ECONOMIC GLOBALIZATION, MARKETS AND NATIONAL DEVELOPMENT:

How Sensibly do the Poor Countries (Nigeria included) Stand?

By

Mike I. Obadan, Ph. D, FNES, FIMC

Professor of Economics

University of Benin

Benin City, Nigeria

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Dedication

To all my students, past and present, who have been a major plank in my professional advancement and fulfilment

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LIST OF ABBREVIATIONS

APEC	-	Asia Pacific Economic Cooperation
ASEAN	-	Association of South East Asian Nations
CACM	-	Central American Common Market
CAL	-	Capital Account Liberalisation
CBN	-	Central Bank of Nigeria
COMESA	-	Common Market for Eastern and Southern Africa
ECOWAS	-	Economic Community of West African States
EPAs	-	Economic Partnership Agreements
EU – ACP	-	European Union – African, Caribbean and Pacific.
EU	-	European Union
FDI	-	Foreign Direct Investment
GATT	-	General Agreement on Tariffs and Trade

GCI	-	Global Competitiveness Index
GDP	-	Gross Domestic Product
HIPCs	-	Heavily Indebted Poor Countries
HPAEs	-	High-Performing Asian Economies
IBRD	-	International Bank for Reconstruction and Development
ICT	-	Information and Communications Technology
IDA	-	International Development Association
IMF	-	International Monetary Fund
LDCs	-	Least Developed Countries
MAN	-	Manufacturers' Association of Nigeria
MDGs	-	Millennium Development Goals
MNCs	-	Multinational Corporations
NACCIMA	-	National Association of Chambers of Commerce, Industry, Mines and Agriculture.
NAFTA	-	North American Free Trade Agreement
NEEDS	-	National Economic Empowerment and Development Strategy
NES	-	Nigerian Economic Society
NICs	-	Newly Industrializing Countries
OECD	-	Organisation for Economic Cooperation and Development
OPEC	-	Organisation for Petroleum Exporting Countries
SAARC	-	South Asian Association for Regional Cooperation
SADC	-	South African Development Community
SAP	-	Structural Adjustment Programme.

SSA	-	Sub-Saharan Africa
TI	-	Transparency International
UK-DFID	-	United Kingdom's Department for International Development
UMA	-	Arab Maghreb Union
UNCTAD	-	United Nations Conference on Trade and Development.
UNDP	-	United Nations Development Programme
UNECA	-	United Nations Economic Commission for Africa
UNIDO	-	United Nations Industrial Development Organisation
USA	-	United States of America
WTO	-	World Trade Organisation

PREAMBLE

This inaugural lecture is taking place at a time that I should probably be thinking of a valedictory lecture. The lecture should have come much earlier at the time that my contemporaries delivered theirs in the 1990s. But that was the time I was away from the University, for a long period, on a national assignment in the Federal Public Service. Consequently, when I was reminded about the lecture this year, I was rather hesitant against the backdrop of probably an erroneous belief that the essence of the lecture had been overtaken by events. But then, friends and well-wishers convinced me to the contrary. I deeply appreciate their concerns. And so, here I am today to deliver the 'inaugural' lecture. Perhaps, one advantage that lateness has conferred on me is the opportunity to present a rather robust lecture and what we have seems worthwhile to me. As a development economist and an international macroeconomist, I have chosen to dwell on the theme, "Economic Globalization, Markets and National Development: How Sensibly do the Poor Countries[1] (Nigeria included) Stand?" This is a theme that captures the essence of some of my major works.

Perhaps, I should apologise to all those of you good people who are imbued with a high dose of nationalism and who may feel offended when I say that Nigeria is a poor country. By many indicators, Nigeria is indeed a poor country. It is true that Nigeria is rich in all kinds of resources- natural, human, material and even spiritual resources such that every other house is a church and every other man or woman is a pastor. In this perspective, Nigeria is rich but its people are poor such that the country continues to epitomize the cliché of poverty in the midst of plenty. Out of the country's 140 million people, 76 million live on less than one US dollar a day (about N120.00) and about 90 per cent of the population or 127 million people live on less than 2 US dollars a day. Even the World Bank, using per capita income, classifies Nigeria as one of the 33 poor countries in Africa out of the 54 poor countries in the world. And since the UNDP started producing the Human Development Index in 1990, Nigeria's index has hovered around the low and uncomfortable figure of 0.439, thus putting the country in the category of least developed countries. The very bad governance foisted on the country by Nigerian rulers has created the pitiable condition in which our country finds itself today.

[1] Out of the 54 countries that the World Bank classifies as low-income or poor countries 33 are in Africa, Nigeria included. These are countries with gross national income per capita of US$ 875.00 or less in 2005. In that year, Nigeria's per capita income was only US$ 560.00. In 2006, it was USD 774.00. The different categories of countries according to income classification are in Annex 1.

My approach in this lecture is not to list my works and the outlets in which they have been published. Rather, a standard presentation which is educative will be made and my works, among others, will be cited as appropriate in support of points being made. Such relevant works of mine, sixty-six of them, are included in the "References Section" with full details.

Now, it is my great pleasure to present the lecture, with the following structure:

- A brief Historical Perspective, Concepts and Drivers of Globalization.
- Globalization and Markets.
- Globalization and Trade Liberalization
- Global Economic Integration and Sub-Saharan Africa.
- Nigeria and the Global Economy.
- Appropriate Policy Responses and Lessons.
- Concluding Remarks

1. CONCEPT AND DRIVERS OF GLOBALIZATION

1.0 Introduction – A Brief Historical Perspective

Globalization has become the economic buzz word since the 1990s. But there seems to be a consensus that it is not a new phenomenon (See, for example, UNDP, 1999; Ajayi, 2001; James, 1999; Mussa, 2000; Mason, 2001; IMF, 2002). It has been argued that globalization has proceeded throughout the course of recorded history, though not in a steady and linear fashion (Mason, 2001). However, it is generally acknowledged that modern globalization commenced in the last quarter of the 19th century and has occurred in three phases (World Bank, 2002). The first wave of globalization spans the period, 1870 – 1913. This period saw large cross-border flows of goods, capital and people. By the end of the 19th century the world was already highly globalized with significant volumes of trade accompanied by unprecedented capital flows (Aninat, 2002; James, 1999). However, the earlier attempt at modern globalization ended abruptly with the outbreak of World War I. Consequently, the period encompassing World War I, the Great Depression of the 1930s and World War II marked a giant step back in globalization or global economic integration. The Second Wave of modern globalization began after World War II and ended in 1980. The period was one that focused on integration among the rich countries (World Bank, 2002a) and it was characterized by lower trade barriers and further developments in transportation technology and reduction of costs. The Third and most recent wave of globalization started around 1980 and continues till today. It has been reinvigorated by the unprecedented ease with which information can be exchanged and processed as a result of breakthroughs in computer and telecommunications technologies. Thus, the phenomenon of globalization is not new. But, in recent years, as Obadan (2003) has observed, the phenomenon has intensified in its ramifications and become a very important issue for discussion in various fora. The present era has the distinctive features of shrinking space, shrinking time and disappearing borders which are linking people's lives more deeply, more immediately than ever before (UNDP, 1999). There has also been unprecedented global economic integration.

In recent years, too, globalization has acquired considerable emotive force (IMF Staff, 2002), being associated, rightly or wrongly, with most of the major issues and challenges currently engaging the world's attention. It is further seen through ideological prisms, being associated with laissez capitalism or market fundamentalism (Kiggundu, 2002). Indeed,

globalization has inextricably been linked with the neoliberal economic policies, forcefully propagated in the last three decades by the Bretton Woods Institutions- the World Bank and International Monetary Fund (IMF)[2] and manifested in unleashing market forces, deregulation of economic activities, trade and financial markets liberalisation, privatisation of state-owned enterprises, minimizing the role of the state, among others (Obadan, 2003a). According to Obadan (2001a), until the emerging market financial crisis, reflected in the Asian financial crisis of 1997/98 and Mexican financial crisis of 1994/95, the phenomenon of globalization was spreading like wild fire, and with numerous implications for both developed and developing countries. Those crises put the growing interdependencies among countries in the spotlight and led to their intense scrutiny (World Bank, 2000). Nevertheless, globalization has remained a powerful force shaping world economies for good or for ill.

1.1 Concept of Globalization

But then, what is globalization? Globalization has tended to mean different things to different people and different things to the same people across time and space (Fischer, 2000)). Consequently, very many definitions of globalization have been proffered relating to its nature, extensiveness, causes, consequences, etc (See, for example, Fischer, 2000; UNDP (Nigeria), 1999; Robinson, 2001; Walker and Fox, 1999; Caselli, 2004). Although Caselli is of the view that "we still await a definition of the phenomenon (globalization) which meets the approval of the majority of scholars", his own definition provides a fairly comprehensive view of the phenomenon. To him, globalization is a set of processes which (a) increases the number and heighten the intensity of contacts, relations, exchanges and dependence and interdependence relationships among various parts of the world; (b) transforms the importance of 'space' and 'time' with respect to those relations and relationships; (c) increase and spread awareness among the planet's inhabitants of the existence of those relations and relationships, as well as of their importance for their personal lives" (Caselli, 2004). And Fischer (2000) observes that to economists, globalization means "the on-going trend toward greater economic integration among nations" while in terms of people's daily lives, it "means that the residents of one country are more likely now: to consume the products of another country; to talk on the telephone to people

[2] The IMF and the World Bank are the two international financial institutions established by the world economic powers in Bretton Woods, U.S.A, after the end of World War II. The IMF was to promote international payments equilibrium while the focus of the World Bank was international reconstruction and development of national economies.

in other countries; to visit other countries; and quite likely to know more about other countries than they were fifty years ago". The different perspectives on globalization notwithstanding, a common thread runs through most of them, to the effect that globalization relates to the growing interdependence of the world's people. It is about increasing inter-connectedness and interdependencies among the world's regions, nations, governments, businesses, institutions, communities, families and individuals. Globalization fosters the advancement of a "global mentality" and conjures the picture of a borderless world through the use of information technology to create partnerships to foster greater financial and economic integration.

However, globalization is not just an economic phenomenon which integrates world economies but also of culture, technology and governance. It also has religious, environmental and social dimensions. In other words, globalization is multi faceted (Daouas, 2001; Obadan, 2001b and 2002b; IMF Staff, 2002; UNDP(Nigeria), 2001, etc). National policy-making has also been globalized as a result of the liberalisation of financial markets, developments in technology and the activities of global institutions such as the World Bank, IMF and World Trade Organisation (WTO) (Khor, 2000; Obadan and Obioma, 1999). Of the other dimensions of globalization, cultural globalization has elicited/emotional reactions and controversy. No doubt, the globalization of culture allows people to experiment with alternative models of development while at the same time borrowing ideas and practices from other cultures and institutions. But there is the fear that cultural globalization would drive out weak or less competitive cultures, sacrifice cultural diversity and creativity and impose a universal monocultural world. Indeed, Giddens (2000) sees globalization as "destroying cultures, widening world inequalities and worsening the lot of the impoverished". Kiggundu (2002) has, however, argued that the available evidence suggests that the fears on culture were largely exaggerated and that globalization can be, and, in most cases, has been good for cultural creativity, diversity and development. Nevertheless, the negative aspects of globalization, notably the cultural aspect, appear to have, in recent years, spurred the violent protests in some parts of the world, particularly, in the United States of America and Western Europe, against the forces and institutions of globalization. Even Osama Bin Laden, the Islamic crusader, has the negative cultural aspects of globalization as one of his grouses against the West (Obadan, 2002b). Many demonstrations express concerns about the effect of trade on jobs and the environment.

What has become clear, however, is that the various dimensions of globalization affect people, institutions and countries in one way or another, positively or negatively. This is, perhaps, why some view globalization as a process that is beneficial – a key to future world economic development – and also inevitable and irreversible. But others regard it with hostility, even fear, believing that it increases inequality within and between nations, threatens employment and living standards and thwarts social progress (IMF Staff, 2002). The World Bank (2002) concedes that globalization produces winners and losers, both between countries and within countries.

1.2 Economic Globalization

Although the political, cultural, social and environmental aspects of globalization are no doubt important, the economic aspect is perceived to be at the heart of the (globalization) process. According to Robinson (2001), "the fulcrum of the various definitions of globalization seems to be wealth or economic development. The parameters within which many schools of thought view globalization is usually based on trade or economic activity". Economic globalization has tended to receive greater attention, especially in view of its rapid pace since the past five decades (Obadan, 2003b). Economic globalization refers to the process of change towards greater international economic integration through trade, financial flows, exchange of technology and information, and movement of people (Mason, 2001; IMF Staff, 2002; UNDP, 1999, etc). The most dramatic features of economic globalization are liberalisation of trade in goods and services and increasingly unrestricted flow of capital (James, 1999). Indeed, openness and markets constitute the platforms of economic globalization while trade, finance and investment, and entrepreneurs are the heart (Kiggundu, 2002). The countries most active and benefiting most from globalization are the same ones with the largest share of global trade and investment. Trade and investment remain the principal key for creating and distributing wealth among and within nations. This means that countries lacking the institutional capacity for global trade and investment find it difficult to meaningfully participate in economic globalization and reap the benefits thereof.

According to Obadan and Obioma (1999), economic globalization has produced a world economy, characterized by trade liberalisation, spread of international trade, financial and production activities, integration of financial markets, the growing power of transnational corporations and international financial institutions and their monopolization of economic

resources, and rapid diffusion of advanced technologies and consumption patterns. Thus, under economic globalization, most economies witness rapid integration of productive and investment decisions across the globe, increasing breakdown of trading and investment barriers, emergence of truly global companies with vast capital base, rising share of international trade in world output, and heightened capital mobility. There has also been the widening and intensification of links between the economies of the industrial and developing countries through trade, finance, investment, technology and migration.

The integration of financial markets or globalization of finance has been a very significant aspect of economic globalization. It has also turned out to be very controversial (Obadan, 2005a and 2005b). Financial globalization refers to the growing unification or integration of financial markets all over the world, and this has resulted in high capital mobility and a large volume of gross international financial flows, particularly to the well-placed developing and transition economies. Rapid improvements in technologies for collecting, processing and disseminating information, along with the opening of domestic financial markets, the progressive and extensive liberalisation of controls on financial flows and markets, and increased private saving for retirement, have stimulated financial innovation and created a multi-dollar pool of internationally mobile capital (Hausler, 2002; Eichengreen and Mussa, 1998; Guitan, 1999; Schneider, 2000, etc). Thus, both macroeconomic and technological factors have been driving financial globalization.

International financial integration is predicated on open capital accounts of the balance of payments or capital account liberalisation (CAL). CAL entails lifting restrictions or controls on foreign capital inflows and outflows. To Stiglitz (2003), it has also meant eliminating the rules and regulations in many developing countries that could stem the flows of speculative and volatile hot money. Financial integration is expected to yield benefits in the spheres of efficiency, economic growth, risk diversification, inter-temporal consumption smoothing, technology transfer and spillover, etc. However, as Obadan (2005b) observes, until recently, the downside of free flow of foreign capital entailed in open capital accounts was never acknowledged or emphasized by the international financial institutions that vigorously promoted capital account liberalisation. There was no acknowledgement or stress of the fact that the advertised benefits of capital account liberalisation are dependent on certain pre-conditions and accompanying factors in the absence of which the elimination of controls on capital accounts

may lead to macroeconomic instability and unstable financial markets or crisis. Indeed, in a significant number of countries, both domestic financial and external current account liberalisation have been associated with costly financial crises (Eichengreen and Mussa, 1998).

International capital movements have tended to precipitate a crisis where capital flows out of a country suddenly. Many developing countries went through the process of financial liberalisation without taking precautionary measures or adhering to guidelines to minimize risks (Khor, 2001). And Bhagwati (2001) supports the view that capital account liberalisation had been pressed too hard, without adequate support mechanisms. Thus, the financial crises that hit some developing countries, especially East Asia and Latin America, in the 1990s, with resultant huge economic costs, point to the negative effects of volatile short-term capital flows and the grave risks and dangers that accompany careless financial liberalisation in developing countries. Even where there are no errors in international capital markets and the economic fundamentals are sound, financial globalization can bring crisis to a financially open economy due to the importance of external factors, such as the contagion effects of crises starting elsewhere (World Bank, 2002). The Sub-Saharan Africa, as Obadan (2005a) argues, has so far been spared the direct agony of financial crisis because of its underdeveloped financial markets. The sub-region thus has an opportunity to learn from the mistakes of other developing regions that undertook premature financial liberalisation, and then proceed with liberalisation in a measured way after careful preparation (Obadan, 2005a and 2005b)

1.3 Drivers of Economic Globalization.

Trade, investment and capital flows are the driving force of globalization. Accordingly, the extent of global economic integration can be gauged by developments in trade and financial flows. In this direction, Mussa (2000) has observed that despite occasional disruptions, such as the collapse of the Roman Empire or during the interwar period in the last century, the degree of economic integration among different societies around the world has generally been rising. And that during the past half a century, the pace of economic globalization (including the reversal of the interwar decline) has been particularly rapid. With the exception of human migration, global economic integration today is greater than it ever has been and it is likely to deepen going forward. What then have been the drivers of economic globalization? These drivers which have evolved over the different phases of globalization are well documented, for example, by The Economist Newspaper Ltd (1997), Mason (2001); World Bank, 2002; Mussa (2000), etc. The

various factors that have affected the process of economic globalization, and are likely to continue to drive it in the future, are as follows:

i. Improvement in technology, especially of transport and communications. These have reduced the costs of transporting goods, services and factors of production, and of communicating economically useful knowledge and technology. Technological changes have rapidly dismantled barriers to international tradability of goods and services. Information technology has developed into the combination of computer and telecommunication technologies to transmit information, receive instructions and transact business which, in turn, has greatly enhanced efficiency, and made it easier and faster to complete international transactions. Besides, the revolution in transport and communication technology, and much improved availability of information have allowed individuals and firms to base their economic choices more on the quality of the economic environment in different countries (Quattara, 1997: 1).

ii. Tastes of individuals and societies. These have generally favoured taking advantage of the opportunities provided by declining costs and communication through increasing economic integration.

iii. Macroeconomic factors, especially policies relating to:
   - deregulation and a widespread push toward liberalisation of trade and capital markets;
   - outward-oriented reforms, especially in the context of structural adjustment programmes;
   - international capital market imbalances of the 1980s and beyond; and
   - the collapse of the Bretton Woods system.

Under the General Agreement on Tariffs and Trade (GATT), established in 1945, countries agreed to foreswear trade barriers.[3] As a result of both the GATT negotiations and unilateral decisions, many countries have lowered barriers to foreign trade and welcomed international capital flow as well. Both of these have heightened the pace of global economic integration.

2. GLOBALIZATION AND MARKETS

[3] Following the various rounds of trade negotiations, countries have cut their tariffs, with tariffs on manufactured goods down to about 4 per cent in the industrial countries

Openness, domestic and global markets constitute the foundation of globalization. In this framework, the free market system and market prices are considered central. In situating the market, the IMF (2002) wrote as follows:

> "markets promote efficiency through competition and the division of labour – specialization that allows people and economies to focus on their best. Global markets offer greater opportunity for people to tap into more and larger markets around the world. It means that they have access to capital flows, technology, cheaper imports, and larger export markets".

But Buchanan, in Global Fortune (2000), (Robinson, 2001), apparently concerned about the level to which the market has been carried, argues that globalization is a myth which is rooted in the economic man. It elevates economics above all else, evolving worship for the market, which he further argues, "is a form of idolatry no less than worshipping the state. The market should be made to work for man, not the other way round". Expressing a similar concern, the UNDP - Nigeria (1999) feels that in the current wave of globalization, the market has gone beyond just being one of the instruments to achieve economic and social objectives. To the organisation, the market "is currently being perceived as the only instrument. Nowadays, markets set the rules. It is this transcendence of markets, its all inclusive application beyond what had been previously defined as the limits of its jurisdiction that separates the contemporary version of the market from its predecessors". And so, like Buchanan, the UNDP (1997) expresses the need to promote an alternative program which makes markets to work for people and not people for markets. The pertinent question, then is whether the market has answers to all economic problems. This is one of the issues that aspects of my works have focused upon. First, what is the free market system?

2.1 The Free Market System

The market system which has been one of two dominant paradigms for development, the other focusing on government and planning, is the framework that has been forcefully espoused by its promoters, including the Bretton Woods Institutions, since the late 1970s for the management of national economies. Since then, the market system has acquired heightened popularity in relation to development planning. According to Karl Levitt (1990):

> "The market magic paradigm has proven to be remarkably seductive because it combines the logical coherence of neoclassical economics with the structure of power in the real world. It is appealing because it appears to offer a personal and individual solution to economic pressure. This is a tragic illusion. In reality, it is an instrument whereby the rich and powerful impose on whole societies a set of values and 'rules for the game' which

> reinforce inequality and injustice and dismantle the capacity for social solidarity. Governments are disempowered and become unwilling debt collectors for international capital while millions of people are condemned to misery without end".

The market system whose prototype is laissez-faire capitalism has its intellectual roots in Adam Smith's 'invisible hand'. In his book, The Wealth of Nations (Modern Library, 1776), Smith felt that the capitalist system operates as if everyone were guided by the unseen force – 'invisible hand'. Everyone produces for his own benefit and for the benefit of the entire society at the same time.

The central message of the free market system is that if economic activities are carried out only by private enterprises in competitive markets and the rights to productive resources and the pursuit of self interest in production and consumption are duly respected, the free market system will be an efficient system for resources allocation. A free and un-impeded mechanism of market forces, it is further argued, would engender Pareto-optimality in the allocation of resources. Thus, Stiglitz (1996), in a rather scornful note on the free market advocates, stated as follows: "markets lead to efficient outcomes. All that government needs to do to promote growth is get out of the way. The basic slogan is 'get the prices right'. With the right prices, everyone will have an incentive to make the right resource allocations". And so, the free market system is supposed to solve all economic problems of allocating scarce resources between alternative ends: rationing supplies of consumer goods in the commodity market, directing the allocation of production between commodities, allocating factors of production among various users; and helping to distribute income between factors of production and therefore between individuals (Johnson, 1962). But the pertinent question is this: does the market solve all economic problems? As I have argued forcefully in the past, the answer is no.

2.2 Markets and the Solution of Economic Problems

I have succinctly argued (Obadan, 1997 and 2003c) that even though markets may be important and market incentives can indeed be powerful, they are neither all-pervasive, nor do they have all the answers. In other words, the market is not a magic wand for resolving all economic problems. Therefore, if left unchecked, market forces can yield socially deleterious outcomes. In the real world, in the absence of the expected checks and balances (perfect competition, among others), the market system does not work perfectly. Indeed, I, along with other authors (for example, Obadan and Ekuerarhe, 1986; Obadan, 1993; Obadan, 1997; Obadan,

2003c; Todaro, 1977; Loxley, 1986; Levacic, 1987; UNIDO, 1970), have provided deep insights into the limitations of free markets. First, is that even if the free market were to work perfectly, it may not be ideal as it ignores issues of income distribution as it concentrates on efficient flow of resources towards goods and services that consumers with means and ability to earn incomes will pay for. And in the context of globalization, UNDP (1999) has correctly noted that when the market goes too far in dominating social and political outcomes, the opportunities and rewards (of globalization) spread unequally and inequitably – concentrating power and wealth in a select group of people, nations and corporations, marginalizing the others.

Secondly, the free market system has often come under the hammer for its inequitable distribution of income and so may not be ideal for a developing country, or even a developed country, because the market system may foster efficiency but not equity. Thirdly, firms and consumers make their decisions on the basis of private benefits and costs and so they tend to ignore social costs and benefits. And as Loxley (1986) has observed, "market prices are suspect as guides to efficient resource allocation or optimal investment in a context in which social costs and benefits deviate from private ones, which is likely to be the case when far-reaching changes are taking place in the economy". Fourthly, the arguments for free markets ignore pertinent issues of monopolization and monopoly power as well as inadequate information. In most African markets, monopoly and oligopoly powers influence prices of products/factors of production and keep them out of line with production costs and long-run equilibrium. Under such circumstances, prices convey to consumers incorrect information about firms' production costs. Thus, as Obadan (2003c; 1997) has stressed the holders of monopoly power act to promote their own interests at the expense of the interest of the society as a whole. And the inefficiency or absence of well-organised commodity, factor and capital markets have tended to reduce considerably, the ability of the developing countries' economic systems to function effectively without external interference (Todaro, 1977).

Stiglitz (1996) confirms the issue of widespread absence of markets in developing countries and the implication that prices cannot perform their coordination role. Thus, governments may have to assume a more active role in performing this function. The World Bank itself has acknowledged that financial markets and institutions, essential for mobilizing resources for development, are weak and underdeveloped in many developing countries (World Bank, 1995). In a similar vein, Shafaeddin (1994) has observed that "markets are either non-

existent, fragmented or imperfect and consequently have to be created or corrected. Both capital and labour markets fail to channel resources easily from one sector or industry to another; and producers have imperfect foresight; externalities exist in technology, learning and trade infrastructure and support services. Hence some government intervention is required to build up infant industrial capacity, whether or not for export, and to create markets or correct market failure". Similarly, as UNIDO (1970) has affirmed, "Governments cannot, and should not, take a merely passive role in the process of industrial expansion… for market forces, by themselves, cannot overcome the deep-seated structural rigidities in the economies of developing countries". Finally, even under ideal conditions, markets only allow efficient allocation of resources in some circumstances. In a number of cases, market failure occurs, market systems of resource allocation are inefficient or unavailable, and non-market methods of allocating resources tend to be more efficient.

2.3 African Markets and "Getting the Prices Right"

African markets, like those of most other developing countries, do not provide a forum for the unfettered operation of market forces. In such markets, commodity and factor markets are not only rudimentary, fragmented and narrow, but also poorly organised. The existence of "distorted prices" means that producers and consumers lack the necessary information to act in a way conducive to efficient production and distribution. And while buyers are not able to get what they want at the best possible prices, sellers get rewards for inefficient production (Obadan, 1997, 2003c). The incidence of market imperfections and market failure is still a prevalent phenomenon in African markets with the attendant distortions. These are reflected in collusive behaviour, lack of market information and associated uncertainties confronting producers and consumers; absence of perfect competition and presence of monopolistic practices; and the existence of substantial externalities. In Nigerian product markets, for example, the activities of myriads of exploitative middlemen and market associations in different products and trades prevent prices from having any relationship with production costs (Obadan, 1997). Prices, particularly of goods with inelastic demand, can be recklessly jacked up many times within a few days; these price hikes are initiated by producers, wholesalers and retailers. Because of numerous market imperfections, most prices in African markets are not only sticky downwards, they do not

reflect production costs; rather, exploitation of consumers is rampant (Obadan, 1997:11). However, I concede that the market imperfections do not completely erode the desirability of the interplay of market forces; rather their presence limits the extent of reliance on them and strengthens the case for some measure of government intervention. Therefore, in African countries where markets do not always work well, "getting the prices right" should not necessarily mean letting these prices to be determined by market forces. What is important is that where the government intervenes in markets, the key prices such as exchange rates, interest rates, and the prices of goods and services should be the correct ones in terms of reflecting opportunity cost. And regarding officially determined prices, "getting the prices right" does not necessarily mean the complete elimination of subsidies. All countries subsidise some goods and services to encourage their consumption (and tax some others which are considered luxuries) in the domestic or foreign markets. The European Union, for example, subsidizes agriculture to the tune of US$1.0 billion a day.

2.4 Implications of the Imperfect Market System.

Considering the limitations of the free market system already outlined, coupled with the characteristics of African markets, it becomes obvious that the market system lacks the effectiveness to achieve the objectives of development in an underdeveloped economy. Where the market system is unable to produce and transmit sufficient information, as in our type of economies, and hence market participants are unable to undertake all the usually advantageous exchanges that would be entered into if buyers and sellers possessed the requisite information, the market does not produce a socially efficient allocation of resources (Levacic, 1987). Besides, unlike Adam Smith's belief that in a capitalist system, people acting to further their own self-interest will promote economic efficiency and the interests of the society as a whole, the holders of monopoly power act to promote their own interests at the expense of the society. The various inadequacies of the market in reality provide a basis for government intervention in free market economies. The invisible hand of the market must receive assistance from the visible hand of the government. The case for this has been copiously made in Obadan (1998c; 2003c).

