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Globalization and the Development of the Nigerian Capital Market

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ABSTRACT

The role of the capital market cannot be over emphasised in the development of most economy in the world and Nigeria is not an exception. The Nigerian capital market has gone through different stages alongside with challenges and hurdles that has slowed down its growth rate and its assimilation into the financial market of the world. This research work was to examine Globalization and the development of the Nigerian capital market from 1986 to 2020, which was before the wide spread of covid-19. Secondary data from CBN statistical bulletin was used. Augment Dickey-Fuller (ADF), Bound Test and Auto Regressive Distributed Lag were employed to evaluate the effect of foreign direct investment, total exports and total imports on Capital market development which was proxy by market capitalisation and it was discovered that foreign direct investment, non-oil export and non-oil imports has significant effect on market capitalization, therefore it was recommended that The government should consider the option of liberalizing the economy; let there be labour market flexibility, lower tax rate for businesses, less restriction on both domestic and foreign capital to encourage competitiveness in the business environment, so that the full benefit of globalization would be reaped.

KEYWORDS: *Market capitalization, financial market, foreign direct investment, non-oil export and non-oil import*

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INTRODUCTION

Within the context of economic development globalization refers to incorporation of national economies into the global economy. It is the symbiotic relationship between the local financial system and the world financial system and it has continued to rise in the world today. This outcome is due to the need for Nations to supplement each other as a result of globalisation. Since globalisation has encouraged international integration of markets for goods, services and capital, it has also changed the face of global economy (Obadan1999; Olanrewaju, Kolawole&Samon 2015). This is seen in the growth volume of international trade, foreign direct investment, capital flow migration and the spread of technology over the last few decades (Guido &Adriana 2001; Olanrewaju et al. 2015).

Globalisation has encouraged not only the flow of goods and services but also the movement of capital among Nations(Obadan 1999; Samson &Oludayo, 2019).

Capital markets are all evolving at a rapid rate because at the early stages the flow of capital that were being directed to banks and controlled by the government are now held by individuals, institutions or private mutual funds and can circulate freely and instantaneously to projects which will yield the maximum profit (Olanrewaju et al. 2015).

The capital market plays a significant role in promoting growth and development through the effective intermediation of funds among economic agents (Faloye&Adekule 2016).

The capital market must have the ability to get funds from the global financial markets into the domestic economy, in order to make up for the insufficient domestic financial resources through the integration of the market into the global financial network (Akinwale&Adekule 2019). In effect we say that globalisation is a necessity for the Nigerian capital market because it is the interaction of the local capital market and other financial market through the policy formulation that will encourage growth development and competition with other players, and as well attract imports of Non-oil products.

The Nigerian capital market, having gone through different stages, alongside the challenges and hurdles that have slowed down its growth rate and its assimilation into the financial markets of the world. Despite the institutional and social activities which has tamed the growth of the Nigerian capital market there are other important factors to be considered. Complex factors such as: political instability, policy barriers to Capital flows, poor infrastructural facilities, corruption, inappropriate economic policy, instabilities, lack of advance and attractive financial assets retards the ability of the capital market to compete globally, and attract foreign resources into the economy for promoting productive and real sector development (Nwadike&Inwibo, 2014; Oluwole, 2014;Akinwale&Adekule 2019).

This research work seeks to examine the relationship between globalisation and the development of the Nigerian capital market from 1986 to 2020. There are few literature on the relationship between globalisation and development of the Nigerian capital market most of which are not yet updated and due to the conflicting views of the subject matter of the research because some researchers found a positive relationship while some found a negative relationship and the subject matter of the research topic this has generated the controversy which calls for further study. The rest of this paper is divided into four sections section two (2) is the literature review section three (3) provide the methodological issues while section four (4) analyses the results and findings the last section five (5) is the conclusion and relevant policy recommendation.

