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GLOBALIZATION AND NIGERIA ECONOMY: OPPORTUNITIES AND CHALLENGES.

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Abstract

This study delves into the core aspects of globalization, focusing on Nigeria's position within the international landscape, examining both the opportunities and challenges it presents. Drawing on Rourke's economic theory of globalization, the study underscores the disparity between developed and developing countries, often referred to as the North-South divide. It concludes that Nigeria has not fully capitalized on globalization due to its heavy dependence on crude oil exports, limited technological exports, and an underdeveloped domestic financial market. The study identifies various opportunities, including increased specialization and efficiency, economies of scale in production, and enhanced global welfare. However, it also highlights challenges, such as the need for a robust framework to safeguard domestic monetary management and prevent undue destabilization of the economy due to global developments. To maximize the benefits of globalization and avoid marginalization, the study emphasizes the importance of accountability, transparency, and good governance. Market-friendly policies are deemed essential to ensure Nigeria's active participation in the global economy, fostering economic growth and stability in the face of evolving global dynamics.

Key words: Globalization, Economy, structure, development, dependency

Introduction

Globalization encompasses the integration of national economies through trade and financial interactions, with a significant focus on financial market integrations worldwide. This subset of globalization has become pervasive, sometimes leading to destabilization in financial markets globally. The rapid growth of goods, services, and capital, especially in the context of financial investments, has rendered national controls less effective. Advancements in technology and telecommunications have substantially reduced the costs associated with foreign investments, allowing investors to deploy funds globally without physical relocation. However, this ease of capital redeployment has often had adverse effects on economies experiencing capital outflows.

Reductions in transport and communication costs, coupled with capital account liberalization, financial market deregulation, and the privatization of state enterprises, have created a conducive environment for increased capital mobility (Fischer, 2005). Understanding the complexities of financial market deregulation in the context of globalization is crucial, as it involves both product and capital markets. The integration of financial markets has imposed constraints on the effectiveness of macroeconomic policies, as evidenced by financial crises, such as the one in Nigeria in 1997.

The rapid advancement of globalization, particularly post-Cold War, has ushered in the laissez-faire doctrine, pluralizing ideologies in the global arena. This research explores the extent to which the effectiveness of Nigeria's domestic economic policy can be compromised if due consideration is not given to potential responses from other nations. The interdependence among nations indicates that protective barriers around national economies could undermine growth prospects.

Stabilization of financial risks has been attributed to enhanced technical capabilities in precision finance, the integration of national financial markets, the blurring lines between financial institutions and their market activities, and the emergence of global banks and international financial conglomerates offering a wide array of financial products and services. Traditional banking institutions have transformed into financial services firms, and new financial institutions now compete with banks, blurring the distinctions between them. Additionally, the rapid growth in off-balance sheet items has been unprecedented (IMF mentioned in Chinweoke, 2011). The study specific objectives of the study are:

1. To examine the opportunities of globalization in Nigerian economy.
2. To find out the challenges confronting globalization in Nigerian economy.

Literature Review

Concept of globalization and economy

Globalization signifies the process of moving towards a more interconnected world, often within a capitalist framework (Peter, as cited in Adekonle, 2012). It offers nations the opportunity to shape their development competitively, ensuring their relevance in the emerging global economy. The concept of globalization has deep theoretical roots, initially rooted in the mercantilist doctrine that emphasized trade as the foundation of a nation's wealth, predating the theories of Adam Smith and David Ricardo. Later, radical theories challenged the notion of trade's inviolability for national growth, suggesting that internalized growth was possible. However, recent economic developments have highlighted the futility of countries isolating themselves in an increasingly integrated world. Trade theories, as well as the concepts of closed and open economies in macroeconomics, have explained much of the overwhelming phenomenon experienced globally. Trade theorists argued that trade was crucial for a nation's growth, a viewpoint not favored in many closed economies with limited global relations.

"Economy" refers to the effective management of a community or system's resources. It involves the collective study of money, currency, trade, and efficient resource utilization. Although originating from the Greek word denoting household rules applied to everyday living (Aluko, 1999), economy, according to the father of economics, Adam Smith, is the science studying the nature and causes of the wealth of nations. Jaws (mentioned in chi, 2013) characterized it as the governing force behind a nation's wealth, detailing how society decides to produce and distribute goods and services in a world of limited resources. The economy is essentially the study of people's choices and actions aimed at optimizing the use of scarce resources to meet their wants and needs (Edwin, cited in Nkom, 2015).

Globalization in Nigeria Economy: An overview

The adjustment of prices in systemic risks' assets has been uneven, leading to further instability in the international financial market system. Various factors influence the influx of capital into emerging markets, including the economy's openness, investment returns, credit ratios, and secondary market prices of sovereign debts. International capital flows depend on arbitrage opportunities. Traditional theories assume highly integrated financial markets where interest rates balance supply and demand for loanable funds instantly. Modern theories build on this idea, asserting that asset prices should equalize globally when risks and transaction costs are discounted.

In Nigeria's context, eliminating these risks and costs is expected to equalize yields on similar assets globally. The efficient market hypothesis, a subset of the law of one price, suggests that domestic financial markets integrated into the global economy trigger fund movements through exchange and interest rates. However, rational expectations theory, predicting future spot rates, does not always align with actual observations due to empirical contradictions. Despite decreased barriers between national markets and reduced currency risks, particularly in the 1980s, due to financial deregulation and liberalization, capital markets have become more integrated over the last two decades.

