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The Impact of Financial Globalization on Financial Development in Nigeria (1981 – 2021)

Dorothy Ivie Okoduwa[1]

Abstract: Financial globalization has been predicted to facilitates capital inflows and enhance the internationalization of financial services. Despite various financial liberalization policies, the performance of the Nigerian financial sector has been unimpressive. This study analyzed the impact of financial globalization on financial development in Nigeria. The study covered the period 1981 to 2021 and employed the Auto-regressive Distributed lag (ARDL) technique. The result from the study showed that financial globalization significantly enhanced financial development (proxied by banking sector development and enhanced stock market development). Thus, the study concluded that financial globalization is a significant driver of both banking sector development and stock market development. The study recommended the need for more active financial globalization reforms that can enhance the growth of the banking sector and the stock market.

Keywords: Financial globalization; banking sector development; stock market development; ARDL; Nigeria

JEL Classification: F21; G21

1. Introduction

Over the years, countries across the world have been economically, financially and politically integrated due to the perceived benefits of globalization which include knowledge sharing, technological advancement, global peace and sustained economic growth (World Bank, 2018; Kutor, 2014). The idea of a global financial economy is premised on the notion that financial globalization presents innumerable benefits to the domestic economy.

More so, financial globalization facilitates capital inflows and enhance internationalization of financial services (Schmukler, 2003). Through financial globalization, foreign financial institutions have established branches in the domestic economy, and this has promoted healthy financial competition from domestic institutions, and increased the pressure of domestic banking institutions in implementing policy reforms capable of improving efficiency and competitiveness at the global scale (Muye & Muye, 2017; Kozul-Wright & Rayment, 2007; Nissanke, 2009). Consequently, financial globalization has been an important conduit for scaling up the status of local financial institution to international standards.

[1] Veritas University, Nigeria, E-mail: dorothy.okoduwa@gmail.com.

The Nigerian financial system was integrated into the global financial stream through the Structural Adjustment Program (SAP) adopted in 1986. Prior to the 1986, the Nigerian financial sector experienced impressive growth with increase in the number of banking institution increasing from 12 at independence to 40 banks in 1986. Most of these financial institutions were dominated with government ownership (Ikhide, 1996). With the collapse of oil price in the early 1980's and associated decline in oil revenue, the government was unable to finance government owned-banks, leading to insolvency and liquidity problem of the financial system. To address the financial crisis, the government liberalized the financial sector by decreasing its percentage of ownership, while at the same time encouraged private investment in the financial sector. Also, within the liberalization framework, the government deregulated the interest rate and remove exchange rate control. This was necessary to ensure competitiveness in the financial system, allow appropriate pricing of market instruments through the forces of demand and supply, and optimizing the benefits of financial globalization.

Despite the above policy measures, the Nigerian financial sector has been categorized by high lending rate which is associated with low volume of credit extended to the private sector from the banking sector. More so, the growth of the capital market has been unimpressive in comparism to other stock markets across the world. For instance, as at May 2023, while the value of market capitalization of the Nigerian stock exchange is put at USD$66.7billion, the New-York stock exchange (NYSE) in the United States of America was valued at US$24.3trillion; the Shanghai Stock Exchange in China was valued at USD$6.93trillion, the Japan Exchange Group was valued at USD$5.63trillion and the Johannesburg Stock Exchange in South Africa was valued at USD$1.01trillion. The unimpressive performance of the Nigerian financial system in the light of increase financial globalization drive has raised the research question: "What is the impact of financial globalization on financial sector development in Nigeria".

This research study contains five sections. Section one provides the introduction of the study while the literature review is discussed in section two and the research method is presented in section three. The data presentation and discussion of results is discussed in section four while the conclusions, summary and policy inferences are discussed in section five.

2. Literature Review

The need for a well-developed financial sector in a globalized world had provoked researchers in evaluating the relationship between financial globalization and financial development. In this regard, Ahmed (2021) analyzed the nexus among financial development, globalization and economic growth for the period 1990 to 2017. The study focused on selected 21 African countries and used the Pooled Mean Group (PMG) technique. The study observed that financial development significantly enhanced economic growth. More so, the study observed that globalization had positive and significant impact on economic growth in the selected African countries.