In the context of a mixed economy, the argument is not that government should replace the market, but rather that it should complement the market. The governments of the East Asian miracle economies recognized the limitations of markets and complemented and promoted them

through various interventions.[4] The channels through which the governments of the High Performing Asian Economies (HPAEs) intervened in their economies have been documented in, for example, (Obadan, 2004b); (Stiglitz, 1996); (The World Bank, 1993); (James, Naya and Meier, 1987). They are listed in box 2.1 and include subsides, low bank lending rates, protection of import substitutes, export marketing, creating markets, etc.

Box 2.1: Instruments of Government Intervention in East Asian Economies

- Targeted and subsidized credit to selected industries
- Low deposit rates and ceilings on borrowing rates to increase profits and retained earnings;
- Protection of import substitutes;
- Subsidies to declining industries that would not otherwise have thrived;
- Establishment and financial support of government banks;
- Public investment in applied research;
- Firm and industry specific targets;
- Development of export marketing institutions;
- Wide sharing of information between public and private sectors;
- Policies that actively sought to ensure macroeconomic stability;
- Making markets work more effectively by, for example, regulating financial markets;
- Creating markets where they did not exist;
- Helping to direct investment to ensure that resources were deployed in ways that would enhance economic growth and stability; etc.

Obviously, the free market dictum of minimal or no government intervention that is being preached today is violated by most of the above strategies of selective promotion. But they are the strategies that were closely associated with high rates of accumulation, wealth creation and poverty reduction, generally efficient allocation and, in the fast growing economies of East Asia,

[4] The East Asian Economies that have been described as miracle economies because of their miraculous growths in the 1980s and 1990s are 8: Japan; the "Four Tigers," viz: Hong Kong, Republic of Korea, Singapore and Taiwan (China); and the three newly industrializing economies (NIEs) of South East Asia, namely: Indonesia, Malaysia and Thailand. These countries have also been described as the Highly-performing Asian Economies (HPAEs). In a way, China's remarkably high growth rates are not different from those of the HPAEs. Some of its policies resemble those of the HPAEs but its ownership structure and methods of corporate governance tended to differ (World Bank, 1993).

high productivity and growth (World Bank, 1993). Indeed, James, Naya and Meier (1987) correctly observe that:

> "the role of governments in the rapid industrial growth of the newly industrializing countries (NICs), with the possible exception of Hong Kong, seems to have been much greater than that allowed by neoclassical economics. … One criticism of neoclassical economics is that it plays make-believe in explaining the success of the Asian NICs by extolling their reliance on the market while neglecting the visible hand of the state industrial policies and active export promotion".

Singh (1995) similarly concludes that "between them Japan, the Republic of Korea and Taiwan Province of China did all the things that a market-friendly approach to development is not supposed to do. Above all, the three countries followed an industrial strategy – a set of policies to deliberately change market prices and production priorities – which is explicitly ruled out by this (market) approach". The lesson is that the poor countries must embrace the market strategy with caution and intervene to promote orderly, as opposed to chaotic, development that is in line with their vision (Obadan, 2004b).

In the case of Nigeria, the desired intervention by the government, geared towards strengthening rather than supplementing the market system in the quest for accelerated development, must include proper planning of economic development. It was welcome news last October when the Federal Government announced at the Annual Conference of the Nigerian Economic Society (NES) in Abuja that the country was to return to formal development planning.[5] This is against the background of the fact that for eight years in office, the Obasanjo government jettisoned planning in favour of unbridled market system which tended to compound the nation's structural problems. That government was apparently misled by the growing skepticism about the relevance of institutionalized economic planning under conditions of economic liberalisation and private sector-led development following the resurgence of neoliberalism and market fundamentalism actively canvassed by the Bretton Woods Institutions. But in my book, National Development Planning and Budgeting in Nigeria, Obadan (2003c) and another paper(Obadan, 2001c), I had argued forcefully that in the real world market economy, economic planning, requiring an orderly and systematic management of the economy, is not inconsistent with the free market orientation of the economy. Planning is required to redress

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[5] The Nigerian Economic society has actually endorsed the proposed return to development planning. Some economists, e.g., Diejomaoh (2008) and Aregbeyen (2008), among others, have also spoken in favour of planning.

market failures, attack endemic poverty, address structural imbalances and weaknesses and achieve other objectives such as economic restructuring, industrialization, high level of employment and macroeconomic stability. Under economic liberalisation conditions, planning is relevant as development cannot be left in the hands of market forces alone. Planning may then take the form of indicative planning in the context of long-term planning or sectoral planning, for example, of the energy sector. Even John Williamson, the economist, who coined the term "Washington Consensus" (the package of neoliberal economic policies) in 1989, had to concede ten years later that neo-liberalism cannot provide an effective agenda for reducing poverty.[6] He stated, inter alia (Williamson, 2000):

> "the popular, or populist interpretation of the Washington Consensus, meaning market fundamentalism or neo-liberalism, refers to laissez faire Reganomics – let's bash the state, the markets will resolve everything. I would not subscribe to the view that such views offer an effective agenda for reducing poverty. We know that poverty reduction demands efforts to build the human capital of the poor, but the populist interpretation fails to address that issue".

Ajakaiye (2001) correctly highlights three principal aspects of planning in a mixed economy which can successfully move the economy from a current undesirable state towards a more desirable state on a sustainable basis.

(i) Deliberate utilisation of public sector resources to execute social overhead capital projects in areas necessary to create enabling environment for all economic agents to operate optimally. Government investments in economic infrastructure are intended to maximize output, employment and income while investments in the provision of social infrastructure are intended to create enabling environment for the households to maximize their utility and improve the quality of labour services, and hence their earnings from labour services supplied to the private and public sectors of the economy.

(ii) Participation in directly productive activities at least to get things started while taking steps to actively seek private sector participation and eventual takeover of such activities

[6] The term "Washington Consensus" was used by John Williamson in 1989 to describe a set of market-oriented reforms that he thought the economies of Latin America needed at the time. It was a 10-point policy reforms package which Williamson thought everyone in Washington agreed with, hence the term "Washington Consensus". But the policy package soon became a model for the wider developing world. It emphasized fiscal discipline, market economy, openness and trade liberalisation, deregulation and privatisation, tax reform and reordering public expenditure priorities, property rights, among others (see IMF, "Redrafting the Reform Agenda", **Finance and Development,** 4013), September, 2003.

at the earliest possible opportunity. In other words, government investments in directly productive activities are aimed at shifting the frontiers of development opportunities by getting things started in such areas while taking steps to encourage private sector to take over later (Also see Obadan, 1998b and 2003c)

(iii) Designing appropriate policy packages to facilitate, stimulate, and direct private economic activities in order to promote a harmonious relationship between the desires of private businessmen and households and the economic plans of the government. In recognition of the fact that the unfettered operation of the market mechanism can cause highly unstable situation, reflected in severe fluctuations in income and employment, over the course of business cycles, government makes conscious efforts to create conditions that will prevent economic instability while at the same time stimulating growth.

2.5 Government's Inevitable Role

Thus, as Obadan (2003c, 2001c, 1998b) has stressed, the government has a duty to intervene in economic activities, failing which the "market" may lead to a misallocation of present and future resources, or to other consequences that may not be in the long run interest of society (Todaro, 1977). Very importantly, government cannot, and should not, assume a mere passive role in the process of development, for market forces, by themselves, cannot overcome the deep seated structural rigidities in the economies of developing countries. And today, against the background of a mixed economy, the strategy of development should be midway between laissez-faire capitalism and socialism. In order to avoid problems, it is desirable to have the right balance by not moving too far on either side. This implies recognizing the appropriate roles of the market and the government against the background of reality.

In Obadan (1998b) is a summary of indispensable areas of government intervention, even in a deregulated economy. They relate to:

i. planning and organising development in a disciplined and coherent manner;
ii. tackling head-on issues of economic growth and development as well as income distribution;

iii. providing certain critical public services without which community life would be meaningless, if not impossible, and which, by their nature cannot be left to private enterprises: e.g. some basic socio-economic infrastructure and services which include national defence, maintenance of law and order, and the administration of justice, which are also necessary to support private sector investment;

iv. providing policy intervention to achieve macroeconomic stability and allow for steady economic growth. Indeed, unfettered operation of the market mechanism can engender highly unstable situation reflected in severe fluctuations in income and employment over the course of business cycles;

v. avoiding the experience of unguarded application of the market mechanism which only succeeds in creating far-reaching distortions, exacerbating the problems of income distribution and heightening social tension without achieving any growth and development;

vi. making markets work through appropriate rules and regulations, and undertaking corrective interventions where there are market failures;

vii. providing the institutions and supportive framework to create and enforce the rules, establish law and order, and ensure property rights;

viii. providing investment in the social sector, particularly education, health, human resources, social welfare and essential services which are targeted towards the poor and vulnerable;

ix. putting in place an efficient machinery to mobilize resources for development, particularly tax revenue;

x. investing in crucial directly productive activities that the private sector is usually unwilling to go into at the initial stage. Such activities could later be privatized on economic basis;

xi. keeping markets competitive and warning consumers about commodities that may be hazardous to their health;

xii. establishing a stable monetary system, standards of weights and measures, and setting and enforcing a body of commercial laws to provide confidence in contracts which govern relationships among private buyers and sellers;

xiii. implementing gigantic exploration programmes of the unknown (if this is a major goal), and employing research and development activities to boost output of the various sectors of the economy;

xiv. producing goods and services which by their nature must be provided by only one seller, e.g. output of natural monopolies and/or desirable goods and services that the private sector is reluctant to produce because of low profit prospects.

The above, among other reasons, make government intervention very compelling. But such intervention would, however, need to be properly implemented to forestall government failures and ensure the desired results.

2.6 The International Environment/Markets

Over the years, the developing economies, which for a long time, depended heavily on primary commodities for their economic growth prospects, have operated within a hostile international environment. In the course of their engagement with the globalization process, developing countries are greatly exposed to external shocks. Such shocks include fluctuations in commodity prices, terms of trade, volume of trade, external finance, interest rates, and increased protectionism. These shocks are known to be highly correlated with the gross domestic product and account for a significant share of the volatility in developing countries. From my analysis(Obadan, 1996a and 1996b) and (Obadan and Obioma, 1999), is the submission that the volatility of developing economies to global economic disturbances not only retards their development efforts but also limits the countries' abilities to take independent decisions or adopt the most desirable development strategies. Consequently, developing countries have become increasingly concerned about numerous trade and financial issues which cause distortions in the global market. One of these is the protectionist practices of the industrialized countries. From the teachings of neoclassical economics, the blessings of free trade and international specialization are well known: maximization of world output of goods and services, and consumption, and hence welfare. Thus, neoclassical economists contend that perceived barriers to the faster evolution of international flows of goods, services and capital be reduced/eliminated within the international context as well as the nation-state level (UN, Economic and Social Council, 2000). And the GATT and its successor, WTO, have been at the centre of free international trade

promotion and globalization. They are the institutions used by the developed countries to forcefully advocate for free trade.

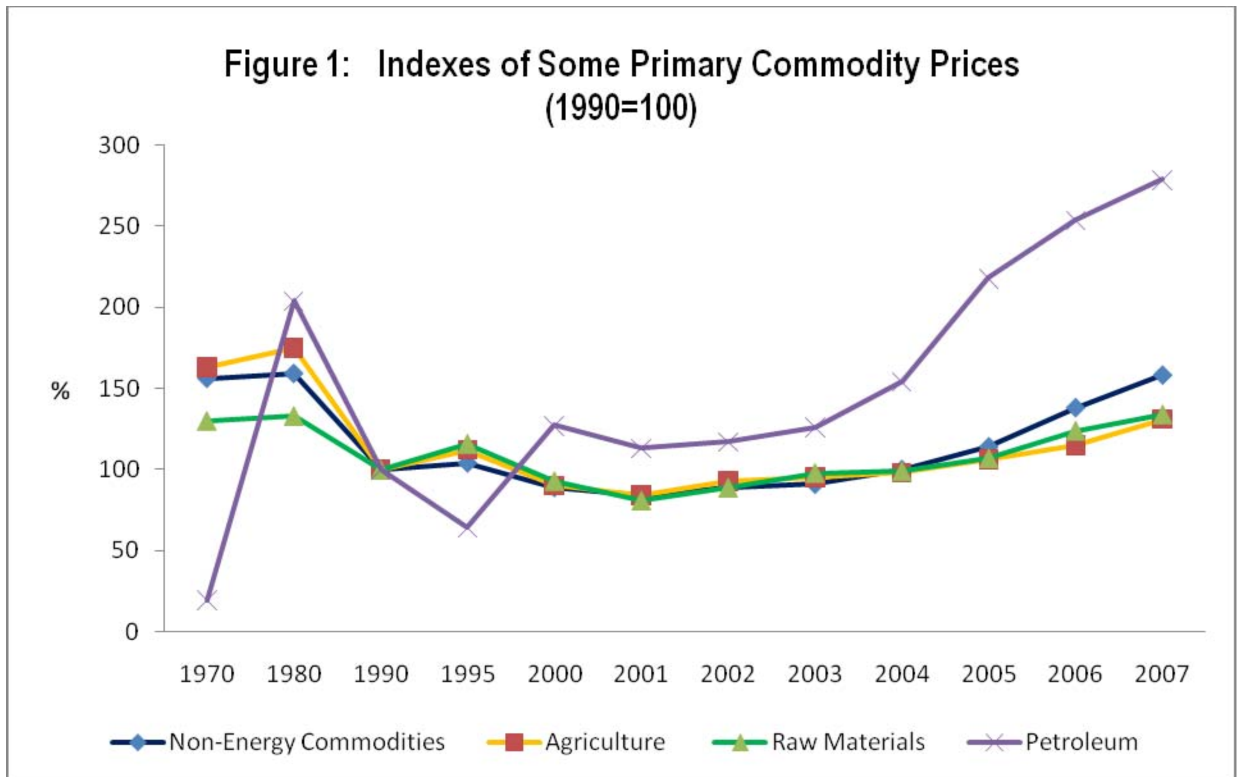
But overtime, there has been some ambivalence on the part of the leading industrial countries in their practice of free trade. Indeed, many developing countries take the demand to open their markets as a clear manifestation of Northern double standards, since the latter have consistently failed to open their own economies (UN, Ibid). And as Obadan (2007d) has observed, when it suited their interests, the developed nations have advocated and espoused free trade with a lot of vehemence. At other times, they practiced protectionism using instruments such as tariffs, import quotas, export subsidies, discriminatory tariff treatment and a host of non-tariff barriers. The nature, scope and intensity of the protectionist practices are well documented, for example, in Anjara, et al (1985), Stern (2002) and UNDP (1999).

Anjara, et al, for example, had observed that despite the continued tariff cuts and limited instances of liberalisation of non-tariff barriers, most industrial countries became more protective than before. According to them, trade restrictions or trade distorting measures were not only intensified or imposed on traditionally protected sectors such as steel, textiles and clothing, and agriculture, but were also extended to such sectors as electronics and automobiles. And Stern (2002) has pointed to the hypocritical nature of the rich countries in encouraging poor countries to liberalize trade and to tackle the associated problems of adjustment while at the same time succumbing to power groups in their own countries that seek to perpetuate protection for their narrow self-interest. According to him, even after the Uruguay Round of trade liberalisation, "OECD countries still maintain significant barriers to trade from developing countries. Average tariffs in the United States, Canada and the European Union, and Japan range from only 4.3% in Japan to 8.3% in Canada, but their tariffs and trade barriers are much higher on products exported by the developing countries, particularly major agricultural staple food products; textiles, clothing and footwear" and other products in which the developing countries have a comparative advantage.

Thus, as the developing countries strive to open their economies and expand exports, they find themselves confronting significant trade barriers – leaving them in effect with neither aid nor trade (Stiglitz, 1999). And as Obadan (1999b) had summed up, even where the developing countries did not suffer from shocks relating to terms of trade, commodity price declines or reduced demand for primary product exports, the protectionist measures of the industrialized

countries have constrained the accessibility of the countries' exports to their domestic markets. Besides tariffs, subsidies to domestic farmers in high-income economies have created formidable barriers for developing countries trying to reach global markets for agricultural products. Koeler (2001), former Managing Director of the IMF, deplored the situation whereby OECD countries spend US$360 billion a year on agricultural subsidies while poverty rages in developing countries, especially in farming and rural regions. He considered the phenomenon political and economic madness.

Developing countries' problems in the global market do not derive just from protectionism but also from fluctuating commodity prices and declining terms of trade. Many developing countries still depend heavily on primary commodities for the bulk of their export receipts. But there has been the problem of weak market for primary commodities, reflected in secular declines in the prices of non-oil commodity exports, in particular, in the world market coupled with excess supplies of the commodities. Energy prices were also volatile. For example, crude oil prices rose by 74 per cent from early 1994 through the end of 1996, then fell by 56 per cent by the end of 1998. It, however, recovered nearly the entire decline of the previous two years in 1999. Since then, prices have maintained an upward trend, hitting over US$135.0 per barrel in May, 2008. On the other hand, average non-oil commodity prices rose by 46 per cent in mid 1993 to mid 1997, and then dropped by 30 per cent by late 1999. Table 2.1 and Fig. 1 show the longer-term trends of various commodity prices from 1970 to 2006. The prices of non-energy commodities declined persistently from 1980 to 2001; agricultural commodities from 1980 to 2000; and petroleum from 1980 to 1995.



Perhaps, in light of this phenomenon, the UNDP Global Human Development Report, 1999, observed that many developing countries were benefiting little from expanding global markets and were becoming even more marginal inspite of their relatively high trade openness and further that they hang on the global markets with the prices of primary commodities having fallen to their lowest level in a century and a half. Generally, the prices of commodities have been more volatile than the prices of manufactures, and both prices of oil and non-oil commodities (as at 1999) had fallen relative to the prices of manufactures (Obadan and Obioma, 1999). The implications of fluctuations in commodity prices are often far-reaching, and include inducement of short – to medium-term changes in poverty, especially during busts.

Available statistics of terms of trade trends for African countries show that from 1980 – 98, except in very negligible cases, the terms of trade indexes and the average annual growths substantially declined. The continuing decline in the terms of trade for developing countries' commodity exports vis-à-vis their imports of manufactures has become more acute in recent years. It has been responsible for the transfer of huge volumes of real resources from commodity exporting developing countries through the mechanism of income losses arising from terms of trade changes. Khor (2000) provides some data on this.

What is clear from the experiences of the developing countries that depend on volatile commodity exports is that such dependence impose significant costs on their economies. They have continued to be marginalized in the globalization process, as the global markets provide an unlevel playing field. The potential for massive changes in relative prices, real incomes and the level of economic activity can increase uncertainty and have a negative impact on performance and poverty. A very important challenge thus derives from the effects of commodity booms and busts, the effective management of which requires appropriate policies. Furthermore, diversification of economic structures in favour of less reliance on commodity exports is a tested avenue for ensuring stability.

Table 2.1: Primary Commodity Prices (1990 = 100)

	1970	1980	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007
World Bank Commodity Price Index (1990 = 100)												
Non-energy Commodities	156	159	100	104	89	84	89	91	100	114	138	158
Agriculture	163	175	100	112	90	84	93	95	98	106	115	131
Beverages	203	230	100	129	91	76	91	87	88	109	11	125
Food	166	177	100	100	87	91	97	96	103	103	109	131
Raw materials	130	133	100	116	93	81	89	98	99	107	124	134
Fertilizers	108	164	100	88	109	105	108	106	118	126	130	204
Metals and minerals	144	120	100	87	85	80	78	82	105	133	195	220
Petroleum	19	204	100	64	127	113	117	126	154	218	254	279
Steel products	111	100	100	91	79	71	73	79	114	129	122	121
MUV G-S Index	28	79	100	117	97	94	93	100	107	107	110	111

Source: Global Development Indicators, 2007, 2008.

3. GLOBALIZATION AND TRADE LIBERALISATION.

Trade liberalisation is the major instrument geared towards the goal of global economic integration. It has been at the heart of WTO negotiations and agreements, and entails the removal of import quotas and other quantitative restrictions, abolition or reduction of the level and dispersion of import tariff rates, removal of export taxes, removal of protection for local industries and export subsidies, elimination of non-tariff barriers, and devaluation of the local currency (Obadan and Obioma, 1999; Shaffaedin, 1994; NACCIMA, 2002).

There has been an extensive debate on the economic rationale for trade liberalisation (UNCTAD, 1993 and 1997). The rationale is commonly based on the view that liberalisation would lead to more efficient use and allocation of resources through, inter alia, the exposure of the domestic economy to world market disciplines and better access to state-of-the-art technologies (Obadan, 2005c). And to Ajayi (2001) "the appeal of a more open economy is based on simple but powerful premise: economic integration will improve economic performance. Additionally, globalization will offer new opportunities such as expanded markets and the acquisition of new technology and ideas – all of which can yield not only increased production but also higher standards of living. However, Khor (2001) has observed that "the conventional view that trade liberalisation is necessary and has automatic and generally positive effects for development is being challenged empirically and analytically. Rodrik and Rodriguez (1999) have done exactly this and expressed skepticism on the studies that have found a positive relationship between trade liberalisation and economic growth, on methodological grounds. The implication of both studies is the need to formulate appropriate approaches towards trade policy in developing countries.

3.1 The Experience of the Developing Countries

The above observation notwithstanding, the developing countries have since the mid-1980s, undertaken widespread and rapid (rather 'big-bang') trade liberalisation, essentially not in the context of multilateral trade negotiations, but rather in response to the conditionalities attached to the stabilization and structural adjustment programmes that they were cajoled (is it coerced?) to implement by the Bretton Woods Institutions. The promise of economic success through adjustment, together with the marginalization of the least developed countries in the context of global private capital flows and their dependence on debt relief and aid, explains why the Least Development Countries (LDCs) have gone further than other developing countries in

trade liberalization. Indeed, as UNCTAD Report (2004:179) has shown, using the IMF's index of trade restrictiveness, the least developed countries sub-group (which has over 30 African countries) have undertaken greater trade liberalisation than other developing countries; much deeper trade liberalization than the large industrializing Asian and Latin American economies. The UNCTAD report went further to indicate that the average index for LDCs as a group was 4, which the IMF regards as "open", and it is exactly the same average for the European Union, Japan and the United States. And among the LDCs, there is deeper trade liberalisation in the African LDCs than in the Asian LDCs, and also in commodity-exporting LDCs than in the manufactures and/or services exporting LDCs. A few countries in East Asia followed a selective and gradual approach to trade liberalisation, tailoring the process of integration to the level of economic development and the capacity of existing institutions and industries. Thus, although Asian LDCs and those exporting manufactures and services have undertaken trade liberalisation, the African LDCs and commodity exporters have undertaken deeper trade liberalisation. And using the Sachs-Warner index of openness, all the LDCs are now 'open'.

But what has been the experience of the developing countries and African countries in particular? Some empirical evidence, though challenged on both theoretical and empirical grounds, has been produced to show that countries with more open trade regimes grew faster than those that were more inward-oriented (see, for example, Dollar and Kraay, 2001a and 2001c). But the experience of many developing countries with successful export performance shows that a high degree of import liberalisation is neither necessary nor sufficient for export expansion (UNCTAD, 1989). The immediate effect of import liberalisation has been to widen balance of payments deficits, often accompanied by a change in the composition of imports in favour of consumer goods, particularly luxuries. One major problem faced by the developing countries in the liberalisation process is that they may be able to control how fast to liberalize their imports and hence increase the goods imported, but cannot determine by themselves how fast their exports grow (Khor, 2000). This is because many important factors, besides liberalisation, determine export performance. They include the price of the existing exported products, market access and infrastructure, and human and enterprise capacity required for new exports. Developing countries have a major problem accessing the markets of the developed countries. As was noted before, many tariff and non-tariff barriers in the developed countries have continued to hinder exports from the developing countries.

The liberalisation process in many developing countries occurred without any prior preparations to ensure that domestic industries were ready to face exposure to international competition. A sudden roll back of trade protection, together with devaluations, demand restraint and removal of subsidies, and hikes in interest rates tended to lower capacity utilisation in industry and gradually erode the industrial base. Thus, many poor countries have found that trade liberalisation has produced negative results for their economies or has marginalized them. While the import propensity of most developing countries increased sharply as a result of liberalisation, exports failed to keep pace. Indeed, a study on the effect of trade liberalisation on the economic growth and exports in the least developed countries by Shafaeddin, (1994) found "no clear and systematic association since the early 1980s between trade liberalisation and devaluation, on the one hand, and the growth and diversification of exports of LDCs on the other. In fact, trade liberalisation has been accompanied by de-industrialization in many LDCs and where export expanded it was not always accompanied by the expansion of export capacity". In similar veins, Stein (1992); Mkandawire (1998 and 2005); Nwaba (1999); Adenikinju and Chete (1996); and UNCTAD (2004) have also stressed the phenomenon of de-industrialization occasioned by SAP policies in Africa.

Even John Williamson (2003), of the "Washington Consensus" fame concedes that in some cases one can criticize the way liberalisation reforms were implemented. For example, trade liberalisation focused exclusively on import liberalisation, without sufficient attention to improving export market access and establishing a competitive exchange rate to ensure that the resources freed up in the import-competing sectors would flow into the export sector. Also, financial liberalisation often occurred without the appropriate complement of prudential supervision that a liberalized financial system demands. Besides, privatized enterprises too often did not sell into a competitive market, nor were they properly regulated. Thus, trade liberalisation failed in many developing countries and Shaffaedin (1994) profers reasons for such failure considering that it was undertaken under external pressure. They relate to how reforms were perceived, their context and timing and the particular circumstances of individual countries. In almost all cases, trade policy reform influenced by the orthodox approach has been regarded as synonymous with 'uniform' import liberalisation, applicable 'universally' to all developing countries; the level of development, industrial base and special structural characteristics of individual countries were disregarded. Moreover, such an approach to liberalisation is based on a

general theoretical abstraction, i.e, the theory of static comparative advantage. This theory in turn involves unrealistic assumptions such as perfect functioning of markets in all countries, no externalities and no other causes of market failure, and constant returns to scale.

In the light of the foregoing, one important observation made by the UNCTAD (1999) (See Trade and Development Report, 1999), and which I share, is pertinent. If trade liberalisation is carried out in an inappropriate manner in countries that are not ready or able to cope or which face conditions that are unfavourable, it can contribute to a vicious cycle of trade and balance of payments deficits, financial instability, debt and recession. Therefore, from my perspective, developing countries need to participate in the world economy on their own terms, not the terms "dictated" by global markets and multilateral institutions. Furthermore, as trade liberalisation can (and often does) make imports to increase without a corresponding increase in exports, it should not be pursued automatically and rapidly as an end in itself, or in a "big bang" manner. Rather, important factors must be taken cognizance of, among which are timing, quality, sequencing and scope of liberalisation (especially of imports). In addition, other conditions for success must be in place, e.g., strengthening of local industries and enterprise, human resource and technological development, infrastructure development, export capacity and markets. And so, the pace of liberalisation has to be predicated on these pre-conditions in order to avoid negative results.

3.2 Nigeria's Experience with Trade Liberalisation

Trade liberalisation was one of the hallmarks of the structural adjustment programme (SAP) in Nigeria, and it entailed import liberalisation, market determination of exchange rates, free marketing of export commodities, etc. The implementation of the policy acquired greater significance in the 1990s with the conclusion of the Uruguay Round (UR) of Multilateral Negotiations and the emergence of the World Trade Organisation (WTO). In Nigeria, the data provided by the Central Bank of Nigeria shows that major current and capital account transactions in the economy have been substantially liberalized (Table 3.1) although minor administrative restrictions may be noticed in a few transactions.