However, despite the growth in cross-border flows and progress toward financial market integration, especially in terms of purchasing power parity (PPP), highly integrated financial markets now exert more significant constraints on microeconomic policies. Capital flows, especially when destabilizing, can undermine macroeconomic stability due to their susceptibility to herd behavior, panics, crashes, destabilizing speculations, and outflows. This vulnerability makes Nigeria's capital account porous and difficult to control municipally. Therefore, caution is needed in approaching capital account liberalization to prevent counterproductive outcomes. (IMF, 2018).

Theoretical study

This study employs Rourke's (2009) economic structural theory of globalization, which asserts that the world system is inherently structured to create disparities between developed and developing countries, resulting in the division between the North (developed countries) and the South (developing countries). Economic structuralists argue that this division perpetuates a cycle where developed countries exploit less developed ones, maintaining their weakness and poverty for economic gain. To address this, proponents of economic structuralism advocate for a radical overhaul of the economic system to rectify the unequal distribution of wealth and power.

In this dynamic, countries in the South are exploited during economic interactions, with Northern countries acting as the exploiters. This exploitation has led to the continued dependence of less developed countries on their more developed counterparts. Dependency theories, a subset of economic structuralism, contend that developed countries exploit less developed ones due to the former's need for affordable raw materials (like oil), extensive external markets for expensive manufactured goods, lucrative investment opportunities, and low-wage labor. As this economic structure enriches developed countries while impoverishing less developed ones, dependency theory argues that developed countries implement policies aimed at perpetuating the dependency of less developed nations.

Given this scenario, economic structuralists label this system neocolonialism, as it operates without direct colonies but maintains imperialistic traits, according to Rourke (2009).

Globalizations in Nigeria: opportunities and challenges

Globalization has both positive and negative effects, presenting opportunities as well as challenges. Its positive impacts include increased specialization, enhanced efficiency, and higher-quality products at reduced prices. Globalization fosters economies of scale in production, promotes healthy competition, and stimulates technological advancements, thereby improving managerial capabilities. It ensures consumers receive the best satisfaction due to high-quality standards maintained through specialization and competition. Additionally, it enhances individual welfare and global wealth by facilitating international capital mobility, technological innovation, and resource utilization in production processes. Globalization significantly contributes to poverty reduction and improved welfare for individuals in Nigeria and worldwide, making it crucial for global economic growth and development. Rapid capital and financial interactions facilitate the mobilization of foreign savings for domestic investments, promoting economic growth and efficient capital deployment. Financial integration benefits economies by directing savings towards more profitable investments, improving the depth and efficiency of financial markets, and positively impacting output and employment rates.

Furthermore, globalization has led to slower inflation growth, reduced fiscal imbalances, improved real interest rates, and promising investment prospects. Structural reforms and adjustments in transitioning and heavily indebted economies have positively affected their economies. However, challenges arise from the rapid integration of capital markets. Capital flows, unlike trade flows, exhibit herd behavior, intensifying financial crises. Nigeria experienced setbacks in market flow and slow funding realizations due to rapid capital flows. A weak external sector can lead to difficulties in macroeconomic management, causing problems like high inflation and slow growth in the Nigerian economy.

Globalization also brings the rapid spread of shocks and disturbances across financial markets, impacting exchange rates and investments. Nigeria's dependency on external trade poses a significant threat to its development. Despite government policies aiming to meet global standards, Nigeria's economy struggles due to attitudinal issues and insufficient human capital development. To truly benefit from globalization, Nigeria must invest in human capital, advance information technology in line with global trends, and prioritize good governance, transparency, and accountability, creating a strong and competitive economy.

Conclusion and Recommendations

Globalization, the closer the interactions between national economies through trades, investment, and capital flows, made possible by technological development and advancement in telecommunications, has increased global welfare and transformed the world into a global village. It has evolved over the years, but it’s rapidly intensified after second cold war. Globalizations should enhance the nation’s economy greatly via good ideology and major protagonist. With the aid of ideology of polarizations of the world, increased emphasis should be placed on openness and liberalizations of national economy to secure maximum benefits from global economy prosperity. It should be able to facilitate activities of multinational corporations, as well as multilateral monetary and financial system, especially the Bretton woods financial institutions and international trade arrangements. Both its positive and negative effects demands international specializations, which results in high quality and low cost products, improvement in welfare and the closer interactions between Nigeria and national goods and services at the financial market. This can lead to free market movement which result to free movement of opportunities for higher yields across national boundaries. This includes accentuations of macroeconomic of imbalance, marginalization of economy that failed to apply appropriate free flows policies for capital flows of the nation economy. The world economy has been characterize by rapid economy integrations of financial transactions over decades. But its difficulty can be improve because of peculiarities. Reductions of transportations and telecommunications cost, capital account liberations, financial market deregulations and privatizations can creates states enterprises to have a favourable environment for increased capital mobility.

Good strategies and moderations policies are to be apply for smooth running of macroeconomic stabilizations for ease way of meeting up with economy standard of the global village. Above all the country must pursue policies that liberalize their economies, reduces the roles of government relatives to that of the privates sectors and ensure good governance in order to reap the fruits of globalizations. Otherwise, poor policies will be rewarded by marginalization in the global arena.

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