

Re-Thinking Globalisation and Balance of Payment: The Case of Nigeria.

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Abstract: The dangers and risks of globalisation cannot be ruled out completely. Nevertheless, the benefits associated with it cannot be overemphasized especially for countries with diverse exportable products. Since 1986 Nigeria attempted to join the global economy by implementing the Structural Adjustment Policy of the World Bank, the expected results are yet to be achieved. Especially as it pertains to the objective of reconstructing and diversifying the product base of the economy, by reducing the dependence on oil and imports. Investigations shows that the Nigerian Balance of Payment (B.O.P) had seen more deficits after the introduction of SAP than the era of controls, thus implying that inspite of openness of the economy, external trade performance has not been encouraging. Therefore, this paper suggests that apart from diversifying domestic production, expenditure-switching and expenditure-changing fiscal and monetary policies to affect prices, interest rate and exchange rate should be pursued to bring the economy back on track.

Keywords: Globalisation, Balance of payment, Economy, Structural Adjustment, External Trade and Operation.

INTRODUCTION

Heavy and sudden fluctuations in balance of trade creates serious problems in Balance of payments (BOP), National Income, Investment and then also creates severe impact on the overall growth of less developed countries. Today, as the argument on the nature and actual effect of globalization on developing nations rages on, developing nations are seeking and fine-tuning policy options in order to benefit from their participation in the global economy. Nigeria, like most developing countries, had since 1986 attempted to join the global economy by implementing the Structural Adjustment Programme (SAP), a bitter pill prescribed for it by the IMF/World Bank in the course of its quest for loan from the institutions. After about twenty-four years of implementation, how then has Nigeria fared on her way to global economy? Has it benefited or not? The aim of this paper is therefore, to examine the effect of globalization on Nigerian Balance of Payment since 1986, when it embraced the more pragmatic strategy of global cooperation and integration, and make suggestions as to what Nigeria must do in order to benefit from the global economy which in turn, stabilize our balance of payment.

THE CONCEPT OF GLOBALIZATION

Globalization is a process that defies any precise definition because its conceptualization and analysis depend on the standpoint of the analyst. Nevertheless [1], quoting in Horgan G [22] noted that two theoretical perspectives dominate the study and

analysis of globalization, namely, the modernist and post modernist perspectives. The modernist perspectives focus on the emergence and consolidation of a single world economy and the intensification of human interdependence. The liberal version of this perspective enumerates all the possible benefits while the radical view sees it as a new strategy to preserve inequality, hierarchy and exclusion.

According to Ukana [1] citing Mittleman (2000:923), He noted that globalization is not a single, unified process but a set of interactions that may be best approached from different observation point. First, it is a complex historical process occurring differently in different parts of the world but all tied up, directly or indirectly, with the central institutions and growth mechanisms of the world economy. For instance, African and most developing countries were connected to the world market through colonial imperialism. Second, globalization may be understood as a material process closely related to the accumulation of capital. It is caught up with the innovation in capitalism, especially the inner workings of competition, pressures that may be called hyper competition. Third, globalization may be regarded as an ideology; the neo-liberal belief in free markets and faith in the beneficial role of competition. In true economic meaning, Ahuja [2] sees globalisation as the increased openness of an economy to international trade, capital flows (both portfolio and foreign direct investment, FDI), transfer of technology and free movement of labour or people.

From the foregoing, globalization is, invariably, a process borne out of capitalist accumulation of global resources. It is a process through which capitalism reforms and strengthens itself to meet the exigencies of the 21st century. As a capital process for surplus accumulation, globalization adopts liberal and neo-liberal policies and strategies such as liberation of trade, finance and investment, deregulation and privatization. With the help of free trade and capital investment in some particular spheres, Ahuja [2] noted that developed countries exploit the poor countries which happened to be their colonies and draw away resources from them. A more striking revelation made by Stiglitz in his article “protectionism: US style” about some of the policies of these developed countries, shows that America imposes tariffs on imports of steel and grant subsidies on farm products and cotton textiles to protect their domestic industries, thus preventing developing countries from exporting their products. The major capitalist powers of the World Trade Organization (WTO) and the lending clubs, pressurize third world countries into undertaking neo-liberal reforms to globalize the capitalist culture and practices in order to foster ‘the emergence and consolidation of a single world economy’.