Table 3.1: Nigeria's Status on Current and Capital Account Liberalisation

		STATUS	REMARKS
	CURRENT ACCOUNT TRANSACTIONS		
1	Goods (Trade) Account	Partially Liberalized	Liberalized except for few items on the negative list
2	**Services**	Liberalized	Documentation removed, effective 2006.
3	**Income**	Liberalized	Documentation removed, effective 2006.
4	**Current transfers**	Liberalized	Documentation removed effective 2006. foreigners granted 100% remittance of earned income.
	CAPITAL AND FINANCIAL ACCOUNT TRANSACTIONS		
5	**Capital transfers**	Liberalized	
6	**Direct investment**	Liberalized	Investors guaranteed unfettered access to funds.
7	**Potfolio investment**	Partially liberalized	Investment in money market securities must be for a maturity period of at least one year. Investors guaranteed unfettered access to funds
8	**Other investment**	Liberalized	Non-residents free to extend loan, but without government guarantee

Source: Central Bank of Nigeria. Annual Report and Statement of Accounts, for the year ended 31st December, 2006.

The Table shows that the current account is near full liberalisation. It is only the goods (trade) account that is partially liberalized because of a few items on the negative list. In the capital account all the items are liberalized except portfolio investment which is partially liberalized. In Nigeria, as Obadan (2000) and Obadan, Jerome and Agba (2001) have observed, the apparently wholesale adoption of the liberalisation policies and WTO rules at the present stage of the country's development has tended to pose a serious threat to the industrialization process in the country. According to the Manufacturers' Association of Nigeria (MAN) (n.d):

> The full-throttle liberalisation of trade has given rise to massive inflows of all manner of finished products from industrialized countries of the West and Asia, including second-hand and used products (textile, footwear, automobiles and motor cycles, fridges and air-conditioners); substandard and fake products (e.g. pharmaceuticals, cosmetics and toiletries, electrical materials, and foods). The situation is not helped by rampant dumping, smuggling and under-invoicing through which the various products are brought into the country and necessary

duties are evaded. Some of the other goods (apparently) dumped into the Nigerian market include electrical appliances, candles, matches, R20 batteries, drinks and electronics.

This free inflow of imports has tended to hinder the growth of local industries in no small measure. Essentially, the trade liberalisation policy has been characterized by a number of glaring weaknesses, as analyzed in Obadan (2000, 2001e). One of these is the neglect of the need to enhance productivity and another is the overemphasis on currency devaluation without taking due cognizance of the adverse effects on production and productivity. Furthermore, the "uniformity" of trade liberalisation has worked against exports of manufactures while its "universality" adversely affected export earnings from primary commodities. Manufactured exports were handicapped as existing and potential export industries were deprived of scarce imported inputs while imports of other goods, including all kinds of luxury items, tended to flourish. Also, the impact of devaluation on production costs in manufacturing has been very high because of its high import intensity. Thus, the orthodox features of trade liberalisation have neglected the importance of long-run development of supply capacity and the limitation of market forces in building up such capacity (Shafaedin, 1994:2).

Box 3.1: Trade Liberalization and De-Industrialization in Nigeria

The liberalisation policy has had a devastating effect on local production and employment, and discouraged further investment in Nigeria. Indeed, trade liberalisation has been accompanied by deindustrialization in Nigeria like in many other developing countries. Both the MAN and the Nigerian Labour Congress (NLC) have drawn attention to a number of industries and firms that have gone under as a result of unfettered trade liberalisation. In the Guardian Newspaper of April, 27, 2008, the Group Managing Director of Chanrai Group spoke of how the importation of finished textile products led to the closure of his textile company, Afprint, which started operations in 1966 in Nigeria. Over 3,000 workers were thrown into the labour market.

Source: Obadan, 2008.

As I have argued in the past (Obadan, 2000), one fact that policy makers have failed to recognize is that most developing countries (Nigeria included) are not currently adequately

equipped to participate profitably in the international competition of the global economy. The high level of international competitiveness demanded is hampered by numerous capacity constraints at the policy, institutional and enterprises levels. In Nigeria's case, a conducive and enabling environment had been lacking while the infrastructure support constraint is very binding. In many cases, enterprises have had to provide their own electricity and telecommunications facilities, sink their boreholes, and even construct/maintain their roads (a phenomenon the private sector euphemistically refers to as b.y.o.i (build your own infrastructure), all at prohibitive costs and with adverse implications for competitiveness. It is thus hardly surprising in Nigeria's case that, in light of the country's import-dependent production structure, unfettered trade liberalisation has tended to ruin domestic industries and destroy supply capacity as a result of prohibitive imported input costs, while imported finished goods continue to flourish at the expense of local substitutes.

Therefore, as I have argued in the past, trade liberalisation has to be done sensibly and in an orderly manner in the context of guided liberalisation. To this end, it is important for the country to take maximum advantage of any provisions for autonomy and flexibility within the WTO rules (Obadan, Jerome and Agba, 2001: 182). Also, Nigeria should be able to decide on the rate and scope of liberalisation and combine this appropriately with the strategic protection of local industries and enterprises.

Box 4.1: Opportunities and Challenges of Globalization

With the increasing breakdown of trading barriers under globalization and the increasing integration of the world market, industrial firms, particularly in the advanced industrial countries are faced with both the opportunities and challenges of operating in a truly global market. The opportunities are no doubt many: global markets; exposure to new ideas, technology and products; economies of scale in production; gains in efficiency in the utilisation of productive resources; greater specialization between nations; better quality products and wide option for consumers; increased competitiveness and increased output; and ability to tap cheaper sources of finance internationally. These opportunities notwithstanding, globalization has tended to wear two faces. Some view it as a beneficial process, an unmixed blessing, with potential to boost productivity and living standards everywhere. On the other hand, others believe that it increases inequality within and between countries, threatens employment and living standards, and thwarts social progress. The World Development Indicators, (2007) seems to confirm this dual perception when it acknowledged that:

> "Globalization has created opportunities and challenges for developing countries. While the experiences of China, India, Indonesia, Thailand, and some other countries have demonstrated that integration into the global economy is necessary for long-term growth and poverty reduction, concerns have been expressed over equality of opportunity and the unequal distribution of benefits. Many poor countries and poor people in many countries have not been able to take full advantage of the opportunities brought by globalization or to participate in its benefits".

This situation is so, perhaps, because as Obadan (2004c) has argued, most developing countries, especially the poorer ones, have very weak capacities to take advantage of a global market. In the case of Africa, Fischer (1999) points to the argument that the continent did not have the capacity to enter the global village as it is still grappling to set up basic necessities such as good roads, railways and transport.

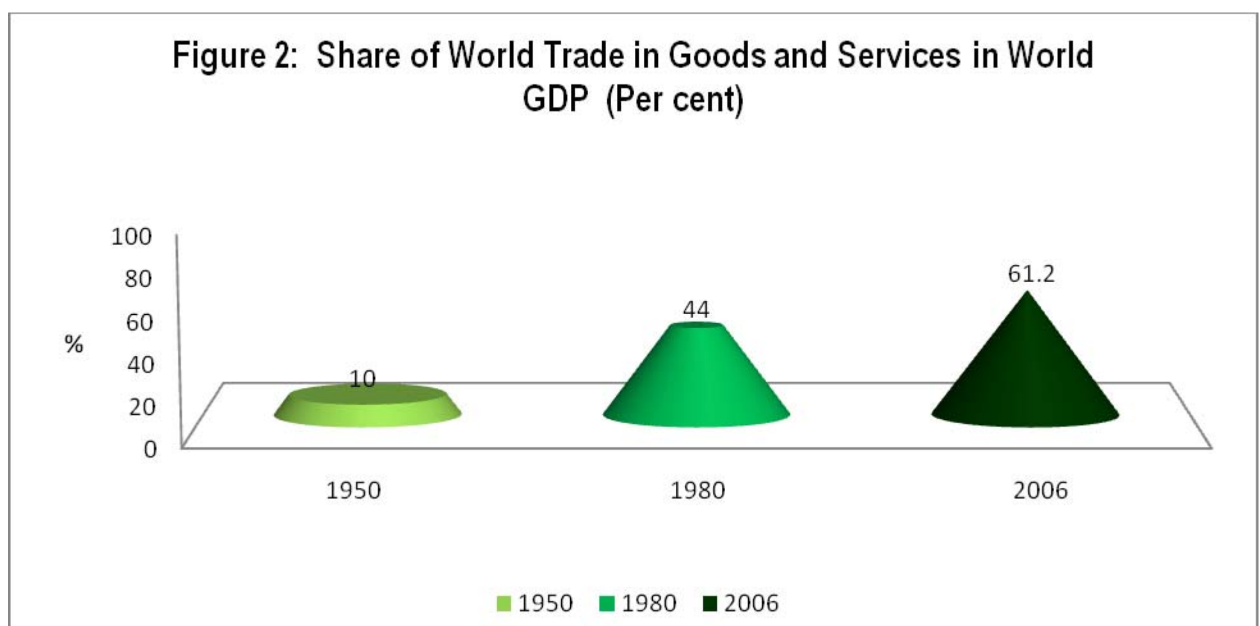
Removing the obstacles to full participation by poor countries and poor people is essential to making globalization inclusive. However, as Obadan (2004a) has stressed, African countries need to embrace globalization in the full awareness of not only the opportunities but also the risks. These risks include those of financial crises, difficulties of monetary policy management as a result of capital account liberalisation and global capital flows, inequalities in world trade, increasing poverty for many people and increasing polarization between the rich and the poor – both within and between countries.

Source: Obadan (2003a, 2003b, 2004c)**.**

4. GLOBAL ECONOMIC INTEGRATION AND SUB-SAHARAN AFRICA

4.1 Global Economic Integration

As trade, investment and capital flows are the driving force of globalization, the extent of global economic integration can be gauged by developments in such flows. In this respect, trade has been growing in importance in the world economy. Increasingly a large share of world output is generated in activities linked directly or indirectly to international trade. The volume of world trade in goods and services (exports plus imports) rose from barely one-tenth (10%) of world GDP in 1950 to about one-third (33%) in 2000 (Mussa, 2000: 10). It stood at more than one-half (58%) in 2005 and 61.2 per cent in 2006 (Fig. 2). In the last two and a half decades, the pace of global economic integration has continued to accelerate, such that exports and imports of goods and services exceeded $26 trillion in 2005, or 58 per cent of total global output, up from 44 per cent in 1980. Also between 1986 and 1996, the ratio of world trade to GDP increased by 40.6 per cent and between 1990 and 2005, it increased by 46 per cent.

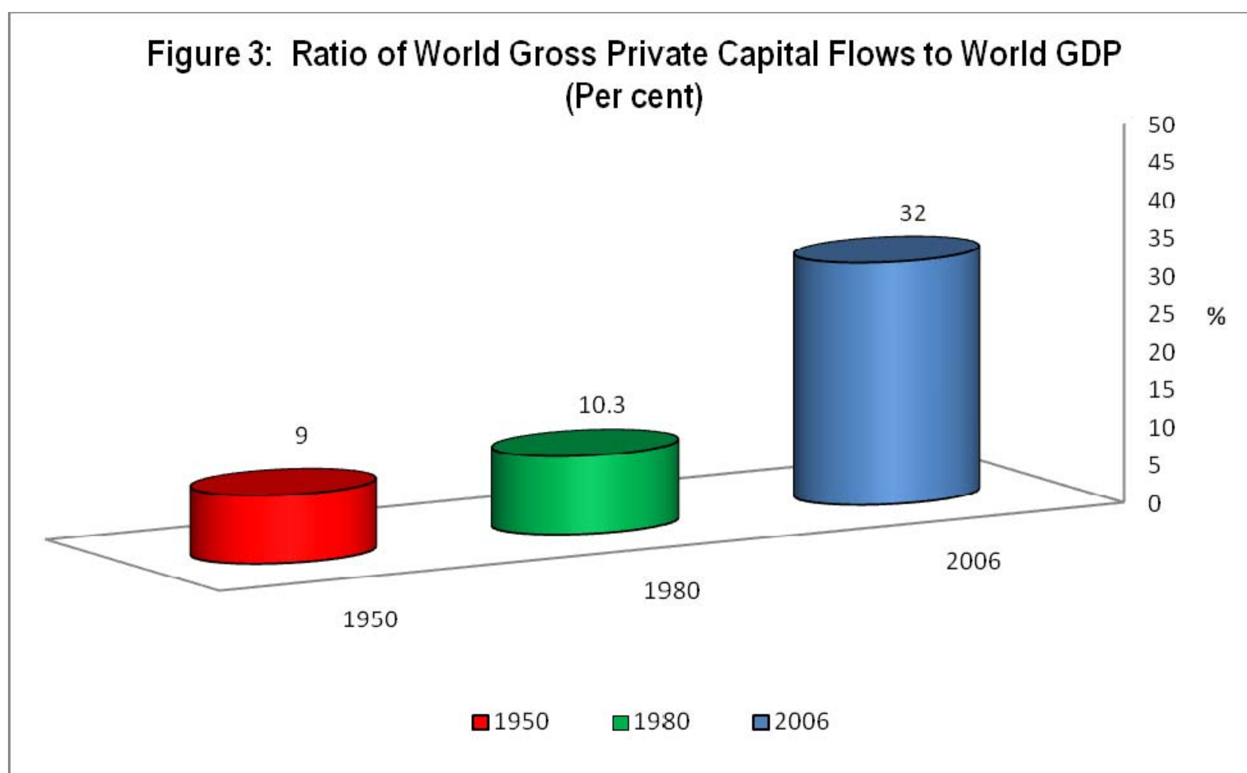


Although most of the world trade takes place among the developed countries within the Organisation for Economic Cooperation and Development (OECD), the European Union (EU), and the North American Free Trade Agreement (NAFTA), developing countries, particularly the newly industrializing ones, are increasingly becoming significant players both as exporters and

as potential markets for the developed countries. Countries in East Asia and the Pacific have experienced higher export growth than most others. And in their study of 24 'post – 1980 developing country globalizers', Dollar and Kraay (2001) report that as a group, their share of GDP doubled to 33 per cent. In contrast, trade relative to GDP declined for 'non-globalizers'.[7] They further found a statistically significant and economically meaningful effect of trade on growth – an increase in trade as a share of GDP of 20 percentage points increase growth by between 0.5 and 1 percentage point a year. As was noted before, these results have, however, been questioned on methodological grounds (see Rodrik and Rodriguez, 2000).

There has also been a phenomenal growth in cross-border financial flows especially in the form of equity and portfolio investment flows, compared with the past. Gross private capital flows across national borders exceeded 32 percent of global output in 2005, up from 9 per cent in 1980 (Fig. 3). During the period, 1980 – 2005, the ratio of world gross capital flows to GDP increased significantly by 214.6 per cent. While the ratio for the high income countries shot up by 238.2 per cent, those of low income countries and Sub-Saharan Africa (SSA) increased by 179.2 and 178.4 per cent, respectively. Thus, on a global level, there has been an increase in the degree of global economic integration through trade in goods and services during the past half a century.

[7] The developing countries that have been called 'new globalizers' include; China, India, Malaysia, Mexico, Chile, Dominican Republic, Mauritius, Poland, Turkey, Indonesia, Thailand, Hong Kong, Republic of Korea, Singapore, Taiwan (China) Colombia, Brazil, Argentina, Ecuador, Peru, Nicaragua, Venezuela.



4.2 Africa's Integration with the World Economy

The developing countries as a whole have become more integrated with the world economy, but Africa and the SSA have not kept pace with the whole. In other words, Africa is least integrated with the world economy (See, for example, Obadan, 2001b; 2004a; Obadan and Obioma, 1999; Dupasquier and Osakwe, 2003). While developing countries as a whole have increased their share of world trade from 17.2 per cent in 1990 to 28.1 per cent in 2005, Africa as a whole performed poorly with its share of world trade being less than 2.0 per cent. In their analysis, Dupasquier and Osakwe (2003) sum up the situation as follows: "over the past five decades, Africa's participation in the world economy has declined. The region's share of world exports fell from 4.6% in 1980 to 1.8% in 2000. Its share of world imports declined from 3.6% to 1.6% over the same period. Furthermore, Africa's share of global inward FDI flows fell from 1.8% in the period 1986 – 90 to 0.8% over the period 1999 – 2000. These figures are well below the developing countries average of 17.5% and 17.9% over the same period".

Specifically, the share of SSA's trade in global trade fell from some 3 per cent in 1960 to 1.2 per cent in 1990. It rose slightly to 1.7 per cent in 2005. (Table 2.1 and Fig. 4)). Besides,

Africa was the only major region in the world to experience an absolute decline in export earnings per person between 1980 and 1996 (Sachs and Sievers, 1999:13). This is inspite of the fact that since the mid-1980s, most African countries have made significant progress in liberalizing their exchange and trade regimes, invariably in the context of World Bank-IMF-supported adjustment programmes or regional arrangements. Furthermore, their economies are relatively open (shown by ratios of exports to GDP) compared to the advanced economies or those of developing countries as a whole (see Table 4.1). Obviously, SSA economies as a group appear to be more open than those of the high income economies. Furthermore, Obadan (2001b and 2004a), in his analysis of the trade ratios for individual SSA countries, shows that out of the 38 countries covered, the ratios fell in 11 countries between 1986 and 1996, and were quite low in others. In contrast, the available statistics show that the ratios of trade to GDP in Asia and Latin American countries recorded positive increases and, indeed, very significant increases in Asian countries such as Hong Kong, Malaysia and Singapore.

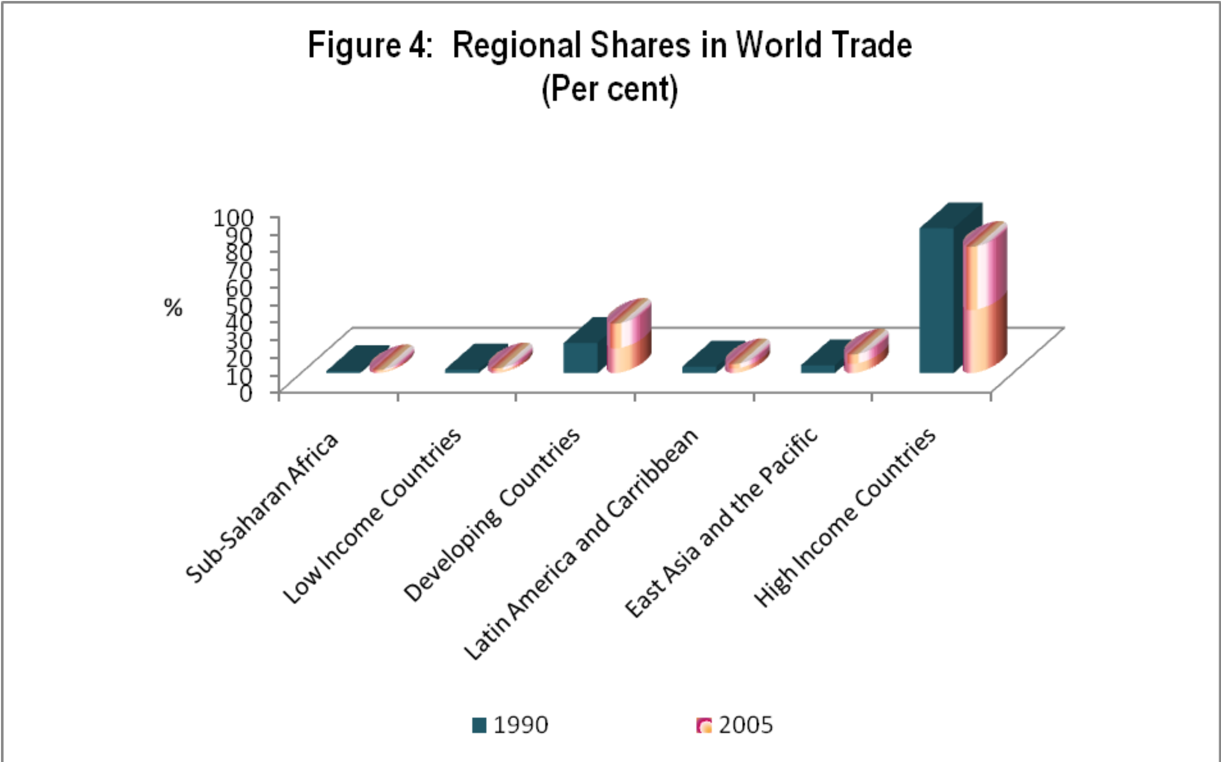


Table 4.1: Sub-Saharan Africa and the World: Global Integration Indicators.

	1990	2005
A) Exports/GDP Ratio (%)		
World	15.9	23.4
Low Income Countries	11.2	18.4
Sub-Saharan Africa (SSA)	22.6	30.5
Developing Countries	16.1	30.7
Latin America & Caribbean	13.0	23.0
East Asia & the Pacific	23.3	38.9
High Income Countries	15.8	21.2
B) Imports/GDP Ratio (%)		
World	16.3	23.9
Low Income Countries	13.1	22.3
SSA	19.0	27.0
Developing Countries	15.4	28.7
Latin America & Caribbean	10.9	21.2
East Asia & the Pacific	24.0	34.9
High Income Countries	16.4	22.5
C) Net Inflows of Foreign Direct Investment / GDP %)		
World	1.0	2.2
Low Income Countries	0.4	1.5
SSA	0.4	2.7
Developing Countries	0.8	2.9
Latin America & Caribbean	0.8	2.9
East Asia & the Pacific	1.6	3.2
High Income Countries	1.0	2.1
D) Gross Capital Flows/GDP Ratio (%)		
World	10.3	32.4
Low Income Countries	2.4	6.7
SSA	5.1	14.2
Developing Countries	5.9	13.1
Latin America & Caribbean	7.9	9.8
East Asia & the Pacific	5.0	11.4
High Income Countries	11.0	37.2
E) Share in World Trade (%)		
SSA	1.2	1.7
Low Income Countries	2.1	2.7
Developing Countries	3.7	28.1
Latin America & Caribbean	17.2	5.1
East Asia & the Pacific	4.5	10.6
High Income Countries	82.5	71.9
F) Share of Manufacturing in Total Exports (%)		
World	73	75
SSA	..	33

Developing Countries	51	64
Latin America & Caribbean	36	54
East Asia & the Pacific	60	81
High Income Countries	77	78
Low Income Countries	49	50
Europe & Central Asia	..	56
Middle East & North Africa	..	20
South Asia	71	72
G) <u>Total Merchandise Trade/GDP Ratio</u> (%)		
World	32.3	47.3
Low Income Countries	23.6	41.1
SSA	41.9	57.8
Developing Countries	32.5	59.2
Latin America & Caribbean	23.2	44.2
East Asia & the Pacific	47.1	74.6
South Asia	16.5	31.2
Middle East and North Africa	43.5	57.6
Europe & Central Asia	49.7	68.6
High Income Countries	32.3	43.9

Notes: Classification of countries as low income or high income is done on the basis of Gross National Income (GNI) per capita. Countries which have GNI per capita of $875 or less in 2005 are classified as low income economies. Lower middle-income and upper middle-income economies are separated at a GNI per capita of $3,465. Middle-income economies are those with a GNI per capita of more than $875 but less than $10,726. High income economies are those with a GNI per capita of $10,726 or more. Nigeria had GNI per capita of $560 in 2005 and was ranked 170.

Source: Computed from: **World Development Indicators, 2000, 2007.**

Financial integration with world markets or financial globalization is the second major component of economic globalization, the other being trade integration. In my detailed empirical study of financial globalization in SSA, (Obadan, 2005b), I found that since the pace of financial globalization heightened in the 1990s in the developing world, a good number of SSA countries also succumbed to external pressures to liberalize the capital accounts of their balance of payments with a view to promoting capital flows and integrating with the world financial markets. Countries like Nigeria, Uganda, Zambia, Ghana, Kenya and South Africa, among others, have undertaken reforms and liberalized their capital accounts. Two measures of financial integration, employed in the empirical analysis, namely, savings – investment correlation and ratio of gross private capital flows to GDP (Table 4.2), revealed fairly low degrees of financial

integration with the world financial markets for most SSA countries even though a good number of them had moved far in the direction of liberalizing their capital accounts. Even among the few that have fairly high ratios of capital flows to GDP, the ratios reflect more of capital flight, or returning capital inflows, or capital inflow into natural resources areas, for example, Angola, Republic of Congo and Gabon (Kasekende, 2000, World Bank, 2002; Obadan, op.cit).

In the light of the above, SSA can be said to fall into the World Bank's (2000) group of marginalized countries which integrate into world capital markets not through capital inflows but through capital flight. In this direction, by 1990, Africa, the region where capital is most scarce, had about 40 per cent of its private wealth held outside the continent, a higher proportion than any other region. Obadan's findings further show that cases abound of financial liberalisation without financial integration and meaningful capital flows. UNCTAD (2000) had also reached a similar conclusion to the effect that efforts to integrate the Africa region into the global financial system and to attract private capital flows through a rapid liberalisation of the capital accounts have not resulted in increased inflows of such capital, but in greater volatility, with attendant consequences for exchange rate instability and misalignments.

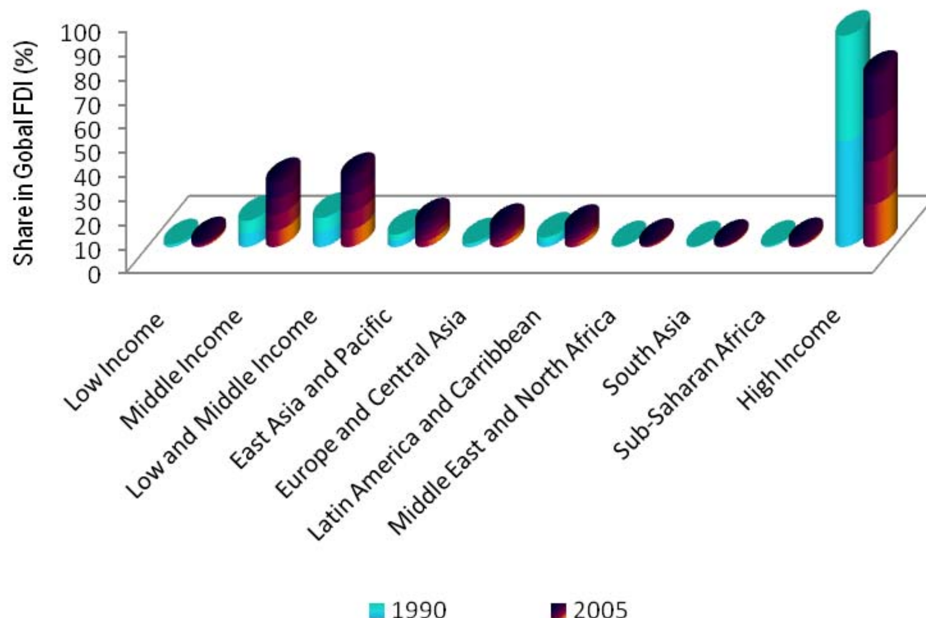


Table 4.2: Sub-Saharan Africa: Savings – Investment Correlation and Capital Flows Measures of Financial Globalization.

