value of the naira or stabilize exchange rate.
- Gross domestic product, as a measure of economic growth is also positive but insignificant. Thus, there should be consistent efforts to grow the economy because the bigger a country's economy is, the greater its investment potential (domestic and foreign) and the less dependent on imported goods, which subsequently put less pressure on exchange rate.
- Finally, Nigeria should also enact laws to stern or regulate the activities of parallel market operators who put much pressure on the demand for foreign exchange.

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