As argued in the literature, openness to international trade is a major indicator of whether an economy is as the ratio of the sum of imports and exports to GDP. The ratio rises as a result of increases in exports and/or imports. As noted by Mina also[3], that, somewhat better measure of integration in the world economy may be share of manufacturing in merchandise export. This indicator can capture the ability of an economy to deliver products to world markets.

To views of Daouas [4], Globalization is thus characterized in particular by an intensification of cross border trade and mobilization of individuals and increased financial and foreign investment flows, promoted by rapid liberation and advances in information technologies. Aninat [23] referred to it as a process through which an increasing free flow of ideas, people, goods, services and capital leads to the integration of economies and societies has brought rising prosperity to the countries that have participated in it.

BALANCE OF PAYMENT

Nwani [5], defined balance of payment (BOP) as a statistical statement that systematically summarizes for a specific time period, the economic transaction of an economy with the rest of the world. He further noted that, BOP reflects changes in the claims and liabilities of an economy vis-a-vis the rest of the world that are ascribed to transactions. Over the last two decades, there has been growing trend in the fluctuations of the Nigerian Balance of Payment.

DETERMINANTS OF TREND BALANCE OF PAYMENT IN NIGERIA

The staff note prepared by the IMF Committee on balance of payment statistics [6] reports that BOP problems are due to the disequilibrium in the physical flows, namely, exports and imports of goods and services. In Nigeria, BOP fluctuation is motivated by factors such as money illusion, terms of trade, external debt servicing and exchange rate (devaluation) movement [7].

The time series data presented in table 1 below, indicates that (BOP) was ₦3020m (1981), ₦349.1M (1985), ₦22994.2M (1989), ₦195216.3M (1995), ₦-326671.4 (1999) and ₦-565353.3m for 2002.

Table-1: Balance of Payment and some other Macroeconomic indicators in Nigeria 1981-2003.

Year	BOP (N'M)	Official Exchange Rate (N/USD)	Inflation Rate%	Balance Trade (N'M)	Trade Openness	Real GDP Growth	External Debt Growth	Term of Trade
1981	-3020	0.63	21.4	-186.3	0.47	0.01	0.24	329.7
1983	-301.3	0.74	23.2	-1401.2	0.02	-0.05	0.19	345.0
1985	349.1	0.99	5.5	4658.2	0.26	0.00	0.18	300.0
1987	139.2	4.19	10.2	12498.9	0.45	-0.01	0.43	252.3
1989	-22994.2	7.65	40.9	27111.0	0.39	0.07	0.79	187.3
1991	-101407.3	9.70	13.0	34515.2	0.65	0.04	0.09	135.1
1993	-24060.4	22.63	57.2	52669.7	0.55	0.02	0.16	108.2
1995	195216.3	21.88	72.8	195533.7	0.86	0.02	0.01	100.0
1997	1077.7	21.88	8.5	395946.1	0.73	0.05	-0.035	188.7
1999	-326671.4	92.54	6.6	326499.7	0.38	0.01	3.07	107.6
2000	-314139.1	109.55	6.9	982759.4	0.60	0.03	0.20	100.4
2001	-24729.9	112.48	18.9	643535.8	0.61	0.03	0.30	104.3
2002	-565353.3	126.4	12.9	302141.0	0.54	0.03	0.19	108.7
2003	-162839.7	135.40	14.0	-	0.48	0.05	0.08	119.3

Source: Central Bank of Nigeria (CBN) Statistical Bulletin (2002), CBN Annual Report and Statement of Accounts (Various Issues).

In an attempt to identify the long-term causes of BOP fluctuation in Nigeria, the vulnerability of the economy to external shocks, external debt burden and debt servicing issues, inflationary effects, trade openness and exchange rate changes relies upon the effect of the relative prices of domestic and foreign goods on the trade flows with the rest of the world [8]. This relative price, or terms of trade is defined by the ratio of export and import prices in domestic currency from the point of view of the country as a whole, the terms of trade represents the amount of imports that can be obtained in exchange for a unit of exports or the amount of exports required to obtain one unit of imports. The terms of trade may vary both because of change in the prices expressed in the respective national currencies and because of exchange rate changes.

Thrillwill [8] noted that the depreciation in the exchange rate at unchanged domestic and foreign prices in the respective currencies makes domestic goods cheaper in the foreign markets and foreign goods more expensive in the domestic market. Soderstan [9] contends that devaluation tends to make imports more expensive in domestic currency terms, which are not marched by a corresponding rise in export prices. This implies that the terms of trade will deteriorate.