Country / Measures of Financial Integration	Savings Retention Ratio	Ratio of Gross Private Capital Flows to GDP (%) (1986 – 2002)
Sub-Saharan Africa	0.215	6.1
Angola	0.383	15.3
Benin	0.256	7.2
Botswana	0.469	5.2
Burkna Faso	-0.035	2.3
Cameroon	0.802	9.6
Cape Verde	0.704	n.a
Central African Republic	0.119	2.6
Chad	0.554	2.7
Equatorial Guinea	0.439	n.a
Ethiopia	0.384	1.9
Ghana	0.526	2.4
Guinea	0.545	2.8
Guinea-Bissau	1.337	10.9
Kenya	0.900	3.6

Lesotho	-0.233	7.6
Madagascar	0.447	2.2
Mali	0.353	6.4
Mauritania	0.108	20.9
Mauritius	0.221	10.3
Namibia	0.144	12.4
Nigeria	-0.259	8.5
Sao Tome and Principe	0.350	n.a
Senegal	0.550	7.2
Sierra Leone	-0.218	13.2
South Africa	0.552	5.6
Swaziland	0.034	n.a
Tanzania	0.366	1.8
Uganda	0.560	7.2

Source: Obadan (2005b)

Various reasons have been adduced for the limited private capital flows to Africa inspite of relatively open capital accounts (See, for example, Prasad, et al, 2003; Gordon and Bouvenberg in Brahmbatt, 1998). In SSA, however, the weak capital flows and financial integration have not been unconnected with the policy environments, underdeveloped financial markets, the detrimental effects of high debt burden, unfavourable economic and business environment, and premature liberalisation of the financial markets.

Table 4.3: Regional Growth of Exports and Imports of Goods and Services

Region	Exports		Imports	
	1990-2000	2000-2005	1990-2000	2000-2005
World	6.9	5.9	6.9	5.2
Low Income Countries	8.5	11.5	9.2	13.9
Middle Income Countries	7.3	10.9	6.6	10.4
Developing Countries	7.4	11.0	6.9	10.8
East Asia & the Pacific	11.0	16.5	10.4	15.0
Europe & Central Asia	3.6	9.8	2.0	11.5
Latin America & Caribbean	8.5	5.4	10.7	4.0
Middle East and North Africa	4.1	5.2	0.6	8.4
South Asia	9.5	13.8	10.6	15.4
Sub-Saharan Africa	5.0	3.7	5.4	7.8
High Income Countries	6.8	3.4	7.0	3.9

Source: World Development Indicators, 2007

Table 4.4: Growth of Output and Regional Shares of Global Output and Incidences of Poverty (Per cent)

	Incidence of Poverty (%)		Share in Global Output (%)		Average Annual Growth of GDP (%)	
	1981	2004	1990	2005	1990-2000	2000-2005
High Income Countries	..	..	60	54	2.7	2.2
East Asia & Pacific	57.1	9.0	13	19	8.5	8.4
Latin America & Caribbean	10.8	8.6	8	8	3.3	2.3
Europe & Central Asia	0.7	0.9	7	7	-0.7	5.4
South Asia	51.6	32.0	6	8	5.6	6.5
Middle East & North Africa	5.1	1.5	3	3	3.8	4.1
Sub-Saharan Africa	42.3	41.1	2	2	2.5	4.3
World	40.6	18.4	..	..	2.9	2.8

Note: Incidence of Poverty refers to the share of people living on less than US$1.0 a day.
Source: World Bank. World Development Indicators, 2007.

Thus, as Obadan (2007b), UNECA (2007), World Bank. (2007), Stern (2002), and Gondwe (2001) have all correctly observed, openness is not enough for meaningful participation in globalization. Indeed, as Stern has stressed, open trade and investment policies will generate little or no benefits if other institutions are not in place or are bad.

From the foregoing analysis of SSA's trade and financial integration the following conclusions emerge.

- Measured by the share of total trade in GDP or of exports in GDP, SSA is more open than the high income countries and some other regions. Yet, SSA:
  - has the least share of world trade (1.7% in 2005) whereas the high-income countries have the largest share of 71.9 per cent (Table 4.1);
  - has the least share of manufactures in total exports (33%), excepting Middle-East and North Africa (20%), compared to 78 per cent for high-income countries and 81 per cent for East Asia and Pacific (Table 4.1);
  - has low financial integration with world markets;
  - has least share of world output (2% in 1990 and 2005, respectively) (Table 4.4); and
  - had second least growth in exports in 2000 – 2005 (Table 4.3).

4.3 The Benefits of Economic Globalization and Sub-Saharan Africa

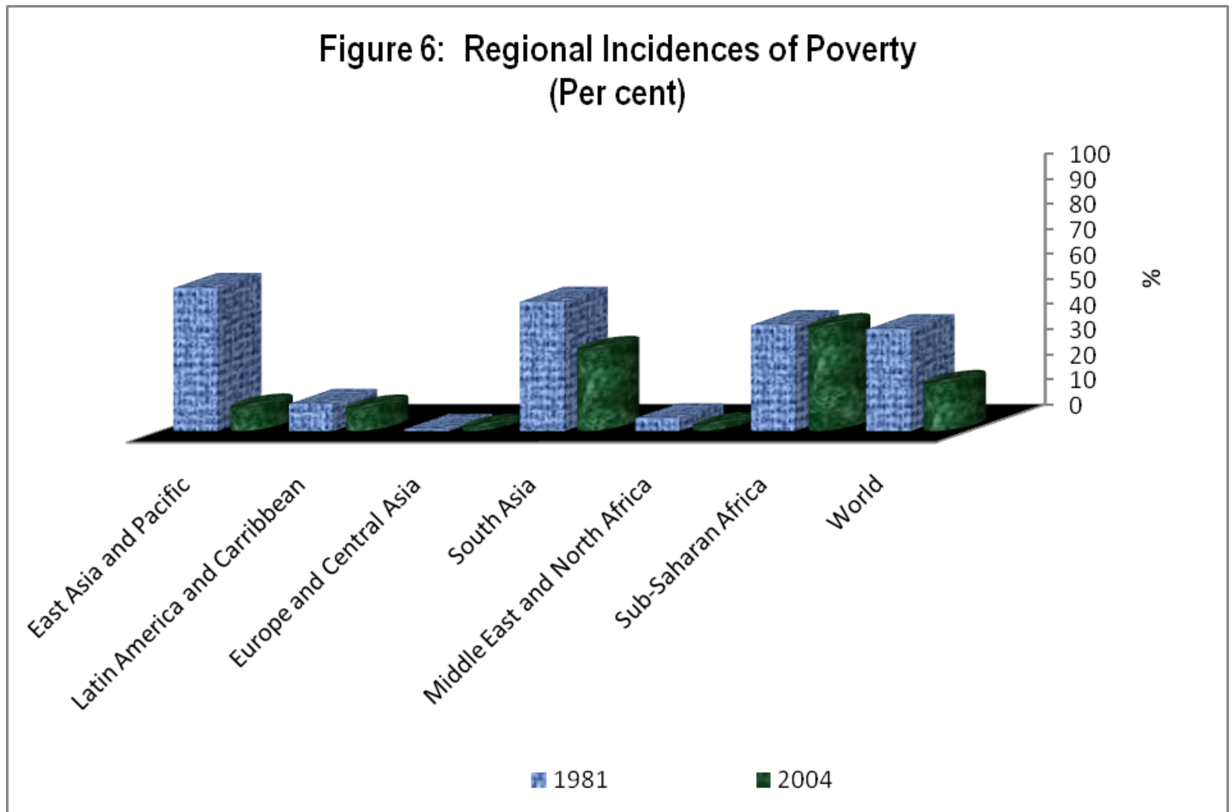
What is clear then is that the poor countries in Africa and elsewhere are not only the least integrated internationally, they have also derived the least benefits from globalization in terms of trade and financial flows. This means, as a number of analysts (Gondwe, 2001; World Bank, 2005; Mason, 2001; UK-DFID, 2000; Khor, 2000; Obadan, 2001b; UNDP – Nigeria, 2001; Walker and Fox; 1999, Fischer, 2001, etc) have shown that the benefits of globalization have not occurred equally across countries. Daouas (2001) observes that "although globalization has helped increase growth and wealth in recent years, it has not done so for all countries. In the least developed countries and on the African continent, in particular, a worsening of existing imbalances has impeded development and aggravated poverty. The marginalization of these countries is reflected in their small share of world trade (barely 2%), output (not much higher), and foreign investment (1%)". The UNDP (Nigeria) further portrayed the situation very vividly as follows:

> "the globalization process has been uneven and unbalanced, with uneven participation of countries and people in the expanding opportunities of globalization - in the global economy, in global technology, in global governance, and in global spread of cultures. Thus, while the collapse of space, time and borders may be creating a global village, unfortunately, not everyone can qualify for citizenship. The rich, the elite, the professional and the highly skilled face low borders but billions of people find the borders as high as ever. They are the recipients of the backlash effect of globalization while the rich and the elite nations and individuals are the beneficiaries of the spread effect".

No doubt, greater integration with the world economy through trade and financial flows has afforded some developing countries the avenue to partake in the opportunities and benefits of globalization, to develop their comparative advantages and gain access to newer, more appropriate technology, while financial liberalisation has increased their access to international private capital, permitting them to realize much higher rates of economic growth. The spectacular economic performances of the East Asian countries, the 1997/98 financial crisis notwithstanding, reflected significant benefits from globalization. But the same thing cannot be said of African countries, many of which are the world's poorest. While economic growth rates in East Asia and the Pacific averaged 7.2, 7.1 and 8.7 per cent in 1981 – 90, 1991 – 99, and 2000 – 05, respectively, those in Sub-Saharan Africa were just 1.8, 2.0, and 2.3 per cent, respectively. Furthermore, while the SSA's GDP per capita was only US$746.0 in 2005, its real GDP per

capita growth was negative from 1981 – 99 (1981-90: - 1.2%; 1991 - 99: -0.6%). In contrast, in East Asia, per capita incomes have been moving quickly toward levels in the industrial countries since 1970 (IMF, 2002). Thus, while higher trade and investment have spurred growth in some other regions, the same cannot be said of SSA.

Related to the issue of poor growth performance is the incidence of poverty in Africa which is the highest in the world, standing at 41.1 per cent in 2005 for SSA alone (Fig. 6). The magnitude and dimension of the problem as well as the grave threat it poses to economic, social and political stability make it one of the biggest challenges facing the continent. Poverty is highly visible in most African countries. Overcrowded settlements in major urban areas without basic social services and remote and isolated rural areas are major concentrations of the poor. Compared with other developing regions, Africa suffers from more severe and persistent poverty as shown by various analyses, e.g., UNDP (1998); Kankwenda, et al (2000); World Bank (2001a). Approximately 45 per cent of Africans are income-poor (measured according to a poverty line of $1 a day) and 42 per cent suffer from the incidence of human poverty (defined by life expectancy, educational attainment and living conditions). Of the world's 54 least developed countries, Africa comprises 33 (i.e. 61.0 per cent) while it also has 34 of the 45 lowest-ranked countries for human development (i.e. 75.6 per cent).



Furthermore, in SSA, one of the fall-outs of globalization is the very heavy external debt burden on the economies. In the context of relatively open economies and significant progress in liberalizing their exchange and trade regimes, many African countries have, until the recent debt reliefs, continued to stagnate and be frustrated under the burden of heavy external debt obligations. SSA countries have been among the most indebted of developing countries considering standard debt indicators and income levels (Obadan, 2004e; 2004f and 2005b). In the year 2000, out of 34 countries classified by the World Bank as severely indebted low-income countries, 28 are in Africa. Thus, Sub-Saharan African countries are not only among the poorest, they also suffer the biggest debt burden. The debt problem is intimately related to openness and the countries' weak capacity for competitiveness and beneficial globalization. The heavy debt burdens may also not be unconnected with poor governance and corruption. The poor countries of Africa are characterized not only by low per capita incomes, but also by low social indicators (high illiteracy, infant mortality, poor health, etc), poor infrastructure and low economic diversification. In addition, they are afflicted by the problems of low rates of domestic saving

and investment, endemic poverty, high unemployment, series of policy errors and excessive dependence on primary commodities. They have thus been ill-equipped to benefit much from the process of globalization.

And, with the globalization process having been uneven and unbalanced, with uneven participation of countries and people in the expanding opportunities, globalization to poor countries is a force of iniquity and marginalization. They have yet to partake in the benefits of globalization, while their progress has been hindered by their disadvantaged participation in the global economy. The important question then is why Africa has lagged behind. Along with some other scholars, for example, Gondwe (2001), Fischer (2000), I have tried to answer this question,

4.4 "Why Has Africa Lagged Behind?"

Africa has remained poor and lags behind other regions in exploiting the benefits of globalization, namely, increasing the resources available for productive investment, and enhancing efficiency of their use and facilitating the transfer of technologies. A number of mutually reinforcing factors account for the wide gap between Africa's economic integration with the world markets and its potentials, and its stagnation/ underdevelopment at large. These relate to monocultural economies and the structure of production and export, low domestic investment, and the policy and institutional environment. Also, there is the issue of weak initial conditions reflecting lack of domestic economic capacity, and weak social infrastructure following the colonial experience. African countries have been made weaker by low export prices and significant terms of trade decline as well as the heavy burden of external debt servicing. Besides, is the issue of dictatorial regimes and poor governance characterized by abuse of power and economic mismanagement, all of which undermined the development process. Not least is SSA countries' lack of or weak bargaining and negotiating power in international economic relations.

Two of the above factors are particularly significant, namely, monocultural economies/overdependence on primary commodities and low level of industrialization and manufactured exports. These are well-acknowledged constraints (see for example, World Bank, 2000b, 2005; Obadan, 2001b, 2004a, etc). Many African countries depend heavily on primary commodities for the bulk of their export receipts, and this has often caused serious problems for economic management. This is because primary commodities prices tend to be volatile and are subject to long-term cycles as well as to short-term booms and busts. Not only are African

economies heavily dependent on primary commodity exports, most of them are monocultural. Nigeria presents an extreme case with its dependence on one commodity – crude oil for over 95 per cent of export earning and over 80 per cent for domestic revenue. The two features of monoculture and concentration in primary commodity export coupled with the corollary of insignificant manufactured exports have mutually interacted to hinder Africa's effective participation in the globalization process. Africa currently accounts for far less a percentage of the world trade in manufactures than it achieved in 1980. (Sachs and Sievers, 1999). Specifically, in 2000 and 2006, Africa's shares of world manufactured exports were just 0.8 and 0.9 per cent, respectively. Yet, manufactured exports have been the key to the effective participation of the countries in East Asia in the globalization process and the spectacular growth rates and poverty reduction levels achieved. Manufactured export-oriented growth was an important part of the strategy that made dramatic inroads into income poverty in East Asia. In 1975, some 57 per cent of their population was in poverty. By 2004, after about three decades of rapid growth, their headcount rate of poverty was only 9.0 per cent (U.K – DFID, 2000; World Bank, 2007).

Therefore, under globalization, African economies need to diversify, using modern technology, into high-value-added products for export to the world market. But so far, African manufacturing has been uncompetitive internationally. The policy environment and national business climate have not promoted a high level of competitiveness while many other factors raise transactions costs and inhibit manufactured exports. Among the latter are high tax rates and numerous regulations, infrastructure failings, high level of corruption and inflation, and policy and political instability. Under the circumstances, as Obadan (2004a) and Obadan and Obioma (1999) have argued, even an efficient manufacturing activity tends to have a low ratio of value added to product price.

In the light of the foregoing, Africa needs to address a number of challenges if it is to accelerate its integration into the world economy, maximize the benefits of globalization and minimize the risks of destabilization and marginalization as well as promote rapid economic growth and achieve substantial poverty reduction. Box 4.2 summarizes the challenges.

Box 4.2: Africa's Challenges under Globalization

- Developing a strong production base predicated on value-added products;
- diversification of export structures and development of manufactured export capability. Empirical evidence has shown that export of products with no value added has been a major element in the poverty of the heavily indebted poor countries; in contrast, successful globalizing economies are those which diversify their export portfolios and lesson their dependence on natural resources or commodities as the key exports. The challenge is how to use the traditional exports as the basis for diversification which countries like Malaysia have successfully done. Diversification does not relate to products alone, but also to trading partners;
- development of adequate human and institutional capacity, physical infrastructure, access to markets, capital and technology, necessary for integration into the world economy;
- designing and implementing sound economic policies to be able to sustain the confidence of financial markets and square up to the increasingly stiff competition in trade; and
- developing and operating within the framework of strong regional and sub-regional economic groupings such as ECOWAS, SADC, etc, as a credible response to the powerful force of globalization. Today's world, under the current of the powerful forces of globalization, is divided into regional trading blocks. Thus, we have for example, in Europe (EU); North America (NAFTA), Asia ((ASEAN), Asia-Pacific Rim (APEC), Africa (COMESA, ECOWAS, SADC, etc), Central America (CACM), North Africa (UMA) and South Asia (SAARC).[8] These regional groupings have generally worked towards promoting openness, competitiveness and trade.

Source: Obadan (2001b)

5. NIGERIA AND THE GLOBAL ECONOMY

As was observed earlier, international trade, investment and financial flows, technology and movements of people across national borders are the key hallmarks of economic globalization. Increasing flows of these give rise to increasing integration of world economies. Increasing openness, reflected in the lowering of trade barriers, financial liberalisation, as well as lowering of restrictions on movements of people, provides the framework for increasing integration of the global economy and reaping of benefits from globalization. Thus, one area that has elicited my attention relates to the nature of integration of the Nigerian economy with the global economy and how much benefits derived from globalization. Accordingly, two of the

[8] The full names of the regional blocs mentioned are: Economic Community of West African States (ECOWAS); South African Development Community (SADC); European Union (EU); North American Free Trade Agreement (NAFTA); Association of South East Asian Nations (ASEAN); Asia Pacific Economic Cooperation (APEC); Common Market for Eastern and Southern Africa (COMESA); South Asian Association for Regional Cooperation (SAARC); Central American Common Market (CACM), Arab Maghreb Union (UMA).

questions I have tried to answer are: how open is the Nigerian economy and how integrated is it with global markets?.

5.1 Openness of the Economy and Its Integration with the World Economy

Openness and Trade integration:

One common indicator that economists use in measuring a country's degree of openness to the rest of the world is its share of total trade (exports plus imports) in its gross domestic product, that is, the size of foreign trade in relation to the size of the economy. Data on this indicator reveal that the Nigerian economy is relatively very open as shown in Obadan (1996b and 2001d). Table 5.1 shows that Nigeria's index of openness increased from an average of 43.5 per cent in 1975 – 70 to 71.8 per cent in 1995 – 98. From 2002 – 2005, the index stood at 51.9 per cent. This is relatively high compared to the index of openness of some industrial countries.

Table 5.1

Relative significance of Nigeria's External Trade and Degree of Openness (Per Cent)

	1975-79	1980-84	1985-89	1990-94	1995-98	2002-05
Exports/GDP (%)	23.28	18.78	21.04	34.58	41.93	33.13
Imports/GDP (%)	20.24	18.34	12.76	22.72	29.90	18.25
Total Trade/GDP(%)	43.50	37.14	33.78	57.28	71.83	51.93
Share of World Exports (%)	1.00	0.84	0.36	0.32	0.24	0.24
Share of World Imports (%)	0.82	0.78	0.24	0.20	0.16	0.135
Share of Total World Trade (%)	0.92	0.81	0.28	0.25	0.20	0.26

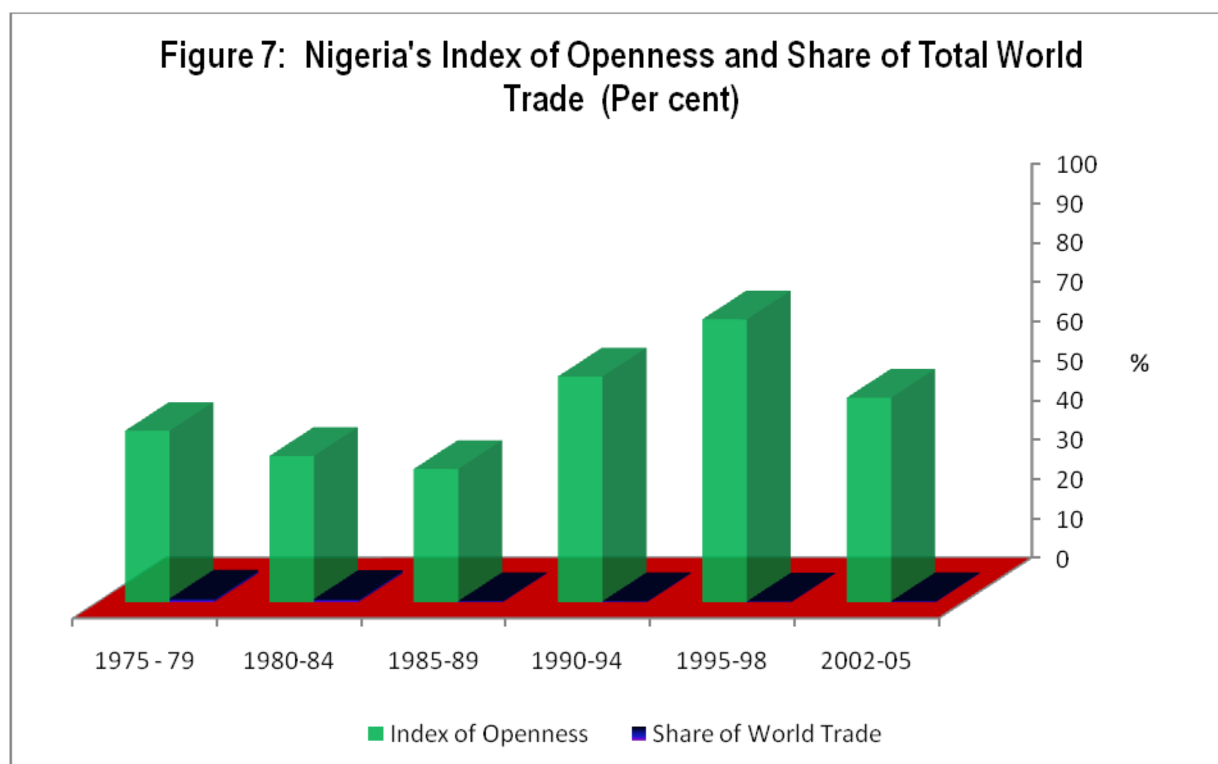
Source: Computed from: IMF, International Financial Statistics Year Book, 1999; World Bank, World Economic Indicators, 2000, 2007; Central Bank of Nigeria. Statistical Bulletin, December, 1998 and 2006.

For example, in 2005, the index of openness of some industrial countries were as follows: United States of America (21:2%); Japan (24.5%); Australia (31.6%); Italy (42.2%); United Kingdom (39.7%). However, some developing country globalizers such as Malaysia, Hong Kong, Korea, Singapore, Thailand, Chile, China, etc., have higher indices of openness than Nigeria. But these countries are more integrated with the world economy than Nigeria considering various output, trade and financial indicators. Indeed, inspite of Nigeria's relative openness, the degree of her integration with the global economy is low as shown as follows (Obadan, 2001d; Owolabi, 1998):

i)

i) Nigeria's share of world trade is very low and has been declining over the years. As table 5.1 and Fig.7 show, the country's share of total world trade declined from an average of 0.92 in 1975 -79 to 0.26 in 2002 – 2005. The shares of exports and imports in world exports and imports, respectively, have exhibited similar downward trends. The very poor performance of non-oil exports contributed to the rather poor performance of Nigeria's share in global exports.

ii)



ii) Related to the above is Nigeria's share of global output which is also relatively low. Table 5.2 shows various globalization indicators for Nigeria and 20 developing countries that have been described as 'new globalisers' because of their active participation in the globalization process and the impact the phenomenon has had on them. Nigeria is one of the six countries with the lowest share of world output. Brazil, India and the Republic of Korea account for as much as 1.8 per cent of world output. Besides, many of the countries, until the last few years, also had much higher economic growth rates than Nigeria. And judged by per capita income, Nigeria is the poorest of all the countries listed in the table with a per capita income of only US$560 in 2005.

Table 5.2: Globalization Indicators for Nigeria and some Developing Country Globalizers, 2005

New Globalizers & Nigeria	Economic Growth (%)		Share in global output (%)	Export / GDP (%)	Imports/GDP (%)	Share in World Trade (%)	GCF/GDP (%)	FDI/GDP (inflows) (%)	Share of Manufacturing in Exports (% of Total)	Incidence of Poverty (%)	Gross National Income Per Capita ($)
	1990 -2000	2000 – 2005									
Argentina	4.3	2.2	0.4	21.9	15.7	0.33	0.3	2.6	31	-	4,47
Brazil	2.9	2.2	1.8	14.9	9.7	0.93	0.2	1.9	54	21.5	3,550
Chile	6.6	4.3	0.3	35.2	28.2	0.35	0.6	5.8	14	-	5,870
China	10.6	9.6	0.5	34.1	29.5	6.73	0.3	3.5	92	17.0	1,740
Dominica	6.0	2.8	0.1	20.8	32.6	0.07	0.2	3.5	-	42.2	2,460
Ecuador	1.9	5.1	0.1	27.7	28.3	0.10	0.4	4.5	9	46.0	2,620
India	6.0	7.0	1.8	11.8	28.3	1.09	0.2	0.8	70	28.6	730
Indonesia	4.2	4.7	0.7	30.0	24.2	0.74	0.2	1.8	47	27.1	1,280
Mauritius	5.2	4.0	0.0	34.1	11.9	0.03	0.4	0.6	70	-	5,250
Malaysia	7.0	4.8	0.3	108.2	87.9	1.21	0.3	3.0	75	-	4,970
Mexico	3.1	1.9	1.7	27.8	30.1	2.11	0.2	2.4	77	17.6	7,310
Hong Kong	4.1	4.3	0.4	164.4	169.0	2.80	2.4	20.2	96	-	27,670
Korea (Rep. of)	5.8	4.6	1.8	36.1	33.2	2.58	0.2	0.6	91	-	15,840
Nicaragua	3.7	3.0	0.0	17.5	52.8	0.02	0.2	4.9	11	47.9	950
Peru	4.7	4.3	0.2	21.7	15.7	0.14	0.3	3.2	17	53.1	2,650
Singapore	7.6	4.2	0.3	196.7	171.3	2.03	2.9	17.2	81	-	27,580
Thailand	4.2	5.4	0.4	62.3	66.9	1.08	0.4	2.6	77	-	2,720
Columbia	2.8	3.5	0.3	17.3	17.3	0.20	0.5	8.5	36	64.0	2,290
Venezuela	1.6	1.3	0.3	39.6	17.3	0.38	0.6	2.1	9	-	4,820
Nigeria	2.5	5.9	0.2	42.7	17.4	0.28	0.9	2.0	2	54.6	560

Note: GCF – gross capital flows; FDI – foreign direct investment

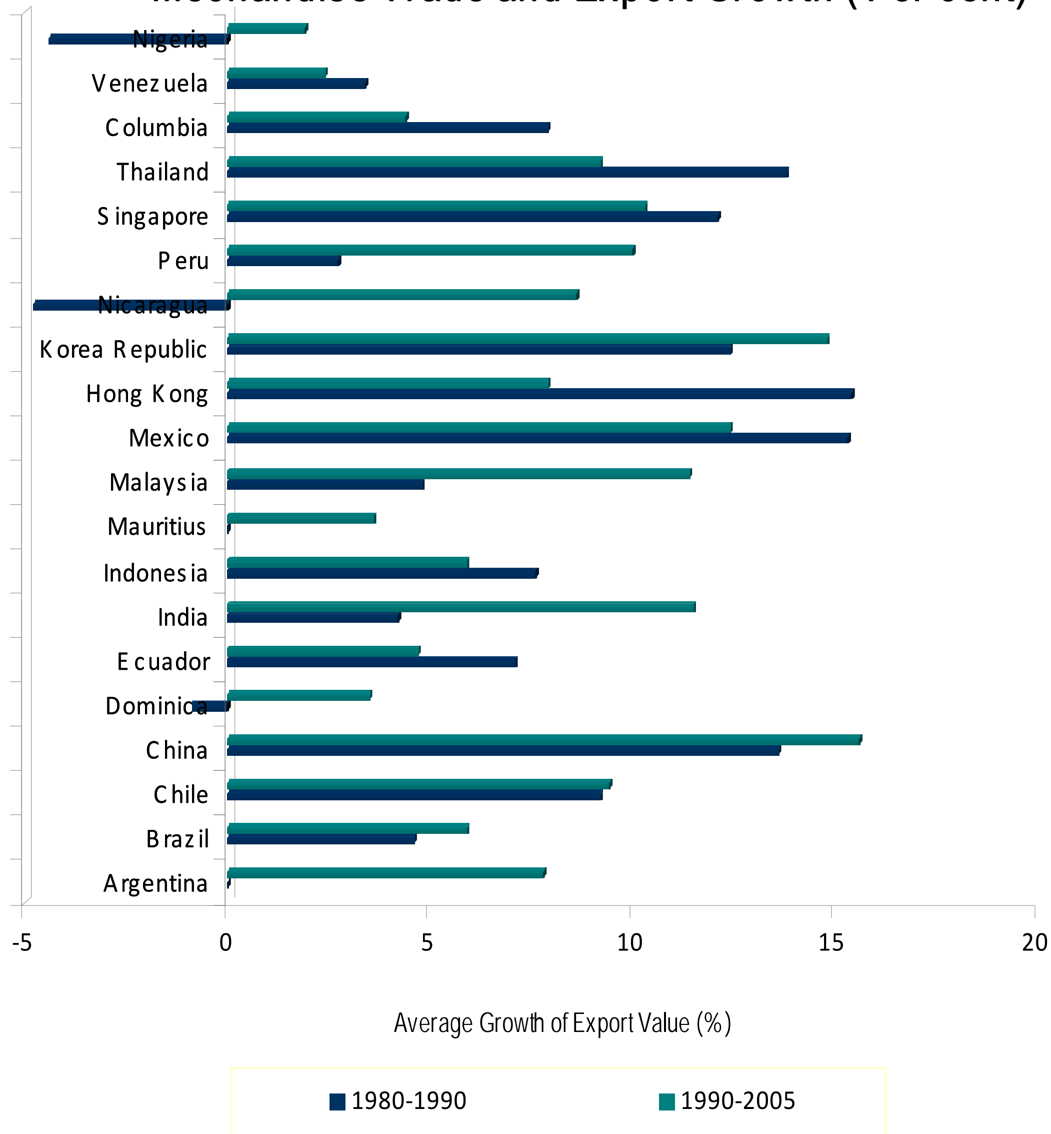
Source: IMF. International Financial Statistics Year Book (2006); World Bank, World Development Indicators, 2007.

