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THE IMPACTS OF GLOBALIZATION IN A DEVELOPING ECONOMY (A VECTOR AUTOREGRESSION ANALYSIS)

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ABSTRACT
This paper investigates the impact of globalization on economic development in a developing country from 1982 to 2016using vector auto-regression method. The objective of the study is to investigate the impact of human capital development on globalization in a developing nation. Through this research, we explore some variables proxy for globalization and likely to impact on economic growth. The vector auto-regression shows the coefficient, standard errors and t-statistics of each of the variables, making it clear for us to predict the direction of each variable in the model. The results revealed that economic indicators such as human capital development and government policy are most robust predictors that aids globalization on economic development in a developing nation. With the present economic position in West Africa, globalization being critical for an economy development, led the study to examine the relationship between some macroeconomics variables that can influence globalization and economic development in a developing economic.

Keywords: globalization, economic, developing, human capital, vector auto-regression.

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1.0 Introduction

One of the strategic plan for developing nations in West Africa isto foster economic growth and development through globalization. In order for her citizens to benefit from globalization, efforts should be made to develop human capital and decode the multimedia super-corridor for relevant information. Thus, information technology should progress in line with the global trend. Above all, good governance, transparency and accountability are desirable for a strong and competitive global economy.

However, it becomes obvious that one of the most controversial issues in the world economy is globalization. This is because the discussion on globalization has many issues to clarify; issues such as the imprecision of the concept and the lack of consensus on how globalization should be thought. Moreover the attempt to understand clearly or accurately the concept of globalization in developing nations may led to the rejection of globalization concept or the validation of the concept. The important thing to know therefore is that globalization is a generic term, a shortcut for a variety of extending social processes, comprising the internationalism and transnationalism as dimensions of the way this social process take place at the moment. (Constantin, Dayanala, Leonidas, Stavroula, 2006).

Globalization could be seen as the decline in costs of doing business internationally. One of its key effects is to enhance the international integration of markets for goods, services, technology, ideas, financial and other capital, and labour. An indicator of its progress is reducing differences in prices for those products and factors across space (within and between countries). That and related effects of globalization are being felt by all countries of the world, except that its benefit has not been felt in West Africa.

Stiglitz (2003) argued that globalization is the integration of countries and populations as a consequence of reductions in transport and communication costs and the elimination of the circulation of artificial barriers from the circulation of goods, Accompanied by globalization were the creation of new institutions that joined the existing ones; It is determined by international corporations that transfer capital, goods, and technology. Against this background, it is obvious that the problem here is that globalizationhas not positively impacted on the West

Africa economy. Therefore the objective of this study is empirical analyzed how human capital development can enhance globalization in West Africa using Nigeria as a case study and thus bring a return of economic growth and development.

1.1Review of Literature

Globalisation describes a process by which national and regional economies, societies, and cultures have become integrated through the global network of trade, communication, immigration and transportation. In The Wealth of Nations, published in 1776, Adam Smith predicted that globalization would be a force for economic progress. Smith held that productivity improvements arise from the division of labour and that the division of labour is limited by the extent of the market, so that an expanded global market would be a spur to economic development. The notion that globalization would result in an acceleration of economic growth has been dramatically confirmed in the past two centuries.

Shuaibu&Dania.(2015), Opined that there is a significant relationship between capital formation and economic development on a Harrod-Domar model.They explained that savings propel investment which invariably affect positively on economic growth.

Cuneyt,(2015), explained that political globalization are positively correlated with economic growth levels while social globalization where negatively affected. Adegite(2007),globalisation was defined as the "enhanced integration of world economic activity where such activity consists of increased national flows of a greater variety of goods and services, more extensive cross border flows of short-term and long-term capital and an increasingly dense and complex network of transitional production networks involving multinational enterprises as well as independent supplier companies".Obadan,(2006) define globalization as a process which integrates world economies, culture, technology and governance. Scholte (2000), 'globalization' refers to 'a process of removing government-imposed restrictions on movements between countries in order to create an "open", "borderless" world economy'. Globalisation could be likened to the world economy where nations are linked to integrate with one another to the extent that they have free trade, movement of capital and financial activities (Igudia, 2004).

Economic analyses propose that openness to trade, flow of factors, ideas and information stimulate economic and political progress (Reich, 1998). Lamy (2006), argues that globalization is a historical stage of accelerated expansion of market capitalism like the one experienced in the 19th century with the industrial revolution. Lamy's opinion here is that globalization is a fundamental transformation of societies because of the recent technological revolution which has led to a recombining of the economic and social forces on a new territorial dimension.

The World Bank publication of 2006, suggests that globalization is the growing integration of economies and societies around the world, while the UN-Poverty and Development Division (1999), observed that "while definitions and perceptions of globalization varies with context of analysis, the process generally refers to an increasing interaction across national boundaries that affect many aspects of life in terms of the economic, socio-cultural and political aspects of life.
Awake (2002) globalization will heighten the level of interconnection between and among nations through a systematic integration of autonomous economies into a global system of production and distribution.

Samuelson and Nordhaus (2001), competitiveness refers to the extent to which a nation's goods can compete in the market place, which largely depends on the relative prices and quality of domestic vis-a-vis foreign goods and services.