LITERATURE REVIEW

Globalisation is adopting global trends and activities locally for local benefits and development. Globalisation could also be said to be localisation of global trends and events for local benefits and development. Globalization involves increasing economic interdependence among countries through the expansion of cross-border trading of goods and services, the flow of international financial resources and rapid diffusion of technology (Oluwole 2014; Akinwale&Adekule, 2019). Globalisation is an uneven process with unequal distribution of its benefit and losses. This imbalance leads to polarization between developed countries that gain and developing countries that lose out (Obadan 2001). Globalisation involves liberalization of economic activities, which is the process of intercontinental economic arrangement which has led to the integration and advancement of the world economy, through the pulling of difficulty in trade and greatmobility of finance, labour and ideals (Onyimba, Nwokeduuko&Evelyn, 2019). The elements of globalisation includes, free movement of goods and services, flow of capital, movement of labour and the transfer of technology (Amit &Almas, 2005; Onyimba et al.2019).

The capital market, whose major function is to provide a platform through which funds are channelled from surplus sector to deficit sector, is also the place where various entities trade different financial instruments; it is the financial hub of the economy. The global capital market is the interlinking of various investment exchanges around the world which gives individuals and corporations the opportunity to buy and sell financial securities on an international level. Capital market globalisation is necessitated by the financial need of real sector of the economy which cannot be met domestically, due to shortage of domestic resources, and the opportunities created by the global financial markets through rapid technological movement which supports security trading and Investment among countries (Goel& Gupta, 2011).

Kilic(2015) investigated the effects of economic, social and political globalisation on the growth level of developing countries and causality relationship between the variables between Dumitresu-Hurlin(2012) for 74 countries, the results indicated that economic growth levels of selected developing countries were positively affected by the economic globalisation, where as social globalisation affected economic growth negatively. Causality test however showed that there are two way causality relationships between political and social globalisation and the economic growth and one way causality relationship between social globalisation and economic growth.

Olanrewaju, KolawoleandSamon (2015) investigated the relationship between Globalisation, Capital markets and economic growth in Nigeria, the research made use of the ordinary least square to establish the relationship between globalisation, consumer price index and gross domestic product. It was revealed that globalisation measured by the ratio of total trade to the gross domestic product had negative and significant effects on the gross domestic product, why the consumer price index had a positive and insignificant effect on the gross domestic.

OnuohaandNwaiwu (2016) investigated the effect of Global financial crisis on the Nigerian stock market, using secondary data, and analysed the data using regression model, it was revealed that the global financial crisis measured by the currency crisis, credit crisis, liquidity crisis and foreign investment crisis, had a negative and significant impact on the Nigerian stock market.

Akinmulegun(2018) investigated the relationship between capital market development and foreign portfolio investment in Nigeria from 1985 to 2016. This study employed secondary data sourced from the Central Bank of Nigeria statistical bulletin and publications of NSE. Augmented dickey Fuller test granger causality test and vector error correction model where employed to conduct the analysis, the study concluded that the capital market development has a significant effect on foreign portfolio investment in Nigeria.

AkinwaleandAdekule(2019), investigate globalisation and capital market development in Nigeria from 1986 to 2017 using secondary data from the Central Bank of Nigeria statistical bulletin augmented Dickey Fuller(ADF) bound test and autoregressive distributed lag (ARDL) were employed to evaluate the effect of trade openness, foreign direct investment and foreign portfolio investment where stationary at all level. The ARDL revealed that both trade openness and foreign portfolio investment had a positive effect on market capitalisation in short and long run while FDI had a negative and insignificant effect on market capitalisation in the short and long run.

METHODOLOGY

This research work made use of quantitative and secondary data and it spread across a period of 34years (1986-2020). The secondary data were obtained from the Central Bank of Nigeria (CBN) statistical bulletin. The study adopted historical or after the fact research design to evaluate the effects of the globalisation, variables measured in this research work as foreign direct investment, total exports and total imports on Capital market development which was proxy by market capitalisation. The model for this study was anchored upon modified model of Akinmulegun (2018) and some of the variables adopted in the research work were based on the empirical works of Akinwale&Adekule (2019). The model was structured to investigate the effect of foreign direct investment, total exports and total imports on market capitalization which is given as thus:

$$MKTCAP = f(FDI, NOEXP, NOIMP)$$

The econometric transformation of Equ. 2 is thus expressed:

$$MKTCAP_t = \beta_0 + \beta_1 FDI_t + \beta_2 NOEXP_t + \beta_3 NOIMP_t + \varepsilon_t$$

Where:

$MKTCAP$ = Market capitalization

FDI = Foreign direct investment

$NOEXP$ = Non-oil exports

$NOIMP$ = Non-oil imports

β_0 = The constant term

$\beta_1 - \beta_4$ = The coefficients of the independent variables

ε = the random disturbance term

DATA ANALYSIS RESULT

The Augmented Dickey-Fuller (ADF) unit root technique is used to determine the stationarity properties of the data to avoid the problem of spurious regression. Due to the mixed order of integration of the variables, Table 1 presents only the unit root result of the variables at first difference. As can be seen from the ADF result, the variables are all stationary at first difference, hence the result of the regression output would be deemed to be reliable in statistical perspective.

Table 1: ADF Test Result

Variables	ADF Test Statistic	Test Value at 5%	Remark
MKTCAP	-3.420029 (0.02)**	-2.954021	Stationary
FDI	-4.573843 (0.01)*	-3.587527	Stationary
NOEXP	-4.404982 (0.00)*	-2.986225	Stationary
NOIMP	-3.789475 (0.03)**	-3.595026	Stationary

Source: Statistical Output from E-views 10.0

P-values are in parenthesis, while * and ** represent 1% and 5% level of significance respectively

The summary of descriptive statistic of the data are detailed in Table 2. The minimum and maximum values are 6.8 and 38589.58 for MKTCAP; 735 and 31072601 for FDI; 0.55 and 3207.02 for NOEXP; and 5.07 and 18920.07 for NOIMP. The mean of the data are 7324.364, 3718471, 438.0437, and 3902.581, while the standard deviation are 9683.493, 9381951, 676.7964, and 4884.134 respectively for MKTCAP, FDI, NOEXP, and NOIMP respectively.

Table 2: Descriptive Properties of Data

	Min.	Max.	Obs.	Mean	Std. Dev.
MKTCAP	6.800000	38589.58	35	7324.364	9683.493
FDI	735.8000	31072601	35	3718471	9381951
NOEXP	0.550000	3207.020	35	438.0437	676.7964
NOIMP	5.070000	18920.07	35	3902.581	4884.134

Source: Statistical Output from E-views 10.0

The existence of a long-run relationship among the variables was ascertained using the bound testing technique. The result in Table 3 shows that there is no long-run relationship between globalization and capital market development in Nigeria. The f-statistic of 2.28 for the model: market capitalization is a function of foreign direct investment, total exports, and total imports is less than the upper and lower critical values of 3.67 and 2.79 respectively.

Table 3: ARDLF-Bounds Test

T-Test	5% Critical Value Bound		Remark
F-Statistic	Upper Bound	Lower Bound	
2.228250	3.67	2.79	Null Hypothesis Accepted

Source: Statistical Output from E-views 10.0

The short-run relationship in Table 4 unveils that there is a positive and significant relationship between market capitalization and foreign direct investment at lag 1. There is a significant and negative relationship non-oil exports and market capitalization, while on other hand, there is a positive non-significant relationship between market capitalization and non-oil imports. When foreign direct investment, non-oil exports and non-oil imports are held constant, market capitalization would assumed to be -601.28. A unit rise in foreign direct investment and non-oil imports would lead to 0.0019 and 1.030841 factor appreciation in market capitalization respectively. However, a unit appreciation in non-oil exports would result in 46.63 factor depreciation in the market capitalization. The adjusted R-square reveals that 97.92% changes in market capitalization was attributable to the joint fluctuation in foreign direct investment, non-oil exports, and non-imports. This is supported by the p-value (0.0000) of the f-statistic (75.54) which is significant at a level of 5%. The Durbin Watson value of 2.5 does not portray any danger of autocorrelation in the estimated model.