Table 5.3: Nigeria and the New Globalizers: Merchandise Trade and Export Growth

New Globalizers & Nigeria	Merchandise Trade (% of GDP)		Growth of Export Value (average)(%)	
	1990	2005	1980 - 1990	1990 - 2005
Argentina	11.6	37.5	-	7.8
Brazil	11.7	24.6	4.6	5.9
Chile	51.1	63.4	9.2	9.4
China	32.5	63.6	13.6	15.6
Dominica	73.2	53.4	-0.9	3.5
Ecuador	44.2	55.9	7.1	4.7
India	13.1	28.5	4.2	11.5
Indonesia	41.5	54.2	7.6	5.9
Mauritius	118.0	84.3	-	3.6
Malaysia	133.4	196.1	4.8	11.4
Mexico	32.1	58.0	15.3	12.4
Hong Kong	217.4	333.3	15.4	7.9
Korea (Rep. of)	51.1	69.3	12.4	14.8
Nicaragua	95.9	70.3	-4.8	8.6
Peru	22.3	37.4	2.7	10.0
Singapore	308.1	368.0	12.1	10.3
Thailand	65.7	129.3	13.8	9.2
Columbia	30.7	34.6	7.9	4.4
Venezuela	52.8	56.9	3.4	2.4
Nigeria	67.5	60.2	-4.4	1.9

Source: World Development Indicators, 2007

iii) Nigeria's export growth performance has been very poor compared to the performances of many other developing country globalizers (Table 5.3 and Fig. 8). For example, between 1980 and 1990, Nigeria's export growth performance averaged – 4.4 per cent compared to the very high growth rates of many other countries. The positive growth rate which averaged 1.9 per cent over the 1990 – 2005 period was still very much below those of many others. The country thus faces a major challenge of enhancing the economy's competitiveness and reforming the export structure in order to reap maximum benefits from globalization.



iv) Table 5.4 shows Nigeria's current account balances which should normally provide a measure of the country's net inflow and outflow of capital. The huge current account surpluses, reflecting large savings, up till 1992 and from the last five years, tended to suggest a high level of integration with the global financial markets. But this was not the case due to the absence of an enabling environment and the non-internationalization of the capital market until the last few

years. For a long time, the observed outflows in the capital account of the balance of payments reflected debt service payments on the nation's huge external debt owed mainly to the Paris Club of official creditors (Obadan, 2002a, 2004e).

Table 5.4: Nigeria's GDP and Balance of Payments on Current Account

Year	GDP at Current Factor Cost (₦mn)	Current Account Balance (₦mn)	Current Account Balance as a Percentage of GDP (%)
1980	49,632.3	13,057.9	26.3
1981	50,456.6	10,070.3	20.0
1982	51,570.3	7,980.9	15.5
1983	56,709.8	6,752.3	11.9
1984	63,006.2	8,234.3	13.1
1985	71,368.1	10,736.9	15.0
1986	72,128.2	8,006.6	11.1
1987	106,883.2	17,138.2	16.0
1888	142,678.3	31,586.1	22.1
1989	222,457.6	59,112.0	26.6
1990	257,873.0	79,810.1	30.9
1991	320,247.3	51,969.8	16.2
1992	544,330.7	93,680.5	17.2
1993	691,600.0	-34,414.7	(5.0)
1994	911,070.0	-52,304.3	(5.7)
1995	1,960,690.0	-186,084.6	(9.5)
1996	2,740,460.0	240,180.0	8.8
1997	2,834,800.0	36,033.6	1.3
1998	2,721,510.0	-330,109.0	(12.1)
1999	3,377,330.0	42,295.7	1.3
2000	4,537,640.0	713,023.9	16.1
2001	4,685,972.2	108,996.0	23.3
2002	5,403,006.8	-117,037.3	(2.2)
2003	6,947,819.9	704,560.0	10.1
2004	11,411,066.9	2,056,326.3	18.0
2005	14,610,881.5	4,205,009.1	28.8
2006	18,564,594.7	4,462,941.1	24.0

Source: Central Bank of Nigeria. Statistical Bulletin, Vol. 9. No. 2, December 1998 Annual Report and Statement of Accounts, December, 1999, 2004 and 2006

Degree of Financial Globalization / Integration.

Financial integration is expected to reflect in the degree of capital flows so that a high degree of capital account liberalisation and financial openness should result in a large volume of realized capital flows. But, as was shown in the case of SSA countries earlier, some poor

countries find themselves in the situation whereby they have achieved significant capital account liberalisation (in the sense of having few or no restrictions on capital flows), but have not achieved financial integration in the sense that they experience minimal capital flows. Others experience significant capital flight which suggests involuntary financial integration (driven by capital flight). In order to shed light on Nigeria's case, Obadan (2005b) employed two measures of financial integration, namely, the savings-investment correlation test and the ratio of gross capital flows to GDP (See Prasad, et al, 2003; Montiel, 1993; Feldstein and Horioka, 1980). The latter measure is a direct measure of financial integration as it captures de facto financial integration in terms of realized capital flows. On the other hand, the former posits that under complete financial integration, the regression coefficient of investment on saving rates should be zero as all countries are able to borrow and lend in integrated world markets. But where the coefficient is close to unity, it suggests much less financial integration and presence of restrictions on capital movements. (Obadan, 2005b).

My estimates of savings – investment correlation coefficients for Nigeria over the period, 1987 – 2002, revealed negative correlation coefficients of –0.214 and -0.259, which results are perverse in relation to theoretical expectations. For most of the years, investment was higher than savings, thus implying that the country financed its excess investment over saving rates by foreign private and public savings, perhaps more of the latter. But the ratio of gross capital flow to GDP was just 8.5 per cent compared to much higher ratios for some other SSA countries over the same period: Angola (15.3%); Guinea Bissau (10.1%); Mauritania (20.9%); Mauritius (10.3%); Namibia (12.4%); Sierra Leone (13.2%) (Table 2.2). Nigeria also had low gross foreign direct investment/GDP ratios compared to some other countries, thus, portraying low financial integration. Table 5.2 shows that Nigeria's gross capital flows and foreign direct investment flows are relatively low compared to the "new globalizing countries" such as Singapore, Hong Kong, Chile, China, Nicaragua, etc.

The above findings from Obadan (2005b) underscore two points. First, the savings – investment correlation results tend to confirm the inherent problems of the poor underlying data. Indeed, the World Bank's African Development Indicators, 2004, observed that the gross national savings and gross national investment figures for Nigeria were distorted from 1994 because the official exchange rate used by government for oil exports and oil value added was significantly overvalued. Second, is the point that even though Nigeria and many other SSA

countries have liberalized their capital accounts, not much foreign capital has flowed to them. Even among the few that have high realized capital flows, they reflect more of capital flight or returning capital inflows into natural resource areas.

Overall, although the various measures indicate that the Nigerian economy is relatively open and liberalized, it has not integrated with the global economy in any meaningful way. And in the view of Owolabi (1998), the integration of the country seems difficult in the present circumstances because the necessary capabilities for inter-industry trade cannot easily be developed in the near future. The notable challenges will be outlined later in this lecture.

5.2 Globalization and Nigeria's Trade

The potential power of trade in economic growth and poverty reduction is largely acknowledged in the literature (See, for example, Ajayi (2007), Tupy (2005), Nwaba (1999), World Bank (2002). The nature of empirical relationship between trade and economic growth has also been explored substantially (See, for example, Feder, 1983; Krueger, 1983; Obadan, 1986a; Fosu, 1990; Soderbom and Teal, 2003; Edwards, 1998; Frankel and Romer, 1999; Iyoha, 2002). Most of these report a positive and significant relationship between exports and economic growth. The Monterrey Consensus (2003) characterized "international trade as an engine for development" and affirmed that "a universal, rule-based, open, non-discriminatory and equitable multilateral trading system, as well as a meaningful trade liberalisation, can substantially stimulate development world-wide, benefiting countries at all stages of development". Indeed, **in** some economies trade has been found to perform the role of engine of growth, especially via high real productivity export sectors (Obadan, 1994b). Furthermore, the export success of the past three decades which has thrown up a number of newly industrializing developing countries (NICs), especially in Asia and Latin America, has provided the primary impetus for arguments by new classical economists that developing countries' economic growth is best served by export promotion and allowing market forces and free enterprise to prevail while minimizing government intervention in the economy in an era of globalization. The important question, at this juncture, relates to how Nigeria has fared in trade under globalization. In a number of studies, I have tried to address this issue, for example, in (Obadan, 1984, 1985, 1986a, 1986b, 1989a, 1993b, 1996a, 1996b, 1998a, 2001d)

Foreign trade, historically, has been of vital significance to the Nigerian economy. The country depends heavily on exports to earn foreign exchange which finances the importation of

essential consumer goods, raw materials, machinery, spare parts as well as transport and other equipment for agricultural and industrial development. Besides, foreign trade provides employment for those directly involved in export and import trade. From a relatively low base of N330 million naira in 1960, the value of total exports has shown remarkable upward growth particularly since the period of structural adjustment programme when the large depreciation of the naira exchange rate led to substantial increases in the value of merchandise exports (Obadan, 1996a). And so, the value of export which stood at only N8.9 billion in 1986 rose to ₦109.9 billion in 1990 and ₦6,372.1 billion in 2005. The provisional figure for 2006 is ₦5,752.7 billion. However, considered in per capita U.S dollar terms, exports have showed declining performance over time excepting the last few years when very high crude oil prices in the world market raised the export earnings in both naira and U.S dollars. Export earnings per capita were as high as US$401.4 in 1980. But thereafter, it declined continuously and drastically to US$82.6 in 1988. However, by 1996, the earnings improved significantly to US$539.3. But as at 2006, export earnings per capita at US$319.4 were less than the value in 1980 (Fig. 9). Even with Nigeria's significantly enhanced oil earnings, the WTO ranked Nigeria as the 43rd exporter in 2006 with a share in world exports of only 0.4 per cent.

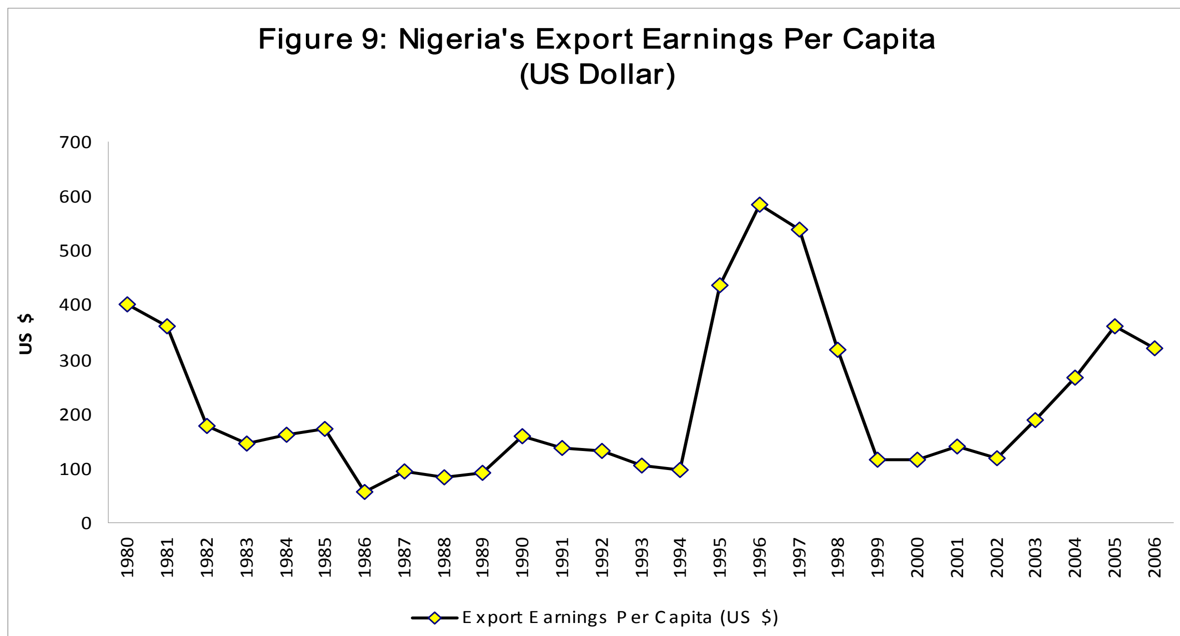
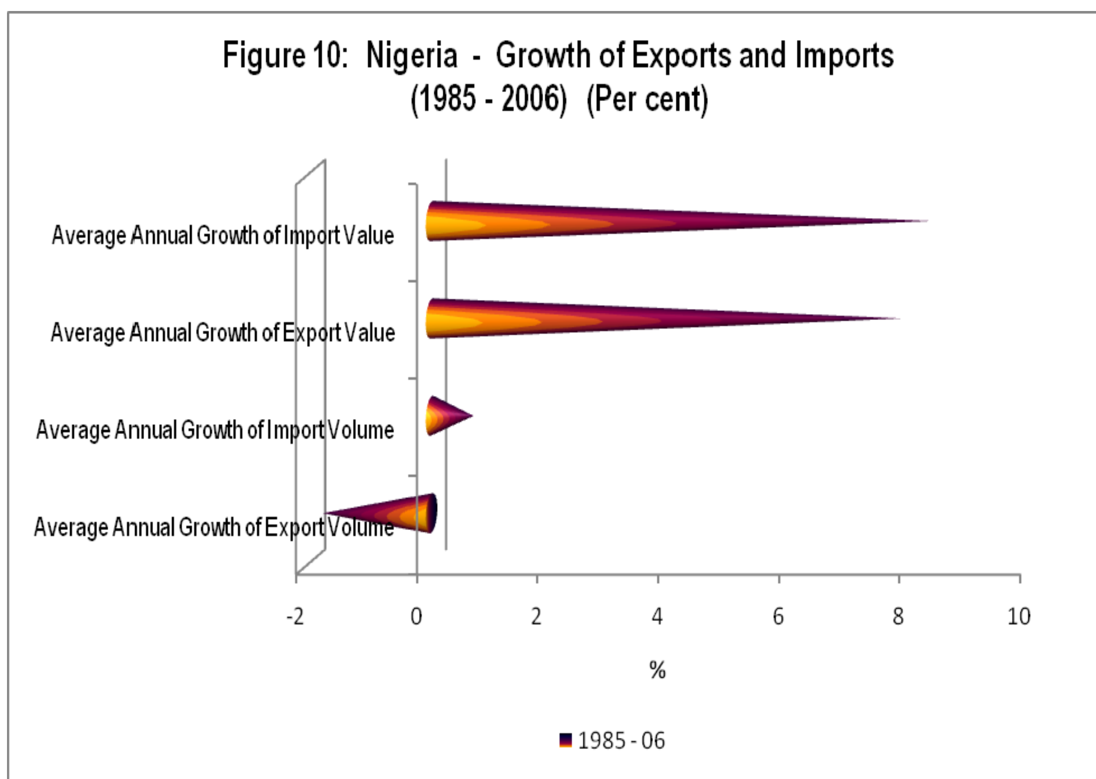


Table 5.5: Nigeria: Growth of Oil and Non-Oil Exports, 1970 – 2006.

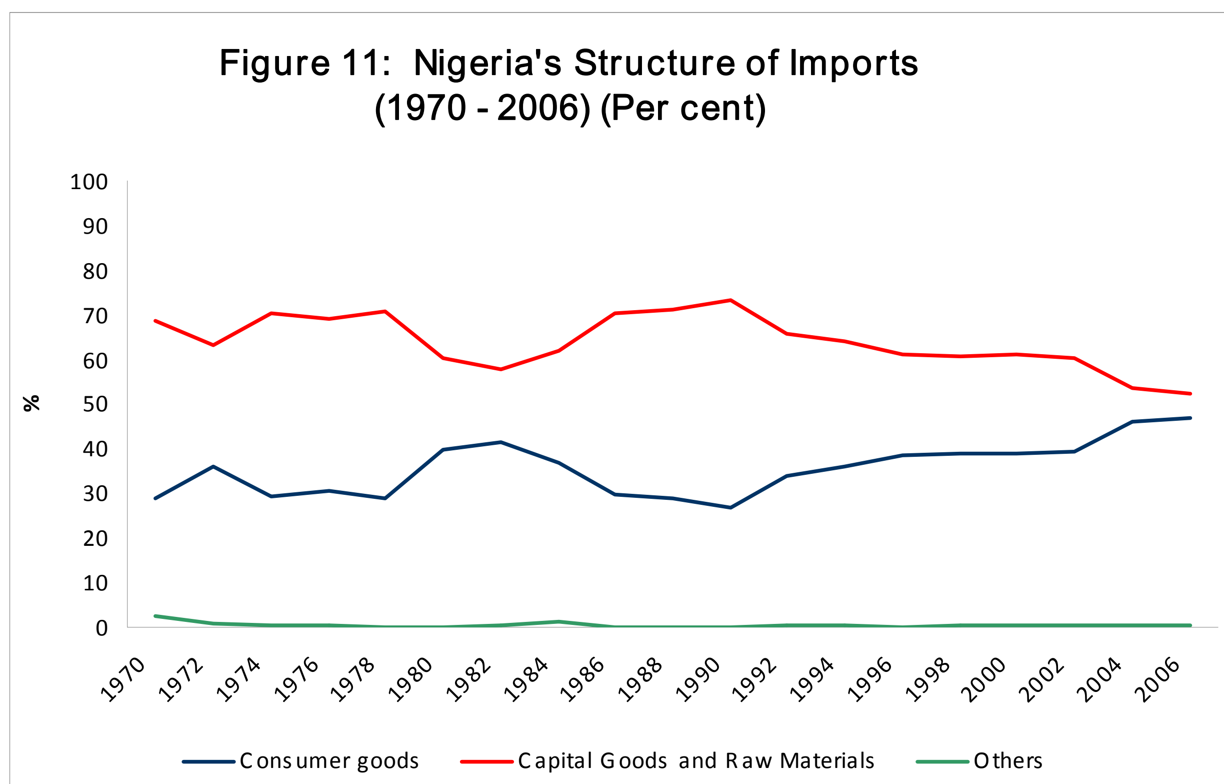
Year	Total Exports(₦' million)	Oil Export (₦' million)	% Share of Oil Exports (%)	Growth of Oil Exports (%)	Non-Oil Exports (₦' million)	% Share of Non-Oil Exports (%)	Growth of Non-Oil Exports (%)
1970	885.4	510.0	57.6	94.4	375.4	42.4	0.9
1975	4,922.5	4,560.9	92.7	-15.0	361.6	7.3	-15.7
1980	14,186.7	13,632.3	96.1	33.0	554.4	3.9	-17.3
1985	11,214.8	10,890.6	97.1	23.2	324.2	2.9	31.0
1990	109,886.1	106,626.5	97.0	93.8	3,259.6	3.0	10.3
1991	121,533.7	116,856.5	96.2	9.6	4,677.2	3.8	43.5
1992	205,611.7	201,383.9	97.9	72.3	4,227.8	2.1	-9.6
1993	218,770.1	213,778.8	97.7	6.2	1,991.3	2.3	18.1
1994	206,059.2	200,710.2	97.4	-6.1	5,349.0	2.6	6.5
1995	950,661.4	927,565.3	97.5	362.1	23,096.1	2.4	331.8
1996	1,309,543.4	1,286,215.9	98.2	38.7	23,327.5	1.8	1.0
1997	1,241,662.7	1,212,499.4	97.6	-5.7	29,163.3	2.3	25.0
1998	751,856.7	717,786.5	95.5	-40.8	34,070.2	4.5	16.8
1999	1,188,969.8	1,169,476.9	98.4	62.9	19,492.9	1.6	-42.8
2000	1,945,723.3	1,920,900.4	98.7	64.3	24,822.9	1.3	27.3
2001	2,001,230.8	1,973,222.2	98.6	2.7	28,008.6	1.4	12.8
2002	1,882,668.2	1,787,622.1	95.0	-9.4	95,046.13	5.0	239.3
2003	3,098,184.9	3,003,092.4	96.8	66.7	95,092.5	3.2	0.05
2004	4,620,085.2	4,506,349.9	97.8	50.0	113,735.3	2.2	19.6
2005	6,372,052.4	6,266,096.6	98.3	39.1	105,955.8	1.3	-6.8
2006	5,752,747.7	5,619,152.9	97.7	-10.3	133,594.9	.2.3	26.1

Source: CBN: Annual Reports; Statistical Bulletin (Various Issues)

Trends in Nigeria's exports have, over the years, been determined in varying degrees by the interaction of many factors, among which are: foreign demand as reflected in the growth rate of output in the industrial countries; prices and volume of crude oil exports and the prices of agricultural commodities, especially cocoa and natural rubber; trade and economic policies pursued by the industrial countries; competition in the world market between OPEC and non-OPEC oil exporters; and energy policies of the industrial consuming countries as reflected in their various conservation efforts and/or quest for greater use of alternative sources of energy. (Obadan, 1996a and 1996b).



The value of Nigeria's merchandise imports has tended to grow very fast over the years. From a value of ₦0.432 billion in 1960, imports rose to ₦12.8 billion in 1981. The economic crisis which ensued in the early 1980s and the subsequent economic stabilization measures led to a sharp reduction in the volume and value of imports. But the growth momentum of imports picked up again in 1985 and the upward trend was maintained thereafter such that as at 2006, the value of total imports was ₦2,528.1 billion or 5,855 times the 1960 figures. As in the case of exports, the sharp depreciation of the naira from the SAP era partly accounts for the observed substantial growth in the naira value of imports. One notable feature of imports is the dominance of producer goods, namely capital goods and raw materials, in the import basket over the years (Table 5.6 and Fig. 11). This is due to the need for capital goods to meet the requirements of the various development plans and industrialization. As the country does not produce capital goods and adequate raw materials, it had to increase their importation. Consumer goods imports, particularly imports of food, have also been quite significant. As at 2002, food imports accounted for 11.2 per cent of total imports.



A number of factors are suggestive as important determinants of the magnitude and structure of imports into Nigeria. They include increased income and foreign exchange levels of the oil boom eras, dependence of the economy on foreign technology and industrial inputs, domestic economic policies aimed at promoting agricultural and industrial development, the needs of the various national development plans and programmes, and trade and commercial policies. Obadan (1985) undertook a comprehensive estimate of import demand functions and elasticities for Nigeria. Unlike previous studies, the nature of desegregation effected allowed appropriate components of income to be employed as determinants of different import categories based on end-use. The empirical analysis revealed the importance of income and other variables as determinants of imports. In particular, it shed light on the roles of such factors as relative prices, foreign exchange availability and trade restrictions in influencing import demand and their implications for policy. For example, the analysis showed the high statistical significance of foreign exchange availability and trade restrictions in import demand. It revealed that tariffs have been effective in reducing consumer goods imports, especially non-durables including textiles. Also, imports of capital goods were found to be primarily determined by income, price and

foreign exchange reserves. One very important finding from that study relates to the estimated import elasticities. They showed that the demand for various import items is generally income and price inelastic. And the very low price elasticities tended to cast great doubt on exchange rate stability and devaluation as an instrument of import control. Hence, the study was not in favour of any official policy geared towards devaluing the naira.

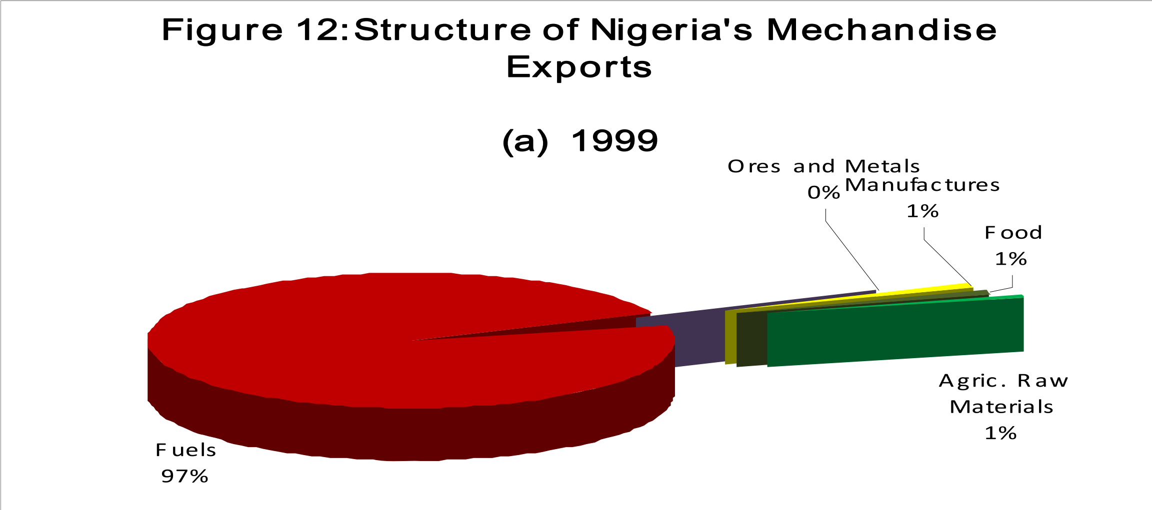
Table 5.6: Nigeria's Imports by Major Groups (1970 – 2006)
(Percentage of Total)

Year	Consumer Goods	Capital Goods & Raw Materials			Others	Total
		Capital Goods	Raw Materials	Total		
1970	28.8	37.7	31.0	68.7	2.5	100.0
1972	36.0	37.0	26.2	63.2	0.8	100.0
1974	29.2	37.2	33.0	70.2	0.6	100.0
1976	30.5	43.7	25.5	69.2	0.3	100.0
1978	29.0	47.6	23.3	70.9	0.1	100.0
1980	39.6	33.5	26.8	60.3	0.1	100.0
1982	41.6	32.8	25.1	57.9	0.5	100.0
1984	37.0	32.2	29.7	61.9	1.1	100.0
1986	29.6	40.8	29.5	70.3	0.1	100.0
1988	28.7	32.0	39.2	71.2	0.1	100.0
1990	26.7	40.5	32.8	73.3	0.0	100.0
1992	33.8	31.7	33.9	65.6	0.6	100.0
1994	35.8	24.8	39.1	63.9	0.3	100.0
1996	38.7	19.2	42.0	61.2	0.1	100.0
1998	39.0	19.9	40.8	60.7	0.3	100.0
2000	38.8	21.1	39.8	60.9	0.3	100.0
2002	39.2	20.9	39.4	60.4	0.4	100.0
2004	46.2	23.8	29.7	53.5	0.3	100.0
2006	47.0	23.6	28.8	52.4	0.6	100.0

Source: Central Bank of Nigeria. Annual Reports. Various Issues.