With data spanning 1990 – 2016 for Belt and Road Initiative (BRI) countries, Lu, Imran, Haseeb, Saud, Wu, Siddiqui, and Khan (2021) analyzed the nexus among foreign direct investment, financial development, energy consumption, economic growth and globalization. The study utilized dynamic seemingly unrelated regression (DSUR) and Dumitrescu-Hurlin panel causality techniques. The results of the DSUR showed that foreign direct investment and economic growth significantly promoted energy consumption while financial development and globalization contributed to the reduction in energy consumption. The causality estimate observed bidirectional causality between financial development and energy consumption. More so, bidirectional causality was observed between globalization and foreign direct investment. In addition, unidirectional causality was observed from energy consumption to foreign direct investment and financial development. Finally, the findings of the study showed that financial development, energy-efficient technology and foreign direct investment significantly enhanced economic growth. This study failed to take into cognizance financial globalization and poverty. Therefore, policy recommendation from the study will not relevant in addressing the problem of rising poverty in Nigeria.

Bhanumurthy and Kumawat (2020) examined the nexus between financial globalization and economic growth for a panel of seven South Asian countries – Sri Lanka, Pakistan, Nepal, Maldives, India, Bhutan and Bangladesh. The study covered the period 1990 to 2015, and used panel causality method within the frame of Generalized Method of Moment. The results showed unidirectional causality from economic growth to financial liberalization while there was the absence of causality from financial globalization to economic growth. With respect to countries specific estimates, the results showed unidirectional causality from economic growth to financial globalization for Nepal, Maldives, Pakistan and India while for Bhutan and Sri Lanka, the results showed unidirectional causality from financial liberalization to economic growth. in the case of Bangladesh, the results showed that financial globalization influences economic growth through financial market development. This study failed to analyze the role of financial globalization and financial development on poverty reduction. More so, study is a panel study and the recommendations from the study might be inappropriate for a country specific study like Nigeria due to differences in individual country's dynamics such as policy implementation patterns and policy strategies employed.

Using data on 40 selected countries, Malik (2020) analyzed the relationship between globalization and financial inclusion. More so, the study examined the role of inequality and institutional quality in the relationship between globalization and financial inclusion for the period 2000 – 2018. The study utilized the principal component analysis (PCA) and the static panel threshold estimation technique. The findings of the study showed that the threshold impact of globalization had significant impact on financial inclusion. More so, the study observed that inequality and institutional quality significantly influenced financial inclusion in the long run and short run. The study neglected the issues of financial development and poverty; therefore, recommendations from the study might be inappropriate in addressing issues relating to financial development and poverty.

With a panel data on 36 countries, Balcilar, Gungor and Olasehinde-Williams (2019) examined the relationship between globalization and financial development for the period 1996 – 2016. The study used the common correlated effect mean group (CCEMG) and the augmented mean group (AMG) methods. In the study, financial development was proxy by overall financial institution development index, financial accessibility, financial depth and financial efficiency. The results of the study showed that globalization strongly enhanced financial development (proxy by overall financial institution development index, financial accessibility and financial depth). However, the study observed an insignificant relationship between globalization and financial efficiency. This study neglected the issue and poverty; therefore, recommendations from the study is inappropriate in addressing issues relating to and poverty.

Fuinhas, Marques and Lopes (2019) analyze the effect of financial sector development and globalization on economic growth for the period 1980 – 2015. The study focused on 10 countries – USA, Switzerland, South Africa, Singapore, Mexico, Malaysia, Japan, Israel, China and Argentina.

The utilized the auto-regressive distributed lag methods and financial market development was measured by banking sector development and stock market development. The results of the study showed that banking sector development significantly promoted economic growth in both the short run and the long run while stock market development only enhanced economic growth in the long run. More so, the study observed that political globalization significantly enhanced economic growth in the long run while financial globalization had positive and significant impact on economic growth in the short run. This study neglected the issues of poverty; therefore, recommendations from the study might be inappropriate in addressing the poverty issues in Nigeria. More so, study is a panel study and the recommendations from the study might be inappropriate for a country specific study like Nigeria due to differences in individual country's dynamics such as policy implementation patterns and policy strategies employed.