Deterioration in the terms of trade represents a loss of real national income and can lead to BOP crisis because more units of exports have to be given to obtain one unit of imports. Hence, the terms of trade effects caused by devaluation lowers income. A devaluation of currency causes an increase in the real value of wealth held in monetary form such that the real value of cash balance is reduced leading to unfavourable BOP. Chachodiades [10] maintained that money illusion and expectation effects can induce BOP fluctuation because real income does not change due to proportionate increase of price and money income. The direction of the change depends on the type of money illusion. Money illusion inhibits real activities though these effects are significant only at the short run. Therefore, if people are unconscious of the workings of money illusion, they will likely change their absorption.

It is possible that economic agents in Nigeria regard the increase in prices induced by currency devaluation as likely to spark further price rises. This has consequently resulted to an increase in direct absorption, which has worsened the country's balance of payments. Nigeria external debts burden and external debt servicing over the last two and half decades has been blamed by several authors for the negative profile of the country's BOP. Dell and Lawrence [11] stressed that a potential and increasingly significant source of demand deflation, which might be induced by currency depreciation in developing countries, arises from its

effects on debt servicing. Clearly, the Nigerian external debt obligation is large and the interests payable keep rising over years. The implication of this circumstance is that debt service expenditure reduces wealth and the source available to improve the country's real activities, which is detrimental to BOP. Inflationary effects caused by currency depreciation might be expected to have an expenditure reducing impact [12]. Reduction in real expenditure will occur only if the appropriate monetary policy is simultaneously pursued [13]. But over the years, inflation policies and targets in Nigeria has failed to achieve its desired objectives of correcting BOP disequilibrium due to misspecification of macroeconomic policies and insufficient time lag. The monetary approach to the balance of payment sees the monetary implications of exchange rate depreciation as being absolutely crucial. But depreciation becomes unnecessary, provided sufficient time (that is financing) is available for automatic correction to occur.

According to this approach the mechanism by which depreciation affects the BOP is by raising the domestic price level and thereby increasing the demand for nominal money balances [14]. The messages from the review above are many. First BOP can be caused by many factors, notably, monetary, fiscal and structural factors. Second, in an economy like Nigeria that is already beset with trend unfavourable balance of payment (BOP). It would appear more reasonable to look into the long run determinants of BOP rather than the short run causes.

THEORETICAL FRAMEWORK

A theoretical rational for the BOP variability is the disequilibrium between domestic income and expenditure. The absorption approach focuses on the fact that current account unbalances can be viewed as the difference between domestic output and domestic spending (absorption).

$$A = X - M - Y - A \dots\dots\dots (1)$$

Understanding how devaluation affects both income and absorption is therefore central to the absorption approach to the balance of payments. If devaluation raises domestic income relative to domestic spending the current account will improve. Machup [15]) formalized this possibility in his article "Balance of payments and the co called dollar shortage". He stated that if devaluation raises domestic absorption relative to domestic income the current account will deteriorate. Machup assumes that if the economy is below the full employment level, then there will be an increase in net exports following devaluation. It is however not clear whether the employment effect will raise or lower national income.

The elasticity approach holds that BOP problem are due to disequilibrium in the physical trade flows namely export and imports of goods and services. This approach can be analyzed on the basis of partial elasticity's of the exports and imports and the rate of exchange rate in the adjustment of BOP to currency devaluation. Thrillwall [8] showed that there are two direct effects of exchange rate changes on the balance on goods and services.

The increase in the volume (Volume effect) of exports due to the increase in the price competitiveness of the export as and the decrease in the volume of imports due to the decrease in the price competitiveness of imports subject to the devaluation. The volume effect clearly contributes to improving the goods and services account.

Due to the devaluation (Price effect) exports become cheaper measured in foreign currency and imports become more expensive measured in domestic currency. The price effect clearly contributes to the worsening of the goods and services account. If the suitable condition on the elasticities are fulfilled the balance of payments ought to improve. However, it may happen that quantities do not adjust as quickly as prices, owing to frictions and reaction lags of both consumers and investors; it takes time for consumers in both devaluing country and the rest of the world to respond to the changed competitive situation. Due to these facts the balance of payments may again deteriorate before improving towards the new equilibrium points.