Various analyses, for example, Obadan, 1986b, 1993b, 1996a, 1996b, and 1989; Ojo, 1989; Falegan, 1978; Obi, 1978; have revealed deep concerns about the features of Nigeria's foreign trade, particularly exports. First, is the primary product-based and undiversified nature and structure of exports coupled with the monocultural nature of the economy. The export structure (Table 5.7 and 5.12) show that Nigeria, like many other African countries, depends heavily on the export of primary commodities for the bulk of her foreign exchange receipts and

domestic revenue, and this has often caused serious problems for economic management. Nigeria's situation is further aggravated by the fact that the economy has become moncultural since crude oil began to make a significant impact from the early 1970s. In the colonial period, up to the late 1960s, Nigeria's primary commodity production and export base was relatively diversified with products such as cocoa, rubber, palm oil and kernel, groundnuts, cotton, ginger, benniseed, etc. Indeed, the agricultural sub-sector dictated, to a larger extent, the pace of growth and development of the Nigerian economy with substantial contributions to the GDP, rural incomes, development capital, foreign exchange earnings and the pace of industrialization (Ojo, 1989; Obadan,1993b)



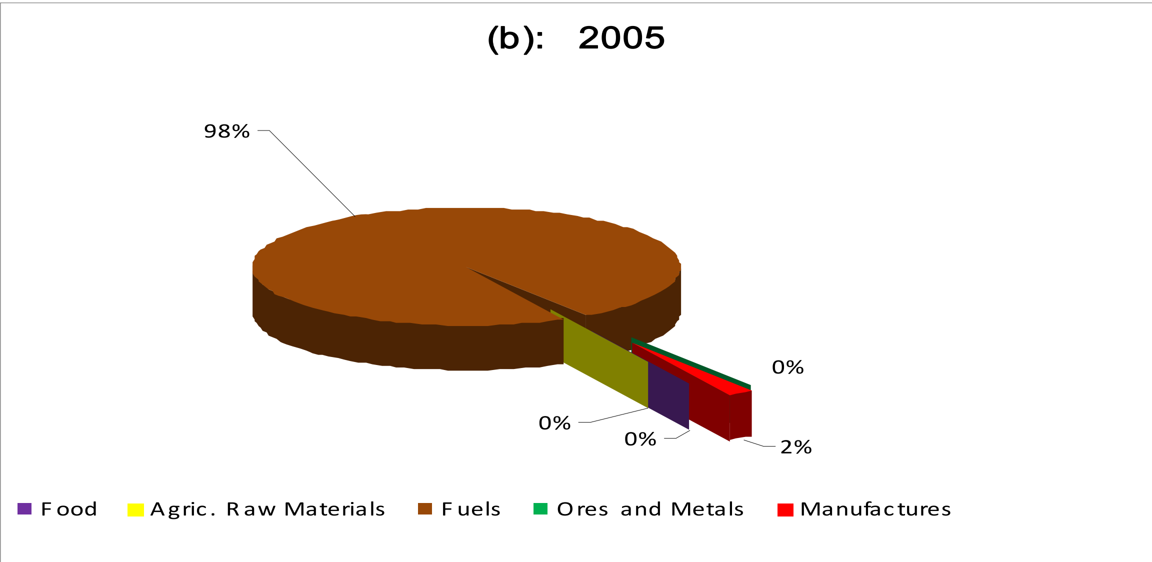


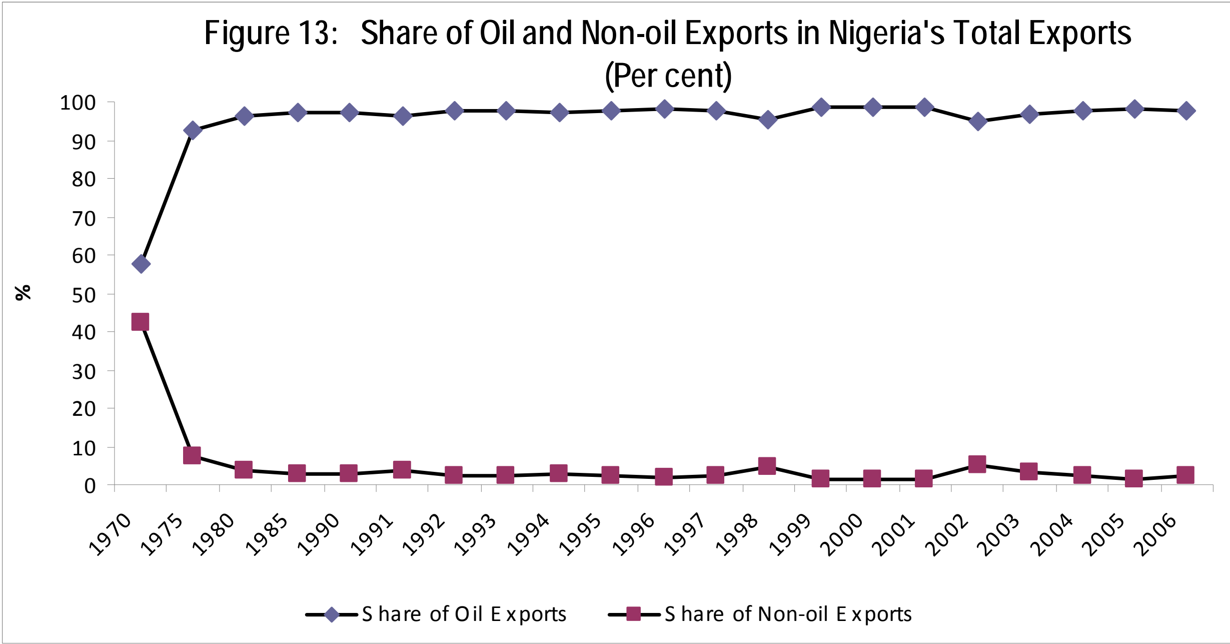
Table 5.7: Nigeria's Export of Major Commodities by Economic Sectors

(Percentage of Total Export Values)

Commodity	1970	1974	1978	1980	1982	1984	1986	1988	1990	1992	1994	1996	1998	2005	2006
Major Agricultural (Including Forest Products)	30.0	4.7	6.8	92.4	0.9	2.3	4.6	9.1	2.6	1.5	1.3	1.0	0.7	0.6	0.9
Cocoa	15.0	2.7	6.2	2.2	0.6	2.0	4.2	7.9	1.1	0.7	0.9	0.6	0.6	0.2	0.3
Palm Kernels	2.5	0.7	0.2	0.1	0.26	0.1	0.1	0.3	1.0	0.1	0.1	0.0	0.0	0.0	0.0
Rubber	2.0	0.6	0.2	0.1	0.1	0.2	0.3	0.9	0.3	0.3	0.3	0.4	0.1	0.1	0.1
Mineral Products	57.8	92.6	89.1	96.1	98.8	0.4	93.8	88.4	97.0	97.9	97.4	98.2	95.5	98.4	97.9
Petroleum	57.6	92.6	89.1	96.1	98.8	97.3	93.8	88.4	97.0	97.9	97.4	98.2	95.5	98.3	97.8
Processed and Semi-Processed Agricultural Products	3.0	0.6	0.5	0.2	0.2	0.4	0.6	0.3	0.2	0.4	0.2	0.2	0.2	0.7	0.9
Manufactured Exports	0.6	0.2	-	3.0	-	-	-	0.2	0.3	0.3	0.1	0.1	0.1	0.2	0.3

Source: Central Bank of Nigeria. Annual Reports; Statistical Bulletin (Various Issues).

Solid minerals, mainly in the form of tin metal, columbite, lead and zinc, also played a fairly significant role in generating foreign exchange for the country. Both the primary agricultural products and solid minerals dominated the export structure up to the late 1960s. But the positive role of the export crop sub-sector in the post-independence period was not sustained from the 1970s. Crude oil became the dominant trade item with relative share in export earnings and domestic revenue generation increasing significantly at the expense of non-oil exports, particularly agricultural products (Table 5.5). Thus, in 1970, crude oil contributed 57.6 per cent of export earnings and just 26.3 per cent of total federally collected revenue. By 1980, crude oil's contribution to total export earnings was a staggering 96.1 per cent while its contribution to government's revenue was 81.1 per cent. As at 2006, petroleum accounted for 97.6 per cent of total export receipts and 88.6 per cent of domestic revenue. The percentage share of non-oil exports declined steadily in the reverse manner (Fig. 13).



Besides the phenomenon of declining share of non-oil exports in total exports, there is the notable feature of disappearance of some erstwhile significant agricultural commodities from the export list, e.g., palm oil, groundnut, ginger, and hides and skins. Apart from the adverse effect

of the ‘Dutch disease’, occasioned by petroleum oil, various factors have tended to constrain the exports of traditional agricultural commodities (see Obadan, 1993b; 1986b; 1989a; and Ojo, 1989). Among the factors are: low production and decline in export volumes, high population growth rates and increased local consumption of some products, low international demand for non-oil exports because of development of synthetic substitutes, discriminatory tariffs and the new entrants into the international commodity markets. There have also been problems of infrastructural constraint, smuggling of export produce, etc.

What then comes to the fore is the failure of the various policy measures, aimed at export diversification over the past three decades, to achieve the desired results. And so, Nigeria’s exports continue to reflect a one commodity structure, featuring the dominance of oil. This has made the economy to be very vulnerable to short-term booms and busts. With the characteristic ‘Dutch Disease’ effect of the oil sector, the non-oil sector of the economy has suffered irreparable damage. That sector of the economy became characterized by wanton neglect, weak production base, poor technological base, low productivity and low level of competitiveness. Structural imbalances in the economy became magnified. And as I had concluded (Obadan, 2001d) the two features of monoculture and concentration in primary products exports have mutually interacted to hinder Nigeria’s effective participation in the globalization process.

A second worrisome feature of Nigeria’s exports is the very insignificant contribution of manufactures to export earnings. Export of manufactures and semi-manufactures of agricultural products has been quite disappointing over the years. Its share in total exports declined from 3.0 per cent in 1980 to 0.5 per cent in 1990. As at 2006, it was just 0.3 per cent (Table 5.7). This is hardly surprising considering the inward-looking nature of the import-substituting industries with concentration on consumer goods and the fact that manufacturing has yet to have firm roots and play a meaningful role in the economy. Its contribution to the gross domestic product is very low, averaging only 4.1 per cent from 2001 – 2006 (Table 5.8). As Obadan (2001d) has shown, the production base for manufacturing has gradually deteriorated over the years with installed capacity being increasingly unutilized because of numerous constraints including uncompetitive-ness of the products arising from high cost of production; low effective demand; infrastructural bottlenecks; foreign exchange constraint; and inconsistent and often destabilizing macroeconomic policies. Thus, average manufacturing capacity utilisation which was 72.3 per cent in 1975 – 82 declined to 37.9 per cent over the 1983 – 98 period. As at 2000, capacity

utilisation was only 34 per cent, less than half of the 1970s figures. However, some improvement has been noticeable in recent years (Table 5.8). This table also reveals deteriorating average manufacturing growth rates over the years.

The inward-looking nature of manufacturing which has produced only 8 per cent of Nigerian firms as exporters (Soderbom and Teal, 2003) has not helped manufactured exports. This situation contrasts with the experiences of the NICs – Brazil, India Mexico, Korea, Turkey and Hong Kong- which have diversified into high-technology industries within the framework of outward – oriented development (Obadan, 1993b) And very importantly, as was noted earlier, manufactured exports have been key to the effective participation of the countries in East Asia in the globalization process and the spectacular growth rates and poverty reduction levels achieved

Table 5.8: Economic Growth, Manufacturing Growth and Capacity Utilisation in Nigeria

Period	Real GDP Growth Rate (%)	Average Manufacturing Growth (%)	Average Manufacturing Capacity Utilisation (%)	Average Manufacturing Value Added (%)
1970 -1974	n.a	10.1	n.a	n.a
1975 – 1979	n.a	23.1	74.5	n.a
1980 – 1984	3.7	-1.5	59.6	9.3*
1985 – 1989	5.7	13.0	40.1	8.3
1990 -1994	4.0	-0.2	37.1	7.9
1995 – 1998	2.8	-1.9	33.9	6.4
1999 – 2000	3.3	3.7	53.3	7.1
2001 – 2006	6.1	8.9	52.9	4.1

Note: * average for 1981 – 84.

Source: Central Bank of Nigeria (2000), and Annual Reports (Various Issues)

Even though Nigeria and other African countries have the advantage of low real wage levels compared to most other regions including Asia, their manufacturing has been uncompetitive internationally. The Africa Competitiveness Index 2000 ranked Nigeria 20th out of 24 countries, underscoring the relative uncompetitiveness of the Nigerian economy. Also, the World Economic Forum's 2006 Global Competitiveness Index (GCI) ranked Nigeria 101st world-wide out of the 125 countries surveyed. Besides, the country lost 34 places (falling to rank 112) in the basic requirements sub-index which highlights the fundamentals for achieving

sustained growth, namely, strong institutions, adequate infrastructure, a supportive macroeconomic environment, and good basic health and education. The Forum expressed concern that despite Nigeria's tremendous oil wealth and competitive potential its indices had remarkably deteriorated. The policy environment along with institutional factors has not been favourable to manufactured exports. This means that the national business climate has not promoted a high level of competitiveness of the economy while many other factors raise transaction costs and inhibit manufactured exports. These factors have been variously analyzed in, for example, Dangote (2001), Obadan (1986b; 1993b), Osakwe (1987), Obi (1978). Among the constraining factors are the following: high cost of imported equipment, multiple levies and taxes, low production level occasioned by shortage of essential inputs, high production costs, (reflected by high cost of working capital, depreciation of the naira, corruption and inflation) which undermine international competitiveness. Others are institutional and infrastructural bottlenecks, poor quality of products, dumping of imported goods, and unpredictable government policies. Thus, as Obadan (2001d) has argued, under the circumstances, even an efficient manufacturing activity tends to have a low ratio of value added to product price.

A third feature of Nigeria's foreign trade relates to the direction of trade. The U.SA and European Community countries are the major buyers of Nigeria's exports, although in recent years, Asian countries, particularly, India and Korea have become notable buyers of the country's exports (oil). As at 2004, the Americas purchased 58.8 per cent of Nigeria's oil exports while the USA alone bought 43.8 per cent of the exports. The countries that purchase Nigeria's exports are also the major suppliers of her imports, particularly Western European countries. But, rather worrisome as Obadan (1996a, 1996b and 2007d) points out is the fact that Nigeria's import and export trade with her neighbours – ECOWAS countries – and other African countries is relatively insignificant and unstable. The trade potentials with these countries would need to be explored in order to minimize the inherent problems in the traditional markets. This is particularly important as it is undesirable for a country to concentrate exports and imports in a few markets as it is unhealthy to concentrate on one commodity export – crude oil. Concentration on a few markets means that the country will experience instability in foreign exchange earnings when the economies of her few trading partners experience shocks, for example, depression or recession. The case for Nigeria to diversify her exports structure as well as markets is thus very strong.

This leads us to the final and very worrisome feature of Nigeria's export trade, namely, instability of earnings from agricultural products and crude petroleum exports as a result of fluctuations in prices and volumes. In various studies, Obadan (1984, 1986a and 1988c) has provided significant insights into the sources and causes of instability in Nigeria's foreign trade as well as the impact of the instability on the country's economic development. In his comprehensive estimate of instability indices for all of Nigeria's foreign exchange receipts and payments, Obadan (1984 and 1988c) found high degrees of instability in respect of a number of export items. Oil export receipts were found to be much more unstable than non-oil export earnings. Perhaps, because of the huge influence of oil exports, total merchandise export earnings also exhibited a high instability index.

In one of the two studies (Obadan, 1984) is the notable finding that specialization in production and export of primary products is a major cause of instability in Nigeria's export earnings. This is due mainly to concentration on petroleum whose earnings have been shown to have a high record of severe fluctuations. Instability of crude petroleum prices was also found to contribute significantly to fluctuations in total export proceeds. Another significant revelation was that the nature of export markets greatly increased instability in crude petroleum earnings. One major implication of export earnings instability is that it inhibits successful development planning. Indeed, the Fourth National Development Plan, 1981 – 1985, was completely derailed following the devastating negative shock experienced in the world oil market in 1981. In his further empirical work, Obadan (1986a) confirmed that export instability has deleterious effects on Nigeria's economic development. Although a direct association of export instability with economic development showed a relatively weak relationship, further empirical evidence revealed that export instability strongly inhibits development indirectly. In this direction, export instability was found to be highly detrimental to the growth rate of investment as well as resulting in smaller proportions of national income being invested. The quantitative analysis also solidly supported the a priori claim that Nigeria's economic growth and development is export-led.

The various studies threw up relevant policy implications, one of which is the need for a diversification programme to direct exports into relatively stable markets. A second is the mechanism of industrialization as a method of reducing instability in export earnings. Since empirical evidence indicates that manufactures generally have less volatile prices than primary

commodities, diversification away from primary commodities into manufactures is strongly suggestive. This, of course, implies a proper tackling of the myriad of constraints on manufactured exports from Nigeria. Finally, also suggestive is the need for export stabilization schemes. And since crude oil exports constitute over 95 per cent of Nigeria's export earnings, the studies support any efforts by the Organisation of Petroleum Exporting Countries to stabilize the quantity and prices of crude oil exports through the maintenance of production quotas and stable prices.

5.3 Globalization and Foreign Capital Flows to Nigeria

International capital flows is a major indicator of financial globalization. Against the background of financial and capital account liberalisation, the larger the share of a country's capital flows in global capital flows the more financially globalized it is taken to be. As some authors including Obadan (2004d and 2004e) have observed, foreign capital inflows are usually perceived as a good thing and as an indicator of success, reflecting a record of prudent macroeconomic management. The potential benefits deriving from foreign capital, especially foreign direct investment (FDI), are seen as emanating from the inflow of foreign exchange, new technology, local value added, generation of employment, infusion of labour skills, contribution of taxes and royalties, and creation of external economies elsewhere in the economy, beyond the investment project itself. The free flow of capital is seen as something which enhances economic welfare as it channels savings to their most productive uses, boosts economic growth, reduces volatility of consumption and creates opportunities for portfolio diversification. But the free flow of capital also entails substantial risks/costs, one of which is financial crisis. A detailed analysis of these costs are in, for example, Obadan 1999a; 2004d, 2004e; Haque, Mathieson and Sharma, 1997; Griffith-Jones and Gottschalk, 2003; Stiglitz, 2003). It is in the light of these costs that the observation has been made to the effect that a flood of capital into economies with immature and poorly regulated financial institutions had tended to do more harm than good (Obadan, 2004e). Besides, more capital inflow may not automatically translate into higher growth. What is also needed in this regard are better government policies and stronger institutions if growth is to be achieved which will lead to a reduction of poverty and inequality.

Nature and Features of Capital Flows to Nigeria

Apart from foreign financial aid, Nigeria has experienced three major types of capital inflow: foreign direct investment, portfolio investment and loans/debt flows.

Portfolio Investment: This is a type of foreign investment which needs to be least preferred, and not encouraged, by a developing economy with weak institutions because of its feature of volatility. Some types of portfolio investment (in particular, the hot money variety such as short-term bank loans) are very risky and can be reversed in a very short time. This is because foreign portfolio investors may suddenly decide to leave the country in which they are investing owing to factors that are not connected with problems in economic fundamentals but due to herd behaviour (Obadan, 1999 and 2004b). Such behaviour can cause financial crisis and recession. However, portfolio investment flows to Nigeria have, from my various analyses, not been significant compared to foreign direct investment. The volume of portfolio investment in Nigeria has been quite low. Indeed, up to the mid – 1980s, Nigeria did not record portfolio investment in the balance of payments, perhaps, partly because of the non-disclosure of information on portfolio investment abroad by Nigerian investors. Available data show that in 1986, the balance of payments recorded net portfolio investment inflow of just N151.6 million. And between 1989 and 1998 net portfolio investment inflow was negative, excepting 1992 (Table 5.9 and Fig. 14), invariably due to the absence of an enabling environment and non-internationalization of the capital market. However, from the 1990s, the Nigerian government took measures to promote the internationalization of the domestic money and capital markets. And since 1999, net portfolio investment inflow has been positive, rising up to ₦375,858.9 million in 2005. This positive trend is attributable not just to the internationalization of the capital market but also to the increased efforts of the government at investment promotion.

Table 5.9: Net Portfolio Investment and Net Foreign Direct Investment Flows to Nigeria (₦ million)

Year	Net Portfolio Investment	Net Direct Investment
1986	151.6	735.8
1986	151.6	735.8
1987	4,353.1	2,452.8
1988	2,611.8	1,718.2
1989	-1,618.8	13,877.4
1990	-435.2	4,686.0
1991	-594.9	6,916.1
1992	36,851.8	14,463.1
1993	-377.0	29,660.3
1994	-203.5	22,229.2
1995	-5,785.0	75,940.6
1996	-12,055.2	111,297.8
1997	-4,780.5	110,456.2
1998	-637.1	80,751.1
1999	1,015.8	92,795.3
2000	51,079.1	115,952.2
2001	26,317.1	132,481.0
2002	24,871.4	225,972.0
2004	23,629.5	249,157.7
2005	375,858.9	302,753.4
2006	117,218.9	573,835.1

Source: CBN. Economic and Statistical Bulletin, Vol. 5, No. 2, Dec. 1994, 2000; Annual Report, Dec. 2006. Statistical Bulletin, 2002.

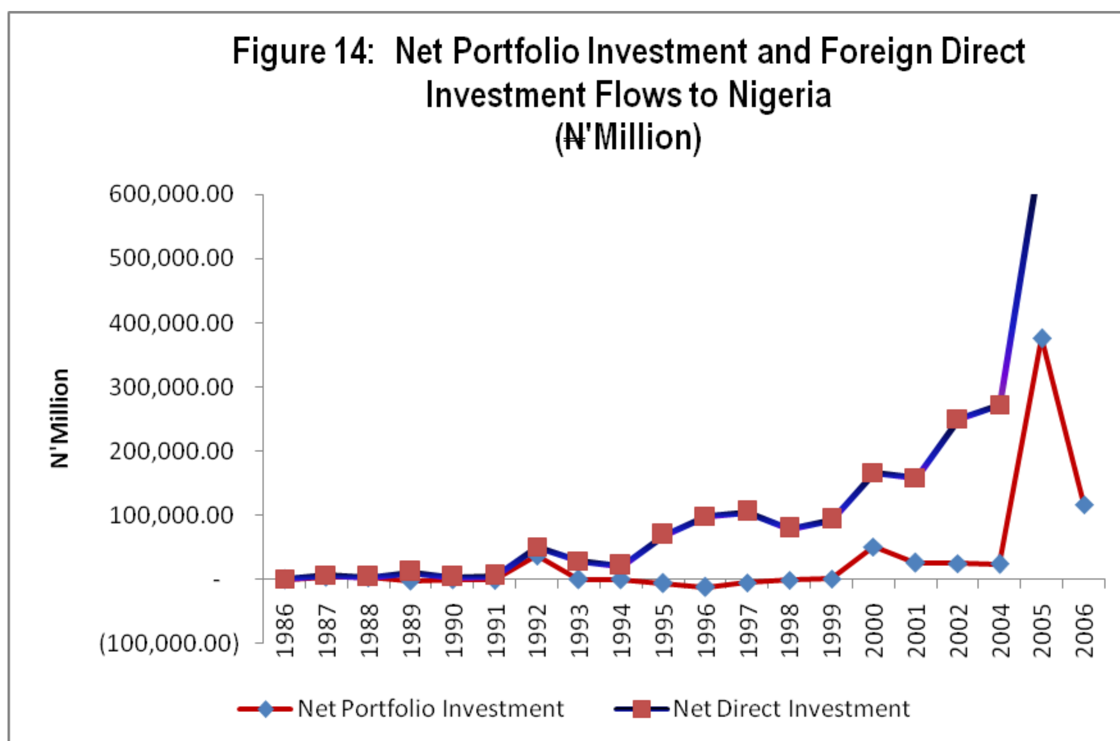


Figure 14: Net Portfolio Investment and Foreign Direct Investment Flows to Nigeria (₦'Million)

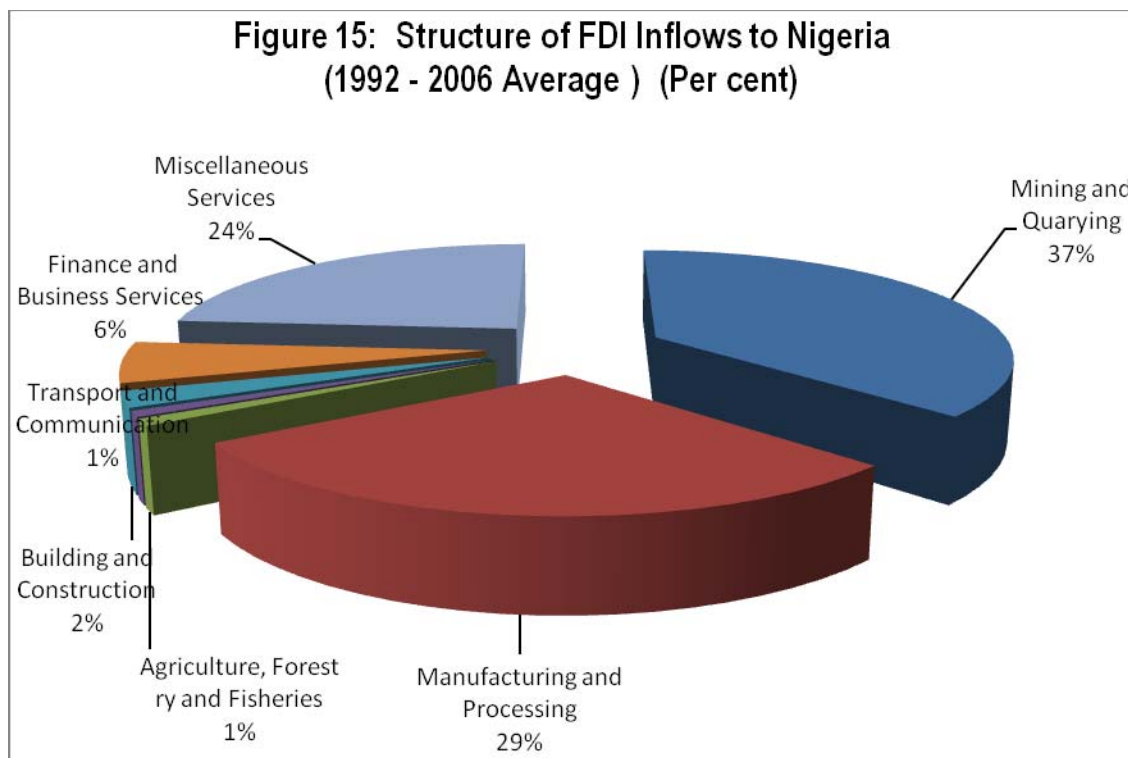
Foreign Direct Investment: This is the most advantageous form of capital inflow, particularly in relation to debt flows. As Obadan (2004d and 2004e) has argued, in view of its clear benefits and advantages in relation to the other forms of capital inflow, FDI should be preferred and accorded priority in considerations of external finance. Not only does it bring money and machines but also technical know-how. It helps in industrialization, in building up economic overhead capital, and in creating larger employment opportunities. FDI has been found to be associated with a crowding-in of domestic investment and productivity growth. Besides, it poses lesser risk than external debt for the borrowing country. Indeed, FDI has the advantage that it is a non-debt-creating international flow as it does not add to a country's contractual debt service obligations. And available empirical evidence supports the prevailing view that long-term capital flows, particularly FDI, are more stable than other flows. No doubt, in the light of these advantages, FDI does have a lot of attraction. But some benefits of FDI can become questionable and there are also various costs to the host country, which tend to offset the benefits and are of considerable concern. See for example, Obadan (1999a, 2004d, 2004e, 2007b), Khor (2001), IMF (1985), UNCTAD, (1997), etc. In the light of the costs, a crucial challenge, for policy makers is how to promote foreign investment inflow while minimizing costs.