Dash, Rath and Pati (2018) analyzed the relationship between financial globalization and human development for the period 1961 to 2014 for India, Singapore and Japan. Using the ordinary least squares, the results showed that financial globalization influenced human capital development. The use of OLS by the study is a major setback due to the shortcomings of OLS such as sensitivity to outliers, leverage points and influential observations which can disturb the estimate and reduce their accuracy. Further, the study did not consider financial development and poverty, which limited the policy relevance of the study with respect to addressing poverty in Nigeria.

Asongu and De Moor (2015) analyzed the link between financial globalization and financial development using a panel data on 53 African countries. specifically, the study examined the presence of a threshold point between financial globalization and financial development. The study covered the period 2000 – 2011, and utilized the generalized method of moments estimation technique. The results of the study showed that financial globalization had negative impact on financial development. However, the study noted that beyond a threshold level, financial globalization significantly promoted financial development in Africa. This study failed to analyze the extent to which financial globalization and financial development influenced poverty. More so, the study is a panel study and the recommendations from the study might be inappropriate for a country specific study like the current study due to different economic conditions prevailing in African countries.

With particular focus on 26 transition countries, Edgar and Tovar (2012) explored the relationship between financial globalization and financial development for the period 1995 - 2008. Using dynamic panel model, the study observed a positive and significant relationship between financial globalization and the growth of the financial system. This study failed to analyze the extent to which financial globalization and financial development influenced poverty. More so, the study is a panel study and the recommendations from the study might be inappropriate for a country specific study like the current study, due to different economic conditions prevailing in African countries.

2.1. Research Gap

The review of literature showed empirical lacuna on the link between financial globalization and financial development. The review showed that most local studies focused on the link between financial globalization and economic growth (Bhanumurthy & Kumawat, 2020) or the link between financial development and economic growth. Omar and Inaba (2020) focused on the relationship between financial inclusion and poverty. These previous studies failed to consider the relationship between financial globalization and financial development in Nigeria. The few studies on this financial globalization and financial development (Balcilar et. al, 2019; Asongu & De-Moor, 2015; Edgar & Tovar, 2012) focused on developed and other developing countries except Nigeria. The identified gap in literature constitutes the unique contributions of this study to extant studies.

3. Research Method

3.1. Theoretical Framework

This study rest on the optimistic view of financial globalization on developing countries. The optimists of financial globalization argued that financial globalization enhance macroeconomic variables such as economic growth and financial sector development (Meyer, 2004; Gorg & Greenaway, 2004). More so, proponents of financial globalization further argued that financial globalization provides a "win-win" situation through prosperous economic policy reforms for both the developed and the developing countries which is expected to the development of the domestic financial system (Kozul-Wright & Rayment, 2007).

3.2. Model Specification

The aim of objective one is to examine the impact of financial globalization on financial development in Nigeria. Thus, this study adopts the model of Edgar and Tovar (2012). which is specified as:

$$FD_t = f\left(FG_t, X_t\right) \qquad 1$$

Where FD is financial development, FG is financial globalization and X represent vector of control variables – trade openness (TO), per capita GDP (GDPP) and inflation rate (INF). Therefore, including the above control variables, model 1 becomes:

$$FD_t = f(FG_t, TO_t, GDPP_t, INF) \qquad 2$$

Linearizing equation (2), we have

$$FD_t = \beta_0 + \beta_1 FG_t + \beta_2 TO_t + \beta_3 GDPP_t + \beta_4 INF_t + \varepsilon_t \qquad 3$$

Equation (3) is the estimation equation for this study. Theoretically, it is expected that β_1, β_2 and β_3 are expected to have a positive relationship with financial globalization while the coefficient of inflation rate (β_4) is expected to have a negative relationship with financial development.

3.3. Method of Data Collection

This study used secondary data spanning 1981 to 2021. In this study, financial development is measured by banking sector development (FDB) and stock market development (FDS). Data on financial development is collected from the Central Bank of Nigeria Statistical Bulletin, 2021 edition. Financial globalization (FG) is measured by foreign direct investment into Nigeria, while trade openness (TO) is measured by the ratio of total trade to real gross domestic product. Per capita GDP (GDPP) is measured by the ratio of real gross domestic product to population. Inflation rate (INF) is measured by the annual inflation rate. Data on financial globalization (FG), trade openness (TO), real gross domestic product (GDP), and inflation (INF) are obtained from Central Bank of Nigeria

Statistical Bulletin, 2021 edition. Data on population is obtained from the World Bank Development Indicator (WDI) Bulletin, 2021 edition.