1.2 Methodology

The preoccupation of this study is the analysis of the impacts of globalization on a developing economy. It applies the Vector Auto-regression Analysis methodology to a regression model based on the traditional impacts of globalization. A unique way of conceptualizing the impacts of globalization on development in a developing nation is to analyze the impacts of GDP on some macroeconomic variables.

1.2.1 Model Specification

In a vector auto-regression analysis, the ultimate goal is the estimation of the relationship between dependent and independent variables. The sign of coefficients of independent variables indicate their relationship with the dependent variable, while the magnitude of the coefficients implies the responses of dependent variables to independent variables.

The models for this study are stated as follows:

GDP= F (FDI, GCF, EXR, INF, GOVEXP, OPEN)

Rewrite in lognormal form to avoid spurious regression.

$\text{Log(GDP)} = \beta_0 + \beta_1\log(\text{FDI}) + \beta_2\log(\text{GCF}) + \beta_3\log(\text{EXR}) + \beta_4\log(\text{INF}) + \beta_5\log(\text{GOVEXP}) + \beta_6\log(\text{OPEN}) + \mu$

Where:

GDP= real Gross domestic product

FDI= Foreign Direct Investment

GCF= Gross Capital Formation

EXR = Exchange Rate

INF= Inflation Rate

GOVEXP= Government Expenditure

OPEN= (M2/GDP)

Log-models were adopted to allow interpretation of regression coefficients.

1.3Results and Discussions

INSERT TABLE 1.5.1 FROM APPENDIX

The thrust of the study was to investigate empirically the impacts of globalization on economy development in a developing nation, and to test for the validity of some conjectures that have been advanced for the determinant of globalization on any economy. The study was motivated by its importance and contribution to economic growth and development,instead of using the samemethodology by different researchers, a vector auto-regression analysis was adopted. This approach was preferred because according to past studies, a vector auto-regression is an econometric model used to capture the linear interdependencies among multiple time series. However, ityields a better result that is more reliable than those reported for single equation models. The regression model results obtained from the study are used as the effect of each variable. It was discovered through this study that exchange rate, inflation rate and government expenditure are the major determinants of globalization. From the analysis of the study, foreign direct investment shows a negative coefficient of -0.051885. This may violate the apriori expectation criterion that FDI is expected to increase GDP since FDI includes building new facilities and reinvesting profits earned from overseas operations to enhance globalization. This may lead to test for the significance of the variable. Also the gross capital formation (GCF) variable shows a positive coefficient of 0.166789 indicating that one percent rise in the value of GDP will invariably lead to a responding one percent rise in GCF. The coefficient of determination in the model shows 99.3% indicating that the model is good fit and that the dependent variables employed are explained by all the independent variables in the model and the F-statistics of 657 shows that all the variables in the model are statistically significant at 5% confidence interval. However, the standard errors of each of the independent variables in the model are not biased estimator of the population, the standard error of the general model shows 10.27% With n = 35 may be biased. From the results it is hoped that if efforts are directed at changing the prevailing pattern of credit to the private sector such that more emphasis is given to businesses rather than households, that with passage of time and as the economy and the financial sector develop in Nigeria the mutual positive effect of globalization may become more pronounced.

1.4 Conclusion and Recommendation

Empirical studies have shown repeatedly that globalization through financial development in terms of foreign direct investment positively causes economic growth; therefore, any attempt made by policy makers to enhance the smooth working of the financial system would directly promote and improve economic performance in a developing nation. Therefore, this study recommends that government should initiate stable macroeconomic policies and environment in terms of inflation and exchange rate, stock market development, good governance committed to democratic principles that will enhance the quality of life through globalization. Also government should increase its capital investment on human capital as well as basic infrastructure such as road, technological development, energy, water supply, telecommunication and security. The provision of adequate functional basic infrastructure will go a long way in reducing the cost of operating business in a developing nation and thus will encourage globalization.

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APPENDIX (Data Analysis).

TABLE 1.5.1

VECTOR AUTOREGRESSION ESTIMATE USING LOG DATA

Vector Autoregression Estimates
Date: 03/04/17 Time: 13:54
Sample (adjusted): 1982 2016
Included observations: 35 after
Adjustments
Standard errors in ( ) & t-statistics in [ ]

	LOGGDP
LOGGDP(-1)	0.835742
	(0.16055)
	[5.20557]
LOGGDP(-2)	-0.008932
	(0.15503)
	[-0.05761]
C	0.500551
	(0.50843)
	[0.98451]
LOGFDI	-0.051885
	(0.08036)
	[-0.64568]
LOGGCF	0.166789
	(0.08763)
	[1.90336]
LOGEXR	-0.015606
	(0.04079)
	[-0.38261]
LOGINF	-0.136169
	(0.06340)
	[2.14766]

LOGGOVEXP	0.039193
	(0.07455)
	[0.52571]
LOGOPEN	-0.048338
	(0.17207)
	[-0.28092]
R-squared	0.993951
Adj. R-squared	0.992439
Sum sq. resids	0.337754
S.E. equation	0.102737
F-statistic	657.2507
Log likelihood	40.20324
Akaike AIC	-1.522109
Schwarz SC	-1.145960
Mean dependent	5.888692
S.D. dependent	1.181471