One notable thing about Nigeria is that the country has a high potential for attracting foreign investments. Not only does the country have a large market, represented by a large and virile population, it is richly endowed with natural resources – mineral deposits, especially oil and gas, vegetation, arable agricultural land, etc. She also has cheap trained labour force. Yet, the country has not benefited much from foreign investment inflow. While net FDI flows to the developing countries as a whole have been increasing steadily since 1990, the relative share of the increasing flow attracted into the Nigerian economy maintained a low and declining level from 2.4 per cent in 1990 to 0.7 per cent in 2005. Obadan (2005e) and Central Bank of Nigeria (2001) explain the low level of FDI inflow in terms of numerous constraining factors, among which are macroeconomic instability and poor infrastructural facilities. Besides, Nigeria's high external debt burden, until 2005, influenced adversely foreign investors' perception of the health of the economy. Similarly, the incessant social and political instability, insecurity of life and property tended to undermine Nigeria's efforts in attracting FDI. Thus, as Stern (2002) and World Bank, (2007) have stressed, open trade and investment policies will generate little or no benefits if other institutions and policies (embodied in the investment climate) are not in place or are bad. To Stern, "if you have an unreliable power supply, no financial depth, lots of harassment from government officials, a high level of corruption, and a very low skills base, then more open trade and investment policies, beneficial though they are likely to be, are unlikely to generate increases in productive investment and employment". This scenario fits the Nigerian situation which reflects low FDI inflow inspite of a huge internal market and largely open trade and investment regimes. Indeed, Obadan (1982), Anyanwu (1998) and Iyoha (2001) in their various quantitative analyses of the determinants of FDI inflows confirm the importance of domestic market size, among other factors, in determining FDI inflow into Nigeria. But the potential of this market has yet to be fully realized.

An analysis of the relatively low magnitude of FDI inflows reveals the following features.

- Net FDI flows (i.e., inflow minus outflow) has since 1970 generally been positive excepting 1989 and 1990, rising from N121.6 million in 1970 to N41,470.8 million in 2006. The figures represent low percentages of 2.3 and 0.22 of GDP in 1970 and 2006, respectively.
- Cumulative FDI is concentrated in the mining and quarrying, manufacturing and processing, and trading and business services sectors. In the period, 1992 – 2006, mining and quarrying

accounted for an average of 36.5 per cent of FDI inflow compared to 28.6 per cent for manufacturing and processing (Fig. 15). However, the data indicate relative decline in the share of mining and quarrying in recent years in contrast to manufacturing shares. The agriculture, forestry and fishing, and other sectors have attracted very much less foreign investment. Agriculture has not been attractive to foreign capital, perhaps, because of its long gestation period, relatively low rates of return, low technology, etc. Thus, inspite of a large domestic market and government incentives, agriculture has continued to maintain the least share of FDI in Nigeria.



- And although in the last few years, FDI has trended upwards, particularly, in the services, real estate and telecommunication sectors, overall, capital inflows into Nigeria are still small in relation to GDP, and compared to many other developing and developed countries. Thus, as Obadan (2005a) has stressed, the response of FDI flows to the various incentives and promotion measures has not reached the level to warrant celebration. Therefore, a lot still needs to be done to attract a significant amount of strategic and productive investment to Nigeria. This requires improving the investment climate and addressing the problems and

challenges of the Nigerian capital market. And earlier, Obadan (2004e) had shed light on the desirable features of an alluring investment climate that government policy must focus upon. Among others, they include macroeconomic stability and consistent policies, transparent rules and regulations, political stability, a good investor orientation, adequate infrastructure, security of life and property, improved education and human capital development.

Although capital inflows into a developing country may be beneficial under certain circumstances, serious problems arise when the return flows of interest, profits and dividends on the accumulated investments and repatriation of capital put pressure on the developing country's balance of payments. Indeed, in his analysis of investment income remittances from Nigeria, Obadan (1978 and 1980b), observed that the position of dependency on foreign investment may create a situation where the real net export proceeds or real net import savings are low (or even negative) and grossly insufficient after allowing for remittances of profits, dividends, management fees, salaries of expatriate personnel, etc. Indeed, remittances may become so substantial relative to capital inflow that foreign direct investment ends up in net capital out-flow rather than inflow for a developing country. Under such circumstances, the benefit of foreign direct investment becomes dubious.

In the case of Nigeria, available data show that direct investment income remittances were rather insignificant by the end of the 1950s, averaging ₦12.6 million in 1955 – 60, but had become quite substantial by the middle of the 1960s. As at 2004, the investment income remittances stood at ₦793,777.7 million and this was 40 times the net FDI inflow of ₦19,908.7 million. The amount of remittances also stood at 17.2 per cent of exports or 35.2 per cent of external reserves. In general, the net inflow of investment funds has grown very much less than profit and dividends remittances. The ratios of direct investment income remittances to net investment inflow became staggering in the last decade being as high as 11,938.0 per cent in 2000. Thus, the repatriation of direct investment income from Nigeria has been quite high both in absolute magnitude, and in relation to various economic indicators. In the light of the significant remittances, the contribution of FDI to economic development of Nigeria becomes significantly reduced below whatever it would have been. While foreign investment might have aided the growth of industrial production in the country, part of this growth has become illusory because of the liabilities of repatriated earnings (Obadan, 1980 and 2007d). Thus, as I had

observed, the view expressed by Baran and Sweezy (1973) may indeed be true in some instances. It is that:

> foreign investment, it seems, far from being a means of developing underdeveloped countries, is a most efficient device for transferring wealth from poor to richer countries while at the same time enabling the richer to expand their control over the economies of the poorer.

Thus, as Box 5.1 suggests, unless the host country is quite cautious foreign direct investment can be counter productive.

Box 5.1: Implications of Direct Investment Income Remittances.

The analysis has shown that unless the host country is quite cautious direct foreign investment can be counter productive. Indeed, excessive dividend remittances vis-à-vis capital inflow may result in net outflow of funds from (rather than inflow into) a developing country. The case of Nigeria supports this.

Admittedly, direct foreign investment can be an important stimulus to economic growth and social development in developing countries as long as the interest of the foreign investors and host governments are congruent. But in many cases this is not so since many multinational corporations (MNCs) see their role in terms of global output or profit maximization with little interest in the long-run domestic impact of their activities. Consequently, it is important for developing countries to regulate the activities of MNCs to ensure their cooperation in the spheres of taxes, investment income remittances, reinvestment, non-political interference and the avoidance of bribery and corruption. Specifically, MNCs must make substantial reinvestments (although the long-run desirability of this is even in doubt) and conduct researches in the host countries rather than in their metropolitan capitals. Otherwise, developing countries may have to absorb substantial portions of the profits, by fiscal measures, for their economic development.

Source: Obadan (1980b)

5.4: Foreign Capital Flows and Debt Accumulation

One key fall-out of foreign capital flows is external debt which derives from foreign borrowing. This means that foreign borrowing creates external debt which must be paid. Also, it has to be managed in an efficient manner, otherwise a debt crisis ensues (Obadan, 2007e). But then, foreign borrowing arises because of the need to finance the excess of a country's total expenditure over the national product. It allows a country to invest and consume beyond the limits of current domestic production and, in effect, finance capital formation not only by mobilizing domestic savings but also by tapping from capital surplus countries. If properly used,

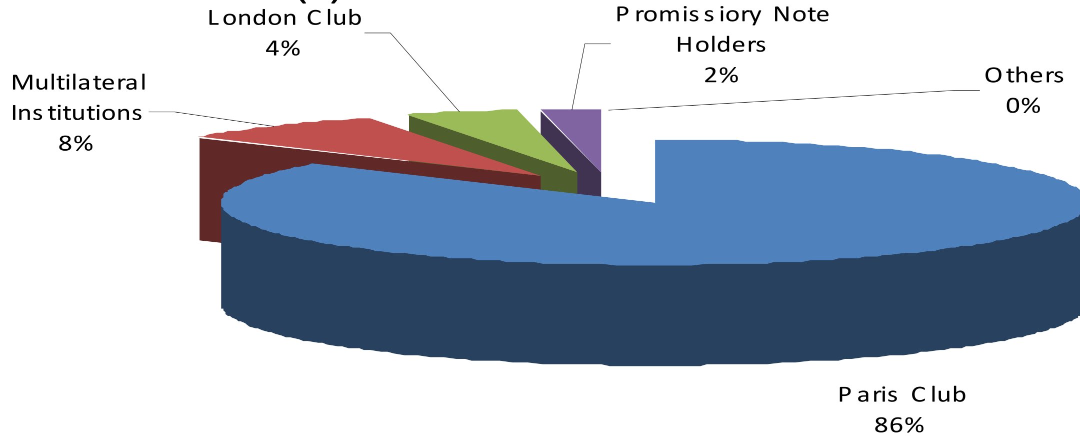
borrowed external resources can greatly benefit a developing country and contribute to its growth. In the context of an open economy, as foreign borrowing is the excess of import of goods and services over export of goods and services, and net borrowing creates debt that can be repaid if exports exceed imports, there will be no debt problem if export earnings grow rapidly and provide the foreign exchange to service the debt. Thus, as Obadan (2004d and 2004e) has stressed,

> "a country that relies on foreign borrowing should be able to generate sufficient increase in output and, in particular, export earnings, to be able to meet its debt obligations and, hence, avoid falling into a debt trap. In as much as foreign loans are desirable, a country must avoid indiscriminate and uncontrolled borrowing as this not only negates a country's self reliance policy objective but also increases its dependence on external creditors with their attendant stranglehold on the debtor country's economy particularly through the role of some international financial institutions whose actions portray them as debt collectors for western creditors".

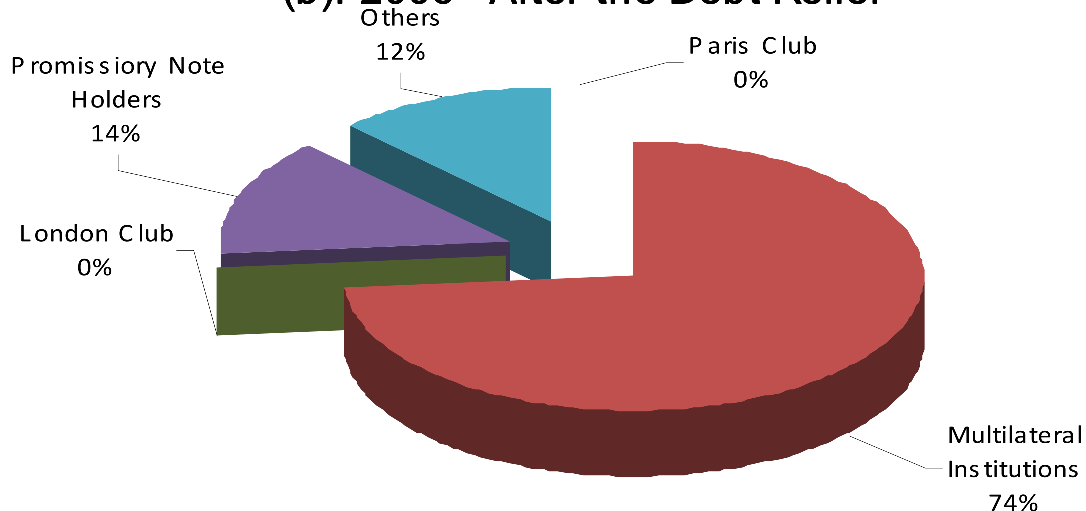
The analysis of various aspects of Nigeria's debt management by Obadan (1988a, 1992a 1999a; 2002a; 2003d; 2004d; 2004e) provided deep insights into the country's debt features and problems. Capital flows to Nigeria has tended to be accompanied by serious debt problems, particularly against the background of very weak and defective management of the external debt. The situation has been such that until 2005 when the country secured substantial debt relief from her creditors, Nigeria was one of the Heavily Indebted Poor Countries (HIPCs), although not officially so classified for the purpose of benefiting from the HIPC debt relief imitative. The country borrowed heavily in the past but mismanaged or diverted the loans in the service of corruption, thus resulting in an external debt crisis and a debilitating debt burden. The external debt stock which was less than one billion US dollars in 1976 grew in leaps and bounds and became very large in absolute magnitudes from 1977 onwards with the contracting of US$ 1.0 billion 'jumbo loan' from the international capital markets in 1978. Many loans were contracted thereafter and the debt stock stood at US$ 18.9 billion and US$ 33.4 billion in 1985 and 1991, respectively. As at 2004, the external debt stock was US$ 35.9 billion, or US$ 276.4 per capita. It reduced to only US$ 3.5 billion in 2006 because of the cancellation of the Paris Club debt in that year. Fig. 16 and Table 5.10 show the structure of the external debt before and after the debt relief.

Figure 16: Structure of Nigeria's External Debt (Per cent)

(a): 2004 - Before the Debt Relief



(b): 2006 - After the Debt Relief



Corresponding to the fast growth in the debt stock was the phenomenon of huge debt service payments on which the country fell into huge arrears because of foreign exchange constraint and unproductive loans. Nigeria made cumulative debt service payments of about US$ 37.0 billion to all creditors between 1985 and 2004 (CBN Annual Report, 2005). Yet, the debt remained unsustainable and the phenomenon of capitalizing accrued arrears on deferred

payments persisted. As Obadan (2004e) had observed, the burden of amortization and interest payments had tended to drain the nation's resources and reduce the possible expenditure of resources on productive ventures. Emphasizing the implications of huge debt service payments for economic growth, the Governor of the Central Bank of Nigeria at a seminar in October, 1997, warned "that the heavy debt burden that the country is experiencing has reduced investible funds that could have aided the development process. The increasing net transfer of resources from Nigeria is compromising the objective of economic restructuring

The inefficient management of Nigeria's external debt has reflected in the following features (Obadan, 2002a; 2003d; 2004d; 2004e):

Table 5.10: Structure of Nigeria's External Debt, 2004 and 2006

2004 (Before the Debt Relief)			
Paris Club	-	US$30.85 bn	(85%)
Multilateral Institutions	-	US$2.82 bn	(7.9%)
London Club	-	US$1.44 bn	(4.0%)
Promissory Note Holders	-	US$0.78 bn	(2.2%)
Others	-	US$0.048 bn	(0.1%)
2006 (After the Debt Relief)			
Paris Club	-	US$0.0 bn	(0%)
Multilateral Institutions	-	US$2.608 bn	(73.5%)
London Club	-	US$0.0 bn	(0%)
Promissory Note Holders	-	US$0.509 bn	(14.4%)
Others	-	US$0.427 bn	(12.1%)

Source: Central Bank of Nigeria. Annual Report, 2005 and 2006

- excessive borrowing of medium-term high cost funds in relation to profitability and export earnings;
- inappropriate borrowing terms, reflecting variable and rising interest rates and shorter maturities as well as accumulation of arrears in the mid 1980s;
- inappropriate debt maturity profile, resulting in bunching of repayments;

- inadequate information on the volume, composition and maturity profiles of debts;
- continued increase in the debt stock even when no new fresh loans are contracted; and
- very importantly, mismanagement of borrowed funds.

Box 5.2: Findings on Nigerian Government Projects Financed with External Loans

i. Eighteen projects, described as "failed projects", financed with credits and loans amounting to $836.17 million were never executed; the projects never had sites, and where they did, they were never cleared; and there was nothing on ground. Yet, the loans have been drawn down and are being serviced by government;

ii. Forty-three projects, categorized as "distressed" financed with loans amounting to $4,446.0 million, were implemented in most cases up to the stage of commissioning, but were either not commissioned or where they were commissioned, they had to close down soon after; and

iii. Eighty-four projects, financed with loans amounting to $8,438.8 million, were surviving and operating at some capacity level during the appraisal. The bulk of them are irrigation and water supply projects.

Source: Federal Government Budget Statement, 1997; Obadan (2004d)

The issue of poor use or mismanagement of borrowed funds has been a worrisome aspect of Nigeria's debt management. Most of the loans which were procured from private sources with unfavourable terms were either diverted or spent on projects which were unable to generate funds to service the underlying debt. The Federal Government, through the 1996 budget, acknowledged that many of the projects financed by external loans were either uncompleted or partially completed, and where they had been completed, they were not functioning. Box 5.2 shows the highlights of findings of an appraisal by the Federal Ministry of Finance of 145 projects executed in 30 states of the federation and Abuja. In his analysis of the implications of the findings, Obadan (2004d and 2004e) noted that over 40 per cent of the sampled projects were not yielding any economic and social benefits at all. Even those that survived barely yielded any meaningful economic and social benefits. All expectations from the projects relating to their contribution to government revenue, labour employment, and overall growth and development of the economy, have not materialized.

Under the circumstances, it was hardly surprising that external debt became highly burdensome for the economy and debt servicing became problematic, particularly in the face of ineffective debt management strategies such as debt restructuring entailing financing of trade arrears, debt buy-back, debt conversion programme and debt rescheduling. The latter was particularly popular with the past governments and four debt rescheduling exercises were undertaken between 1986 and 2000. But as Obadan (2004e) has argued, the reliefs obtained from the reschedulings were temporary and inadequate, considering that the effective maturity dates of debts were merely postponed by the exercises; the rescheduling also entailed various costs, such as imposing higher commitment charges, hindering development in the long-run, building up obligations for the future, and creating problems for posterity and future governments (Obadan, 1988a). After four rounds of rescheduling exercises, effective debt stock reduction did not happen and the burden of debt was becoming unbearable.[9]

In view of the inherent weaknesses of the traditional debt relief mechanisms, particularly, the debt rescheduling strategy, I had argued that it must be jettisoned in favour of debt-reducing mechanisms entailing debt cancellation or debt forgiveness. The need for a significant reduction in the debt burden through debt cancellation was very compelling. In my book, Foreign Capital Flows and External Debt (Obadan, 2004e), I made a strong case for debt cancellation for Nigeria, long before the country obtained significant debt relief in 2005. The book argued for an International Development Association (IDA) – only treatment for Nigeria which would enable her debts to be cancelled or substantially reduced so that the country can flexibly use the free debt servicing funds to meet the urgent challenges of poverty reduction, social and economic development that it (country) faces. If Nigeria were to have an IDA – only status, of the type accorded Bosnia and Yugoslavia (countries with much higher per capita income than Nigeria), it could immediately be entitled to a cancellation of 67 per cent of the debt stock at the decision point of the Heavily Indebted Poor Countries (HIPC) Debt Relief Initiative. The specific arguments that I had advanced for the international creditor community to cancel Nigeria's debt included the following:

[9] Stressing the burden of debt on the Nigerian economy, former president Olusegun Obasanjo stated as follows, "in 1999, we inherited a debt portfolio that had us servicing at levels which tripled our education budget. This was unacceptable to me as we were not even touching the principal amount". In: forward to The Story of Overview of Public Expenditure in NEEDS. (Abuja: The Presidency, Government of Nigeria).

- Nigeria has the economic characteristics of an IDA – only country (i.e., a poor country) - low per capita income, low export earnings per capita, high incidence of poverty, heavy debt burden, no borrowing from the International Bank for Reconstruction and Development (IBRD) since 1993, etc. The IMF (2002) even acknowledged that Nigeria has the income and credit worthiness characteristics of an IDA – only country (GNP of $260 in 2000 and no market access);
- Unsustainable external debt profile. Debt sustainability analysis suggested unsustainable debt profile without debt relief.
- Nigeria has economic and social indicators similar to many other HIPCs. For example, the average per capita income of the first 22 HIPCs approved for debt reduction is $390.0 per annum compared to about $260.0 for Nigeria. In the sphere of social needs, burden of disease, urgency of a poverty and social strategy, Nigeria is exactly where the other HIPCs are. Thus, Nigeria's status is comparable to the other HIPCs.
- Owing to the draconian terms under which most of the loans were taken in the first place, Nigeria had more than paid what she ought to pay. The records show that up to a point, Nigeria borrowed about $12.0 billion from the Paris Club of official creditors; she had since paid a total of over $17.0 billion debt service, yet she owed over $21.0 billion to members of the club. Thus, with the above arguments, a firm basis was laid for the debt relief obtained by the country in 2005.

Under the External Debt Relief Deal obtained from the Paris Club in June, 2005, the Paris Club granted Nigeria an IDA - only status which was an acknowledgement of the merit in the debt relief arguments. An agreement was reached to cancel 60 per cent ($18.0 billion) of Nigeria's debt of $30,847,814,530.0 with the Paris Club. On its part, Nigeria was to pay a total of $12.4 billion to the Paris Club to completely exit from the debt owed to the Club. This amount has been paid. Accordingly, as at December 2006, Nigeria had completely exited the Paris Club debt and owed no debt to the Club (Table 5.10). In the light of this, Nigeria must strive to avoid being enmeshed in another round of debt crisis in the future. She must imbibe the principles of sound debt management which requires that external loans be invested in export-increasing activities or import-reducing activities. In general, if foreign loans are desirable and necessary to accelerate economic development, they must be channeled in such a way as to increase the

productive capacity of the economy in order to enhance easy repayment and promote economic growth (Obadan, 2004d).

5.5: Globalization, Growth and Development

One prevailing view in the economics literature is that globalization, through the channels of openness, trade and investment, has a positive and significant relationship with the rate of economic growth. Indeed, some view globalization as holding the key to rapid economic growth (Uwatt, 2004). Yet, the empirical evidence has not produced an unambiguous globalization – growth link. Dollar and Kraay (2001), in their study of the experiences of a group of developing countries that have significantly opened up to international trade during the previous two decades report evidence which suggest that increased trade has strongly encouraged growth and poverty reduction and has contributed to narrowing gaps between the rich and poor world-wide. Some empirical evidence on African countries have indicated a positive association between growth of income and growth of exports (Soderbom and Teal, 2003; Iyoha, 2002). But Uwatt's empirical evidence on 41 African countries, using panel data, indicate mixed results that are sensitive to the estimation method (Uwatt, 2004). The mixed results tended to lean more on the side of lack of significant effect of trade openness on growth. Similarly, financial openness (measured by net capital flow /GDP ratio) had negative effect on growth.

The empirical studies on Nigeria have similarly produced mixed results on the relationship between trade openness and growth. Allege (2004) concluded that openness to trade and increased information and communications technology have significantly influenced the level of manufacturing output in Nigeria, based on one of the four equations estimated; the other three showed openness as having a negative effect on growth. But foreign direct investment tended to have a positive but insignificant effect. In their empirical investigation of the dynamic influence of trade openness and other factors on economic growth in Nigeria, Ndiyo and Ebong (2004) found a negative influence of openness on economic growth. But foreign direct investment exerted a positive impact on growth. The empirical investigation by Obadan (2005d) of the relationship between trade openness and growth on the one hand, and trade openness and development on the other, tended to confirm Uwatt's results. For example, he found openness to have an inverse and depressing impact on the GDP and on development, represented by per capita income. Gross domestic investment was found to be the major determinant of changes in per capita GDP and GDP. Human capital development also significantly affected the GDP but

weakly related to GDP per capita. Furthermore, although foreign direct investment was found to be positively related to gross domestic investment, the association was not statistically significant. Gross national saving exerted the major influence on domestic investment. Perhaps, the negative effect of openness on growth can be explained in line with Matin's (1992) observation that the new growth literature does not predict that greater openness will unambiguously raise the growth rate of national output. Rather, growth can be lowered by increased foreign competition or it can be increased by import protection. The mixed findings can thus, perhaps, be explained. And they suggest limited benefits from globalization.

It is not in doubt that globalization has had some positive effects on the Nigerian economy, for example, through its impact on the oil sector. But many authors, e.g, Agbu (2004), Owolabi (1988), Obadan (2001d) are also agreed that considering various macroeconomic and social indicators, globalization has not conferred much benefits on the Nigerian economy in relation to the experiences of some other developing countries in East Asia and Latin America. For example, as was noted before, export-oriented growth in the context of globalization, was an important part of the strategy that made dramatic inroads into income poverty in East Asia. But the same cannot be said of Nigeria. Until recently, as Obadan (2001d) has shown, while Nigeria's export earnings showed poor performance over time, those of other countries like Mexico, South Korea, Singapore, Hong Kong, South Korea, Malaysia and the Phillipines improved dramatically. In 1980, among these countries, Nigeria had the highest export earnings of US$25.9 billion. But by 1997 / 98, the export earnings of the countries dramatically surpassed those of Nigeria thus, Nigeria ($9.0 bn); Mexico ($117.5 bn); South Korea ($138.6 bn); Singapore ($110.4 bn); Hong Kong ($174.0 bn); Malaysia ($77.9 bn); and the Phillipines ($29.4 bn). With the sharp declines in Nigeria's export earnings, its capacity to improve the standards of living of the citizens, through a higher level of import of goods and services, eroded immeasurably. In the last five years, however, owing to the persistently rising crude oil prices in the global market, growth has resumed in export earnings, such that the 1980 export earnings mark was achieved in 2002 and an upward trend has been maintained, with export earnings peaking at $66.4 billion in 2006. However, while the other countries increasingly diversified their economies into more manufactured exports, Nigeria's economy became more and more concentrated on a single product – crude oil – whose price in the world market has been very unstable.

In the sphere of economic growth, until the last five years, Nigeria's economic growth performance was disappointing, averaging less than 3.0 per cent per annum over the period, 1960 – 2003. (Nigeria: National Economic Empowerment and Development Strategy (NEEDS), 2004). The average growth rate of 6.4 per cent in 2004 and 2005 was still relatively low in relation to the exigencies of poverty reduction. With a per capita income of about US$560.0 in 2005, Nigeria ranked among the low income and severely indebted countries in the world as at that time. The incidence of poverty, by official accounts, reduced from 65.6 per cent in 1996 to 54.4 per cent in 2004, an average rate of 1.2 per cent per year. At this rate, Nigeria will not be able to achieve the Millennium Development Goal of halving poverty by 2015. Other social indicators do not portray a better picture. Life expectancy at birth has dropped from 54 years to 46 years while adult literacy rate stood at 57 per cent in 2005. As at 2000, barely 50 per cent of the population had access to safe drinking water while 40 per cent had access to electricity, which indeed had been epileptic for those that had access. In human development terms, the UNDP's human development index ranks Nigeria very low, placing the country among the lowest human development countries. One of the fall-outs of globalization on the Nigerian economy was external debt burden, which eased only from 2005. But before then, it had done a lot of damage to the economy. Empirical analyses of the impact of external debt on Nigeria's economic growth have found support for the negative effect of debt overhang. In this direction, Nigeria's external debt stock and debt service payments acted to depress investment and lower the rate of economic growth through both the debt overhang effect and "crowding out" effect (Iyoha, 1997).