4. Data Analysis and Interpretation

4.1. Stationarity and Co-integration Estimates

The results of the stationarity test are presented on Table 1, and from the results it is observed that financial development by banks (FDB), financial development by stock market (FDS), financial globalization (FG), trade openness (TO) and gross domestic product per capita (GDPP) are I(1) series because the variables were integrated of order one. However, inflation rate (INF) was integrated of order zero because the variable was stationary at level. This showed that inflation rate is an I(0) series. Given the combination of I(0) and I(1) series based on the stationarity results, this study employs the Auto-regressive Bound co-integration method in estimating the co-integration test.

Table 1. Stationarity Estimate

Philips-Perron (PP) Test			
Variables	**Level**	**Difference**	**Status**
FDB	-0.9566	-6.9242*	I(1)
FDS	-2.6451	-10.6516*	I(1)
FG	-2.1390	-8.5837*	I(1)
TO	0.6778	-6.1026*	I(1)
GDPP	-0.4900	-3.7995*	I(1)
INF	-3.2827**	-	I(0)

Note: LHCX is log of household consumption expenditure respectively.

*Source: Author's from E-views 9, 2023. More so, * and ** implies 1% and 5% significant levels.*

The co-integration test was conducted using the ARDL bound co-integration technique based on the estimating model for the objective of the study. The result from the co-integration estimate showed that the values of the F-statistics was greater than the upper bound value at one percent critical value. Thus, the co-integration estimate showed the presence of long run relationship among the variables.

Table 2. ARDL Co-integration Estimate

Models	**F-Statistics Values**	
Model with FDB as Dependent Variable	7.2355	
Model with FDS as Dependent Variable	4.7051	
Critical Value	I(0)/Lower Bound	I(1)/Upper Bound
10%	2.12	3.23
5%	2.45	3.61
1%	3.15	4.43

Source: Author's from E-views 9, 2023

4.2. Regression Estimates

With respect to the objective of this study which is to examine the impact of financial globalization on financial development, the results are presented in Tables 3 and 4. Regression estimate from Table 3 present the results on the impact of financial globalization on financial development (proxy by banking sector development (FDB). From the results it was observed that financial globalization (FG), trade openness (TO) and gross domestic product per capita (GDPP) had the expected theoretical relationship with financial sector development by banks while inflation rate (INF) failed to show the expected theoretical relationship with financial sector development proxy by the banking sector. Statistically, financial globalization (FG), trade openness (TO) and gross domestic product per capita

(GDPP) had positive and significant impact on financial development by the banking sector (FDB) while inflation rate was statistically insignificant in influencing financial sector development by banks. Thus, a unit increase in financial globalization (FG) and trade openness (TO) is expected to promote financial development by banks by 0.0049 and 0.134 units respectively while a unit increase in gross domestic product per capita (FDB) is expected to promote financial sector development by the banking sector by 49.24 units.

With respect to the focus of this study, the rationale for the positive and significant impact of financial globalization on financial sector development of the banking sector can be attributed to the increase in foreign capital flows (foreign direct investment, port-folio investment and even remittances) into the banking stream. Such inflows have influenced the volume of available credits from the banking sector and also positively enhanced banking practices in the form of innovative banking products like online banking, Point of Sales (P.O.S), automated teller machine (ATM) and e-commerce packages. The findings of this study are in line with Malik (2020) and Edgar Tovar (2012) but in contrast to the findings of Asongu and De Moor (2015).