EFFECTS OF GLOBALIZATION ON THE NIGERIAN BALANCE OF PAYMENT

As observed by Yusuf [16] globalization has helped increase the growth of trade in the countries that participated in it. With expansion in trade, the markets for domestic products have enlarged, thus allowing them to reap scale economies, forcing them to be competitive and thus offering them incentives and opportunities to assimilate, as well as develop new technologies. Through trade expansions and exports earnings have loosened foreign exchange constraints on the economy, thereby facilitating the expansion of other sectors.

The negative aspects of globalization and especially whether the world's poorest will share from its benefit, is becoming a growing concern. According to Aninat [23] there is the belief that free trade through globalization will favour only rich countries and that volatile capital markets will hurt developing countries the most.

Drawing from the period Structural Adjustment Programmed was introduced in Nigeria; the

impact is yet to be felt especially as it pertains to one of its main objective, that is, reconstructing and diversifying the productive base of the economy, by reducing the dependence on oil and imports. Given this fact, however, it is observable that the Nigerian BOP had seen more deficits after the introduction of SAP than during the era of controls; in other words, of the 12 instances of deficits in BOP, 8 happened after 1986, that is after SAP was introduced [17]. This is implying that, in spite of the openness of the economy, external trade performance has not been encouraging.

As a mono cultural exporter, over 80 percent of Nigeria's export is made up of crude petroleum. But instability in the world oil market sometimes negatively affects oil exports, leading to declines in foreign exchange earnings. This partly explains the country's recourse to external funding in order to meet its development challenges [18].

As one of the policy objective of SAP is to increase agricultural production which is presumed to influence net agricultural exports directly, thus giving rise to favorable BOP. But these net agricultural exports are mainly raw material exports. This explains why the IMF/World Bank and their western collaborators are satisfied with the peripheral role of Nigeria as an exporter of raw materials. Stewart [19] maintains that the capitalist need to sustain the import capacity of peripheral economies in order to facilitate continued production and maximization of profits at the center explains why in the periphery countries raw materials exports are encouraged.

MEASURES NIGERIA MUST TAKE TO BENEFIT FROM THE GLOBAL ECONOMY

From what can be deduced so far, it implies that weaker economies especially of the less developed countries cannot participate fully in this world of globalization. Reason being that these countries are import oriented therefore, cannot compete favorably in the global market.

In Nigeria's context, the enabling framework would include measures to ensure the entry of Nigeria's non-oil exports into the core markets without discrimination. In this regard, the diversification of domestic production is imperative [18]. Nigeria must build an economy that is self-sufficient at home and economically competitive internationally. The country has to go back to agriculture as the source of raw materials for our industries, food for our teeming population and as a source of employment. The country's massive investment in agriculture will additionally boost her foreign exchange deposit, which will be saved if we stopped importing what could be produced at home. Related to this is the question of

establishing strong linkages between oil and other sectors, particularly manufacturing, agricultural and capital goods sub-sectors.

Furthermore, one of the major objectives of SAP – restoring equilibrium in Nigeria’s balance of payments – should be seriously pursued and implemented. Specifically, SAP is designed to make Nigerians develop a taste for locally produced goods and services. This will have the effect of reducing flow of resources from the Nigeria economy to the rest of the world. According to Gbosi [20], this is seen as “Buy Nigerian made Good”. He noted that buying Nigerian good measures restricts imports by making consumers to purchase domestic goods rather than foreign goods.

CONCLUSION

Nigeria must therefore wakeup to the realities of new down and stops wasting time and resources. The economic selfishness of the capitalist West must necessarily be held in check. The East Asian “tigers” have not followed blindly the prescriptions of the Washington consensus. Since their government plays important economic roles than the western nostrums advise [21]. The Nigerian government can benefit from that experience as the country pursues a favorable Balance of Payment (surplus) within the context of globalization. Hence, the following recommendations are discernable:

1. The nation must also explore and exploit the West African market through cooperation, integration and regional security.
2. The government of the country (Nigeria) must take stringent measures to revitalize our weak industrial base. The Industrial Core Projects (ICPs) are basic industries established mainly by the government to catalyze industrial growth and development through the production of basic inputs for downstream industries.
3. Finally, the Balance of Payments Adjustment must not be left out in this case. Policy measures like Expenditure-switching and expenditure-changing fiscal and monetary policies to affect prices, interest rate and exchange rate can be relied upon to bring the economy back on track. This particular policy should be aimed at the semblance of the economic class; which belong to the leisure class the club of the “Nouveaux Riche”. This particular class is consumption oriented and not innovative at all.

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