An important question, that I have I tried to answer, relates to why Nigeria has tended to reap poor dividends from globalization. A view that I expressed sometime ago (Obadan, 2001d), is that the problems of poor governance and gross mismanagement, reflecting a brazen predation of national resources by those entrusted with their care, have, no doubt, been significant factors. What with Nigeria's ranking for a long time, by Transparency International (IT), as one of the most corrupt countries in the world, such that even the limited earnings through globalization have been squandered through corruption which has become grand and systemic. Nevertheless, the monocultural nature of Nigeria's economy and the fact of its structural dependence on primary commodity production and exports have been strong factors in the country's limited benefits from globalization. The structural dependence also stretches to heavy importation of

production inputs, which contributes to the uncompetitiveness of manufactured exports in the face of counter-balancing macroeconomic policies. Yet, manufactured exports provide a veritable means of measuring a country's modernization and its competitiveness in international trade as well as its beneficial participation in the globalization process. Although Soderbom and Teal (2003) have reported lack of evidence that manufactured exports have a stronger effect on income than other exports, the overwhelming empirical evidence is that the developing countries that have succeeded most in boosting exports and growth, and achieved significant poverty reduction are those that have successfully shifted to manufactured goods export. The World Bank (2005) reports the cases of China, India and Mexico which, as they opened up, shifted into manufactured products so that, as at today, they are competing head-to-head with many of the rich countries,. Indeed, in 1980, manufactured products comprised only 25 per cent of developing countries' exports, but by 1998, that figure had risen to more than 80 per cent. Nigeria is certainly not one of these countries.

6. APPROPRIATE POLICY RESPONSES AND LESSONS

If globalization has not yielded much benefits to the poor African countries, should they turn their back on it? As I have argued in the past, the answer is 'no', as this is not a desirable response because countries unwilling to engage with other nations of the world risk falling further behind the rest of the world in terms of both income and human development. The powerful forces of globalization have resulted in the shrinkage of space, time and national borders, thus creating a global village. Furthermore, we already live in a global economy where flows of trade, capital and knowledge across national borders are not only large but also increasing every year. Thus, autarky is not a viable option. Therefore, under the present circumstances, a strengthening of the policy and institutional environment in SSA, Nigeria included, is required to improve the region's competitiveness, accelerate its integration into the world economy, promote rapid economic growth and make a remarkable dent on poverty (Obadan, 2001a; 2001b; 2001d). Sound policies play a key role in determining the extent to which countries can draw from the benefits of global economic integration for economic growth. And if African countries have to achieve the International Development Targets set for 2015, especially the target of halving extreme poverty and significantly improving social conditions,

they need to raise their real GDP growth rates significantly – perhaps, to 7-8 per cent a year – on a sustained basis.

To the above end, however, there is the pressing need for each country to design economic strategies and policies that recognize and respect its specific needs and circumstances, and to promote sustainable and inclusive economic and social development that spreads its benefits to all sections of the society. As the UNDP (1999) has correctly observed: "economic policy making should be guided by pragmatism rather than ideology and recognition that what works in Chile does not necessarily work in Argentina, what is right for Mauritius may not work for Madagascar. Open markets require institutions to function, and policies to ensure equitable distribution of benefits and opportunities. And with the great diversity of institutions and traditions, countries around the world need flexibility in adapting economic policies and timing their implementation". The need for each country to design an appropriate response based on its political and economic realities suggests that SSA countries should be wary of pressures from notable international stakeholders, namely, transnational corporations, international banks and financial intermediaries, and multilateral international financial institutions, in the direction of an all encompassing process of globalization. Mauritius has already set a notable example in this regard. Inspite of defying the "Washington consensus" through heavy intervention and targeting in trade, including the creation of export processing zones, Mauritius has made remarkable economic and social progress since the early 1970s (IMF Survey, 2001: 169). It, however, strived to put in place stable macroeconomic policies, neutral incentives between tradable and non-tradable sectors, and an efficient services sector. Nevertheless, it is important for African countries to be prepared to face the challenges of globalization by putting their houses in order, and transforming and revitalizing their ailing economies with policies relating to sensible liberalisation in the context of outward-oriented growth, complementary macro and microeconomic policies, promotion of manufactured exports, regional integration, human capital development, promotion of strategic foreign direct investment inflow, raising the level of domestic saving and investment, development of technology, infrastructure, among others. In other words, a number of basic things must be put right for globalization to yield significant benefits to poor countries, Nigeria included.

In the specific case of Nigeria, the economy is relatively open and the country is rich in natural, human and other resources. Yet, she is one of the countries that are yet to experience

significant benefits from globalization, considering various macroeconomic and human indicators, and even with what appears to be huge oil earnings.[10] This notwithstanding, the issue at this point in time is not whether or not Nigeria should join forces with globalization. For as I had argued in the past (Obadan, 2001d and 2002b) and as Agbu (2004) has also stressed, no country is an island unto itself. Therefore, at the present moment of integration of global markets, but considering the nature of Nigeria's post-colonial economy, the country has little choice but to participate in the globalization activities with the aim of benefiting commensurably. Autarky is thus ruled out. As I had observed sometime ago (Obadan, 2004d), China that tended towards autarky in the past, on ideological grounds, is now an active player in the globalization process. Today, China is the largest developing country recipient of foreign direct investment and it has exemplary high level economic performance – a growth rate of over 8.0 per cent annum – to show for it. Thus, for Nigeria, the issue should be how best to take advantage of the benefits of globalization, avoid the risk of being marginalized by the forces of globalization, raise economic growth rates significantly, improve competitiveness in terms of the efficiency of its production, the quality of resources available for exchange, as well as substantially reduce the incidence of poverty. Meeting this challenge requires designing and implementing sound economic policies and activities aimed at transforming the economy from a resource-based economy to an industrial and knowledge-based one so as to turn globalization into a positive development for the country. In other words, good policies are required to meet the challenge of turning globalization into an instrument of opportunity and inclusion. In this direction, the lessons for Nigeria as well as the strategies and policies for enhancing the country's beneficial participation in the global economy are highlighted as follows as reflected in Obadan (1996a; 1996b; 1999a; 2001a; 2001b; 2001d; 2003a; Obadan and Obioma, (1999).

(i) Orderly Implementation of Outward-oriented Strategy

Outward-oriented strategy is an industrialization and trade strategy which encourages production for exports and thereby creates greater profitability. However, if the export sector is to be a propelling force in development, it is important that it should not remain an enclave, separate from the rest of the economy, as is the case in Nigeria. Furthermore, although openness is a necessary - though not a sufficient - condition for national prosperity, countries that are best placed to benefit from the opportunities offered by globalization are those that are rapidly

[10] Nigeria's huge oil export earnings amounted to only US$ 312.8 per capita in 2006.

transforming their policies and structures to support outward-oriented growth (Qureshi,1996;31). Outward-oriented polices brought great dynamism and greater prosperity to much of East Asia, transforming it from one of the poorest areas of the world 40 years ago. It must be cautioned, however, that openness and liberalized trade regimes have to be achieved in an orderly and properly sequenced manner, taking cognizance of necessary pre-conditions.

(ii) Complementary Macro and Microeconomic Policies

As globalization increases the cost of macroeconomic distortions while enhancing the reward for good policies, it is necessary to have in place sound macroeconomic, sectoral and structural policies in order to improve macroeconomic stability, ensure external sector viability, make the economies more flexible, encourage diversification, reduce the vulnerability to external shocks, ensure stable and development-oriented exchange and interest rates, and increase the overall economic growth rate. Such policies will include prudent fiscal policy to ensure macroeconomic stability and provide a basis for effective and efficient monetary policy. Macroeconomic stability, by reducing uncertainty, allows investment and savings decisions consistent with underlying economic fundamentals, thereby promoting an efficient allocation of resources. Further reforms are needed in the areas of public enterprise activity, the labour markets, trade regime and banking supervision and regulation.

(iii) Promotion of Manufactured Exports

Dependence on primary commodity exports has not significantly aided Nigeria's integration into the global economy nor minimized its marginalization, even though the economy is open. The development of Nigeria's economy will therefore require a major commitment to policies and institutions that promote manufactured exports in areas of comparative advantage, as well as focus on the recovery of the real sector of the economy. Historical experience shows that most of the countries that have emerged as successful export promoters and acquired the status of newly industrializing countries, have promoted manufactured exports. Among Nigerian analysts, e.g. Obadan (1994a and 2001a); Central Bank of Nigeria (1997)); Fafowora (1998); Odedokun (2000) there seems to be a consensus that Nigeria's economic development, and hence growth potential, will depend on her ability to export manufactured goods as against the primary products it is known for. Therefore, the country's policies will have to focus on making manufacturing internationally competitive. Locally manufactured products are not competitive at home and abroad for various reasons already noted. Desirable measures in this regard must

seriously address the inhibiting problems of the operating enabling environment, including infrastructural deficiencies – electricity, water supply, fuel supply, transportation and telecommunication networks, high lending rates, etc. Under the present high interest rate regime not much genuine manufacturing is taking place. On their part, Nigerian manufacturers must produce to international standards in terms of product quality, presentation and packaging to assure competitiveness. Improvement in the quality of manufacturing can be achieved through heavy investment in research and development, and the attraction of strategic foreign direct investment.

(iv) Human Capital Development

Human capital development is critical for the survival of Nigeria and other poor countries in the context of globalization and increasingly 'knowledge-based' economies. The significance of the human factor becomes prominent when it is realized that machines can only work, but they cannot think like human beings, or solve the problems of organisation and production (Fafowora, 1998). There is, therefore, the need to invest heavily in human capital, especially education and health. To succeed in the new global economy, the country needs healthy and well-educated and skilled people, and greater access to knowledge, ideas and new information and communication technologies. The rate of skills growth is a key factor in determining the extent to which the country can capture a growing share of trade by increasing manufactured and service exports. Skill levels will need to rise, underpinned by enhanced investment in basic education, so that Nigeria can develop a comparative advantage in the fast growing sectors of world trade. Moreover, as the new technologies are knowledge and skill-intensive, there is the need to train people to work with those technologies. Investment in education should be geared towards increasing access for more people and enhancing quality. Adequate consideration must also be given to research and development, as basis for the advancement of the frontiers of knowledge required for growth.

(v) Adequate Infrastructure

One of the inhibiting factors to industrial development and manufactured exports in the country is infrastructure failings. Locally manufactured products are not competitive at home and abroad for various reasons, a notable one of which is high cost of production, occasioned by the parlous state of infrastructure facilities in the country. As the Manufacturer's Association of Nigeria (M.A.N) has correctly observed, not only is infrastructure basic to the functioning of an

economy, it is also the primary determinant of competitiveness in both the global and domestic markets (MAN, 1999). Policy must, therefore, continue to focus on adequate provision and rehabilitation of infrastructure – electricity, fuel supply, water supply, transportation, telecommunication, etc – as a critical element of an enabling environment for private sector-led growth. So far, inspite of the top-most priority given to infrastructure development in the Federal Government annual budget over the past nine years, mismanagement and corruption have continued to rob the country of reliable and efficient infrastructure.

(vi) Appropriate Role for the State and Private Sector

For a long time, the strategy of public sector-led development held sway in most African countries, Nigeria included. In the current era of globalization with its logic of market-orientation, there is no room for the dominance of the state in directly productive activities, except in areas of market failure and where government serves as a catalyst. Rather, private sector-led growth has to be encouraged while the state provides an enabling environment for the private sector to fulfil its role. Nevertheless, a strong state is needed to cushion the impact of the market and globalization. It will also actively support and help to create a positive environment for the development and renewal of entrepreneurship as well as promote labour-intensive manufacturing as was done by the NICs in the past. But then, the private sector needs to exhibit the type of dynamism and virility required for meaningful participation in the globalization process. Finally, there is need for a strong public-private partnership. This type of partnership helped Japanese businesses to dominate the world markets within a relatively short period of time. Moreover, western businesses have used the partnership model, in terms of working closely with their governments, to win contracts and buy foreign assets in the developing world, particularly in the context of deregulation and privatisation of industries (Kiggundu, 2002).

(vii) Pragmatic Financial Liberalisation.

Financial sector and capital account liberalisation are an important feature of globalization. This has, however, often been done in a misguided manner by some developing countries, resulting in the globalization by - product of bank failures and financial crises. These have serious and potentially far-reaching consequences for the local economy, as well as for the social and political governance of the country in terms of political instability. There is therefore the need for caution and proper sequencing of capital account liberalisation. Besides, such liberalisation must meet the pre-requisites of macroeconomic stability, adequate prudential

supervision and regulation of domestic financial institutions and markets, adequate disclosure practices in financial and corporate sectors, and avoidance of implicit government guarantees that encourage excessive, unsustainable capital inflows. Even then, capital account liberalisation has to be done in a sensible manner to reflect appropriate timing, speed, scope and sequencing. Therefore, a lot needs to be done to create secure and enabling economic environments, without which domestic and foreign investors will continue to shy away from many profitable business opportunities that the country offers. Such an environment requires ensuring the following: macroeconomic stability and consistent policies, transparent rules and regulations, political stability, an effective and efficient public administration, good governance (characterized by absence of corruption), security of life an property, absence of civil strifes, and adequate infrastructure (Obadan, 2004e).

(viii) Attraction of Foreign Direct Investment Inflow

Capital flows which are a prominent feature in the globalization process can be quite beneficial to a country's growth and development. But they also have their own risks/costs, particularly the short-term portfolio flows. Therefore, policy must encourage and attract long-term capital inflows, particularly FDI. Even then, Nigeria must determine the appropriate level of foreign participation in particular sectors and design an appropriate set of policies not only to attract FDI, but also to significantly increase the benefits of FDI in relation to the costs. It is important to know that undue reliance on FDI is not advisable and that not all FDI is conducive to development. Some kinds of FDI do more harm than good. Nigeria's investment climate until the late 1990s was very unattractive. Even now, some investors still see the country as a relatively high-risk country for foreign investment, with the features of high transaction costs, bureaucratic inefficiencies (e.g, at the ports), skills shortage, high level of corruption and insecurity.

(ix) Raising the Level of Domestic Investment

If Nigeria must realize growth rates that will enable it to achieve the Millennium Development Goals (MDGs) by 2015,[11] and participate meaningfully in the globalization process, then domestic investment rates must be raised substantially beyond what they currently

[11] The Millennium Development Goals are a series of eight time-bound goals agreed to by world leaders in 2000 and to be achieved by 2015. The goals aim at eradicating poverty and extreme hunger; achieving universal primary education; promoting gender equality and empowering women; reducing child mortality; improving maternal health; combating HIV/AIDS, malaria and other diseases; ensuring environmental sustainability and developing global partnership for development.

are (an average of 6.6 per cent of GDP from 2002 – 2006). The current investment rate is far below the minimum rate of about 30 per cent of GDP required to unleash poverty – reducing growth. And so, the current situation requires raising domestic saving rates and mobilizing private capital. Domestic savings can be increased by pursuing macroeconomic stability through prudent fiscal policies, monetary policies that encourage positive real rates of interest, appropriate exchange and interest rates, and reforms of the domestic financial sectors particularly the capital market. Policies that promote compulsory savings schemes such as mandatory provident fund contributions will also be helpful. On the other hand, besides raising domestic savings, investment can be boosted by measures to improve the investment climate to reflect confidence in the economy and its management, and consistent policies, among others (Obadan and Odusola, 2001c).

(x) Continued Reform of the Domestic Financial Sector

The financial system, particularly the banking sector and capital markets, play a critical role in lubricating a country's wheels for beneficial participation in the dynamics of globalization. This is particularly so in relation to international private capital flows which are a key driving force in the globalization process. But then, the financial sector must be adequately prepared to withstand the stresses arising from volatile capital flows. A flood of capital into economies with immature and poorly regulated financial institutions had tended to do more harm than good. In this regard, it would be recalled that fragile and corrupt banking systems in an environment of weak prudential regulations significantly aided the ramifications of the East Asian financial crisis of 1997 – 98. Therefore, in order to avoid financial crisis, distress and recession, the banking system and other segments of the financial system must be strengthened through adequate supervisory and prudential regulations. In this way internationalization may not disrupt the financial sector, precipitate macroeconomic instability and weaken the productive sectors of the economy (Obaseki, 1999: 16). The reform of the financial sector should ensure, among others, that there are prudential rules and measures to guide the institutionalization of sound banking behaviour and reduction of the moral hazard associated with fraudulent banking culture.

(xi) Development of Technology

One of the notable driving forces of globalization is cumulative developments and improvements in information, transport and telecommunications technology. Indeed,

increasingly, it is Information and Communication Technologies (ICT) that are seen as the "arteries" of the global economy. For Nigeria to benefit meaningfully from globalization, she must overcome the present situation of low level technological development. The country must pay serious attention to adaptation and adoption of technologies that can enhance the competitiveness of the economy. To enhance export development and diversification, not only should emphasis be on the development of the transportation, education, telecommunication sectors, as well as heavy investment in research and development, science and technology, but also that the vigorous acquisition of technology should become a national policy.

(xii) Addressing the Problems of Governance and Civil Strife

For Nigeria to take full advantage of the benefits of globalization and minimize its risks, improved policies and highly strengthened institutions are crucial. But these need to be complemented by good governance in terms of establishing greater transparency and accountability in public and private sectors, as well as tackling corruption and inefficiency in the management of public affairs. Besides, the need to put an end to civil strife in the country cannot be overemphasized, for as Ouattara (1998: 4), has correctly observed "even if the right economic policies are implemented, no progress will be possible if armed conflicts persist". Therefore, the country needs to focus its efforts on resolving ongoing disputes and devising effective mechanisms of conflict resolution, particularly, in the Niger Delta Region

(xiii) Operation within Regional Integration

Developing and operating within the framework of regional and sub-regional economic groupings is one desirable response to the powerful force of globalization. Greater intra-regional trade will promote the export competitiveness of participating countries and enhance their ability to compete on international markets. In view of the small size of many African economies, the approach of regional integration will enable them to establish joint large-scale efficient and competitive enterprises, and hence enable producers to realize economies of scale and benefit from the establishment of regional infrastructures. And as Ouattara (1996: 2) had observed, "a regional approach in key structural areas – such as tariff reduction and harmonization, legal, and regulatory reform, payments system rationalization, financial sector reorganization, investment incentives and tax system harmonization, and labour market reform – enables participating countries to pool their resources and avail themselves of regional and institutional and human resources, in order to attain a level of technical and administrative competence that would not be

possible on individual basis". Nigeria must, therefore, continue to provide leadership in regional integration matters. But then, Nigeria and other African countries must overcome the perennial problem of lack of political will to integrate and implement community decisions (Obadan, 1994c; 2001b and 2001d).

(xiv) Complementary Role of the Industrial Countries

Nigeria and many other African countries have been moving along the path of openness economically and they are striving to make progress on the path of enhancing their integration into the world economy. But they continue to confront protectionism in the rich countries. These countries maintain barriers in exactly the areas where the poor countries have comparative advantage: agriculture and labour-intensive manufacturing such as textiles, leather products, etc. According to the World Bank (2005), protection in the rich countries cost developing countries more than US$100.0 billion per year, twice the total volume of trade from the North to South. Therefore, developed countries need to open their markets for easy access to the products of interest to the poor countries. As Obadan (2001b) has stressed, the industrial countries need to remove tariffs and non-tariff barriers to imports of goods in which Nigeria and other African countries have the greatest comparative advantage.

7. CONCLUDING REMARKS

- Globalization is not a new phenomenon. But it has intensified in its ramifications in the last two decades and attracted so much attention. It has remained a powerful force shaping world economies for good or for ill.
- As a multi-dimensional phenomenon, the political, social, cultural and environmental dimensions of globalization are no doubt important. But the economic aspect is perceived to be at the heart of the process with trade, finance, investment and technological flows as its key features. The financial aspects of globalization have turned out to be rather controversial. Many poor countries went through the process of financial liberalisation without adequate preparation and taking precautionary measures. And so, careless financial liberalisation has tended to be accompanied by grave risks and dangers of financial crisis. The poor countries, therefore, need to avoid premature liberalisation and

proceed with it in a measured way after careful preparation and meeting of pre-conditions.

- Some countries, particularly, the developed countries and newly industrialized developing countries, have succeeded in using the avenue provided by globalization to partake in the opportunities and benefits of greater integration with the global economy. But most of the poor countries have not been able to take full advantage of the opportunities of globalization or to participate in its benefits. These countries have very weak capacities to take advantage of global markets. African countries are still struggling to set up basic necessities in the area of infrastructure and trade capacity building.
- Besides, as primary commodity producers and exporters, African countries face a hostile international environment characterized by protectionism, fluctuations in commodity prices and declining terms of trade. Over the years, the leading industrial countries have exhibited double standards in their practice of free trade which neoclassical economics espouse. When it suits them, they practice protectionism which hurts the poor commodity exporting countries significantly. Under the circumstances, they are left with neither aid nor trade.
- Two things are thus imperative. One is the need for the developed countries to open their markets to the products from the poor countries, particularly those in which they have comparative advantage. The second is that while removing the obstacles to full participation by poor countries and poor people is essential to make globalization inclusive, African countries need to embrace the phenomenon in the full awareness of not only the opportunities but also the risks which include financial crises and aggravation of inequalities both between countries and within countries.
- Although the developing countries as a group have become more integrated with the global economy, Africa has not kept pace with the whole. In other words, Africa is the least integrated with the world economy even though African economies are relatively more open. Thus, openness is not a sufficient condition for meaningful participation in the global economy. And it is hardly surprising that African countries have also reaped the least benefits in the spheres of trade, financial flows, growth and poverty reduction. In the continent, a worsening of existing imbalances has impeded development and worsened poverty. Growth has been very poor until the last few years and the continent is

burdened by debt. And so, globalization to the poor countries is a force of iniquity and marginalization.

- To meet the subsisting challenges and accelerate its integration with the world economy in a sensible way, Africa needs to: develop a strong production base predicated on value added exports; diversify export structures and develop manufactured export capability; develop adequate human and institutional capacity, physical infrastructures, capital and technology, etc, necessary for integration. It also needs to design and implement sound economic policies, as well as develop and operate within the framework of regional and sub-regional groupings.
- Openness and markets constitute the platform of globalization. But then, it appears that under globalization, the market, with all its imperfections, is being worshipped. Rather than the market being made to work for people, it has been the other way round with people working for the market. As I have argued, this is wrong because even though markets are important and market incentives can indeed be powerful, they are neither all-pervasive, nor do they have answers to all economic problems. And, indeed, if left unchecked, markets, with all their limitations, can lead to deleterious outcomes. The inadequacies of the market in reality provide a basis for government intervention in free market economies. The invisible hand of the market must receive assistance from the visible hand of the government. The government needs to strengthen and complement the market rather than replace it. In Nigeria, this strengthening includes proper development planning. Even high-profile neoliberal economists have conceded that neoliberalism which is predicated on the market fundaentalism cannot provide an effective agenda for reducing poverty.
- Liberalisation is a key feature of globalization. In response to external pressures, the poor countries have undertaken widespread and rather 'big-bang' trade and financial liberalisation. But the liberalisation occurred without any prior preparations to ensure that domestic industries were ready to face exposure to international competition. And so, trade liberalisation has produced negative results for most of their economies including de-industrialization, or has marginalized them. While imports increased, exports failed to keep pace. The appropriate complement of prudential supervision of the financial sector often tended to be absent in financial liberalisation. There is thus the need for the poor

countries to liberalize their economies in an orderly and properly sequenced manner against the background of meeting the necessary macroeconomic and other pre-conditions. Nigeria should be able to decide on the rate and scope of liberalisation and combine it with strategic protection of local industries and enterprises.

- In the specific case of Nigeria, the economy is relatively open and liberalized. Yet, it has not integrated with the world economy in any meaningful way. Its shares of world trade, global capital flows and world output are very low. The country's export growth performance has been very poor compared to the achievements of some other developing countries. Also, a significant proportion of the capital inflows that Nigeria attracted is in the form of loans which the country mismanaged or diverted in the service of corruption, thus resulting in an external debt crisis and a debilitating debt burden. This burden tended to depress investment and reduce economic growth. Although, globalization has had some positive effects on the economy, especially through the oil sector, there seems to be a consensus that the positive impact has been negligible considering macroeconomic indicators such as growth, poverty and other social indicators. And so, Nigeria is not one of those successful newly globalizing cases as China, India, Singapore, Mexico that have shifted to manufactured exports and reduced poverty significantly.
  - What then can Nigeria do? At this point in time, Nigeria cannot turn its back on globalization as autarky is not a viable option. Rather, the country must do what some other developing countries have done to participate meaningfully and beneficially in the globalization process so as to make it inclusive, growth enhancing and poverty-reducing. This means adequate preparation of its economy, implementing sound and sensible policies, building capacity and ensuring appropriate government intervention in the economy.
  - Finally, the industrial countries need to play a complementary role to the efforts of Nigeria and other poor countries to reap significant benefits from globalization. This they can do principally by opening their markets. The present Economic Partnership Agreements (EPAs) which the European Union is trying to impose on the poor countries in replacement of the erstwhile EU – ACP Agreements (Lome Conventions) will further move the poor countries away from the benefits of globalization

Annex 1: Classification of the World by Income

Low Income

Afghanistan
Bangladesh
Benin
Bhutan
Burkina Faso
Burundi
Cambodia
Central African Republic
Chad
Comoros
Congo, Dem, Rep.
Cote d'Ivoire
Eritrea
Ethiopia
Gambia, the
Ghana
Guinea
Guinea-Bissau
Haiti
India
Kenya
Korea, Dem. Rep.
Kyrgyz Republic
Lao PDR
Liberia
Madagascar
Malawi
Mali
Mauritania
Mongolia
Mozambique
Myanmar
Nepal
Niger
Nigeria
Pakistan
Papua New Guinea
Rwanda
Sao Tome and Principe
Senegal
Sierra Leone
Solomon Islands
Somalia
Sudan
Tajikistan
Tanzania
Timor-leste
Togo
Uganda
Uzbekistan

Armenia
Azerbaijan
Belarus
Bolivia
Bosnia and Herzegovina
Brazil
Bulgaria
Cameroon
Cape Verde
China
Colombia
Congo, Rep.
Cuba
Djibouti
Dominican Republic
Ecuador
Egypt, Arab Rep.
El Salvador
Fiji
Georgia
Guatemala
Guyana
Honduras
Indonesia
Iran, Islamic Rep.
Iraq
Jamaica
Jordan
Kazakhstan
Kiribati
Lesotho
Macedonia, FYR
Maldives
Marshal island
Micronesia, Fed. Sts.
Moldova
Morocco
Namibia
Nicaragua
Paraguay
Peru
Philippines
Samoa
Serbia and Montenegro
Sri Lanka
Suriname
Swaziland
Syrian Arab Republic
Thailand
Tonga
Tunisia

Belize
Botswana
Chile
Costa Rica
Croatia
Czech Republic
Dominica
Equatorial Guinea
Estonia
Gabon
Grenada
Hungary
Latvia
Lebanon
Libya
Lithuania
Malaysia
Mauritius
Mayotte
Mexico
Northern Mariana Islands
Oman
Palau
Panama
Poland
Romania
Russian Federation
Seychelles
Slovak Republic
South Africa
St. Kitts and Nevis
St. Lucia
St. Vincent and the Grenadines
Trinidad and Tobago
Turkey
Uruguay
Venezuela, RB

High Income

Andorra
Australia
Austria
Bahamas, The
Bahrain
Belgium
Bermuda
Brunei Darussalam
Canada
Cayman Islands
Channel Islands
Greece
Greenland
Guam
Hong Kong, China
Iceland
Ireland
Isle of man
Israel
Italy
Japan
Korea, Rep.
Kuwait
Liechtenstein
Luxembourg
Macao, China
Malta
Monaco
Netherlands
Netherlands Antilles
New Caledonia
New Zealand
Norway
Portugal
Puerto Rico
Qatar
San Marino
Saudi Arabia
Singapore
Slovenia
Spain
Sweden
Switzerland
United Arab Emirates
United Kingdom
United States
Virgin Islands (U.S)

Vietnam	Turkmenistan	Cyprus
Yemen, Rep.	Ukraine	Denmark
Zambia	Vanuatu	Faeroe Islands
Zimbabwe	West Bank and Gaza	Finland
		France
Lower middle Income	**Upper middle Income**	French Polynesia
Albania	American Samoa	Germany
Algeria	Argentina	
Angola	Barbados	

Source: World Bank. **World Development Indicators**, 2007.

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