Table 3. Regression Results

Independent Variables	**Estimated Co-efficient**	**Standard Error**	**t-Statistics**	**Prob.**
Dependent Variable: FDB		Long Run Regression Estimate		
LFG	0.00492	0.00145	3.3756	0.0017
TO	0.13424	0.04435	3.0267	0.0045
GDPP	49.2368	14.5072	3.3940	0.0017
INF	0.03131	0.02253	1.3897	0.1731
C	-4.25670	3.11156	-1.3680	0.1798
R^2 = 0.9473		**F-stat. (Prob.)** = 37.4238 ($p < 0.05$)		
Adjusted R^2 = 0.9220		**Durbin-Watson** = 1.8990		

*Source: Authors' from E-views 9, 2023. * and ** signify 1% and 5% significant level.*

With respect to the impact of financial globalization on stock market development (FDS), the results from Table 4 showed that financial globalization (FG), trade openness (TO) and inflation rate (INF) had the expected theoretical relationship with stock market development (FDS) while gross domestic product by per capita (GDPP) failed to show the expected theoretical relationship with stock market development. Statistically, financial globalization (FG) and trade openness (TO) had positive and significant impact on stock market development (FDS) while inflation rate (INF) had negative and significant impact on stock market development (FDS). However, the results showed that gross domestic product per capita (GDPP) was insignificant in influencing stock market development (FDS) in Nigeria. Thus, a unit increase in financial globalization (FG) and trade openness (TO) is expected to promote stock market development (FDS) by 1.30 and 2.50 units respectively while a unit increase in inflation rate (INF) is expected to retard or decline stock market development by 0.649 units.

The rationale for the positive and significant impact of financial globalization on stock market development (FDS) can also be attributed to the increase in foreign port-folio investment capital market. Such increase in port-folio investment has increased activities in the stock market and thus increase its level of development. The findings of this study on the relationship between financial globalization (FG) and stock market development (FDS) is in support of Malik (2020) and Balcilar et al. (2019) but in contrast to the findings of Asongu and De Moor (2015).

Table 4. Regression Results

Independent Variables	Estimated Co-efficient	Standard Error	t-Statistics	Prob.
Dependent Variable: FDS		Long Run Regression Estimate		
LFG	1.30130	0.42435	3.06659	0.0154**
TO	2.50319	1.02651	2.43853	0.0407**
GDPP	0.18452	0.18896	0.97649	0.3574
INF	-0.64891	0.24546	-2.64362	0.0295**
C	-4.25670	3.11156	-1.36802	0.1798
R^2 = 0.7218 **Adjusted R^2** = 0.6948			**F-stat. (Prob.)** = 3.927 ($p < 0.05$) **Durbin-Watson** = 2.027	

*Source: Authors' from E-views 9, 2023. * and ** signify 1% and 5% significant level.*

In addition to the above the, coefficient of determination or the R-square from the above estimates is significantly high, indicating that the explanatory variables explained more that 70% of the variation in the dependent variable (financial development) in the estimated model. More so, the Durbin-Watson (D-W) statistics is appropriate because the D-W value is approximately 2. This suggests the absence of serial correlation and the findings of the study can be used for policy recommendation. The Durbin-Watson result is corroborated by the Breusch-Pagan-Gidfrey Heteroskedasticity and serial correlation LM estimates in Table 4.9. The values of the Breusch-Pagan-Gidfrey Heteroskedasticity and serial correlation LM estimates were insignificant in all the estimated models suggesting the possibility of the absence of biasness in the estimates.

Table 5. Diagnostic Tests

Estimates	F-Statistics	Obs*R-Squared	Prob. F(2, 24)	Prob. Chi-Square
Serial Correlation LM	0.615493	1.576621	0.5471	0.45464
	F-Statistics	Obs*R-squared	Prob. F(5, 33)	Prob. Chi-Square(5)
Breusch-Pagan-Godfrey Heteroskedasticity Test	0.68315	5.20043	0.6852	0.6355

Source: Author's from E-views 9, 2023

5. Conclusion and Policy Recommendation

This research study investigated the effect of financial globalization on financial development in Nigeria. In this study, financial development was measured by banking sector development and stock market development. The period covered by the study is 1981 to 2021, and the study utilized the autoregressive distributed lag (ARDL) techniques. The results showed that financial globalization significantly enhanced financial development (proxy by the banking sector development and stock market development). Therefore, the study concluded that financial globalization is a significant driver of both banking sector development and stock market development. The study recommends the need for more active financial globalization reforms that can further enhance and sustain the development of the banking sector and the stock market. More so, the government may create a special interest package for foreign deposits in the Nigerian banks. This will act as incentives to potential foreign investors. More so, the Nigerian government can make the domestic bonds traded on the stock exchange more attractive by granting special interest packages to long term investors capable of investment for about fifty to one hundred years.

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