Table 4: ARDL Short-Run Relationship

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MKTCAP(-1)	2.826803	0.747789	3.780214	0.0030
MKTCAP(-2)	-4.508121	1.095523	-4.115040	0.0017
MKTCAP(-3)	3.600624	1.061417	3.392279	0.0060
MKTCAP(-4)	-3.210236	2.029048	-1.582139	0.1419
FDI	0.001906	0.000855	2.229923	0.0475
FDI(-1)	-0.001154	0.000336	-3.437943	0.0055
FDI(-2)	0.004075	0.001470	2.771865	0.0182
FDI(-3)	-0.009510	0.002690	-3.535419	0.0047
FDI(-4)	0.037165	0.012221	3.041158	0.0112
NOEXP	-46.63145	18.85094	-2.473693	0.0309
NOEXP(-1)	71.06658	20.77491	3.420789	0.0057
NOEXP(-2)	-37.76160	20.79026	-1.816312	0.0966
NOEXP(-3)	4.524952	35.06743	0.129036	0.8997
NOEXP(-4)	18.86265	22.58219	0.835289	0.4213
NOIMP	1.030841	1.810772	0.569282	0.5806
NOIMP(-1)	2.845482	1.680484	1.693252	0.1185
NOIMP(-2)	-2.769489	2.894238	-0.956897	0.3592
NOIMP(-3)	-1.127649	1.708831	-0.659895	0.5229
NOIMP(-4)	-3.084539	2.389465	-1.290891	0.2232
C	-601.2811	585.4550	-1.027032	0.3265
Adjusted R-squared	0.979258	Durbin-Watson stat		2.5609
F-statistic	75.54466	Prob (F-statistic)		0.0000

Source: Statistical Output from E-views 10.0

The granger causality test in Table 5 unveils that there is a causal relationship between market capitalization, foreign direct investment, non-oil exports, and non-oil imports at a significant level of 5%. This result evidences that globalization as expressed by foreign direct investment, non-oil exports, and non-oil imports has significant effect on market capitalization in Nigeria. Similarly, it was found out also that market capitalization has significant effect on non-oil exports and non-oil imports.

Table 5: Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.	Remarks
FDI does not Granger Cause MKTCAP	33	5.44391	0.0101	Causality
MKTCAP does not Granger Cause FDI		2.61098	0.0913	No Causality
NOEXP does not Granger Cause MKTCAP	33	10.3391	0.0004	Causality
MKTCAP does not Granger Cause NOEXP		3.53971	0.0426	Causality
NOIMP does not Granger Cause MKTCAP	33	12.0502	0.0002	Causality
MKTCAP does not Granger Cause NOIMP		5.76794	0.0080	Causality

Source: Statistical Output from E-views 10.0

Findings showed that foreign direct investment, non – oil export and non – oil imports has significant effect on market capitalization in Nigeria which agrees with the study of Akinmulegu (2018) who investigated the relationship between the capital market development and foreign portfolio investment in Nigeria and discover that the Capital market development has significant effect on foreign portfolio investment. It was as well discovered through the granger causality test that market capitalization has significant effect on non – oil export and non – oil import which agrees with the work of AkinwaleandAdekunle (2019) which also revealed that there is a positive relationship between trade openness and foreign portfolio investment and capitalization, but disagrees on the variables of foreign direct investment. Finally, from the results it could be seen that globalization which was proxy by foreign direct investment, non-oil export and non-oil imports has significant effect on market capitalization in Nigeria and market capitalization has significant effects on non-oil exports and non-oil imports.

CONCLUSIONS AND RECOMMENDATIONS

The existence of relationships among variables was ascertained from the previous section of this work. There is positive and significant relationship between market capitalization and foreign direct investment. Market capitalization has significant effects on non-oil export and non-oil imports. This research work has shown that the capital market plays a very vital role in sustaining growth and development of economic activities; businesses, mobilization and allocation of funds which is a vitamin for economic growth. Globalization of the capital market is all about localizing the global events and trends in order to attract capital from foreign markets, thereby increasing the availability of financial resources for domestic investment. We therefore submit our recommendations that the government should consider the option of liberalizing the economy (let there be labour market flexibility, lower tax rate for businesses, less restriction on both domestic and foreign capital to encourage competitiveness in the business environment), so that the full benefit of globalization would be reaped, since globalization brings about development of the Capital market. Let there be consideration of the introduction of a more juicy and attractive financial instrument, so that foreign investors could be encouraged to invest in the capital market in other to attract more foreign exchange into the economy. Let regulatory agency encourage the practise of global stock market so that the Nigerian capital market will not be left out in the world of financial market. Let there be policies that would encourage and boost the confidence of foreign investors, in the economy so that development of the capital market will be accelerated.

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