Effect of Financial Globalization on Employment Generation in Nigeria

Dennis Brown Ewubare & Ibiene Ibifiri Bobmanuel
Department of Economics, Rivers State University Port Harcourt

ABSTRACT

This study sought out to examine the impact of financial globalization on employment generation in Nigeria. This draws support from the pro-globalization theorists assumption that financial globalization, which allows for reduction in capital control and expansion of financial transactions across national boundaries creates more opportunity for sustainable economic and social development. The specific objectives were to ascertain the effects of capital account openness, portfolio investment, broad money supply and market capitalization on employment generation. The data required for the investigation were sourced from the Central Bank Nigeria Statistical Bulletin, World Development Indicators, National Bureau of Statistics and IMF Financial Statistics. The data analysis techniques include ADF unit root test, bounds cointegration test, ARDL model method and post-estimation tests. The unit root test results showed that the variables are mixed integrated. While market capitalization is integrated of order zero, the other variables were integrated of order one. Evidence of long run relationship was established among the variables in the model from the bounds cointegration test. The ARDL results showed that capital account openness positively impacted on employment generation. This finding highlighted the significant role played by financial openness in promoting job creation. It was also evident from the results that portfolio investment has an insignificant negative effect on employment generation, which indicates that the growth in portfolio investment inflows is associated with increase in unemployment during the study period. Based on the findings, it is recommended that policymakers should promote gradual and consistent integration of the Nigerian financial system to the international financial environment to optimize the benefits of capital account openness for job creation.

Keywords: Financial globalization, capital account openness, portfolio investment, broad money supply and market capitalization and employment generation

1. INTRODUCTION

Financial globalization which allows for de facto and de jure development of international capital flows has remained an integral aspect of outward oriented policy. Mckinnon (1973) and Shaw (1973) posit that financial globalization is important for the development of the financial system and by extension offers opportunity for productive employment. It is also believed that financial globalization provides opportunity for increase in total factor productivity and productive employment, thereby lifting developing economies out of poverty. This is consistent with Dollar & Kraay (2001) famous conclusion that globalization of economic policies plays a key role in the vast improvement in the world poverty through growth.

The proponents of financial globalization also argue that the innovation of financial institutions, services, products and derivative associated with financial globalization promote more efficient functioning of the savings-investment cycle. More so, Levine (2001) observes that financial integration leads to more comprehensive, stable, and effective financial markets and, as a result, increases economic growth and development. However, the benefits of financial globalization manifest more in countries that meet certain thresholds with respect to financial development, institutional quality, macroeconomic policy soundness, and trade openness than in countries that do not. Unlike the globalization proponents, the globalization pessimists are of the view that financial globalization does not represent sufficient conditions for poverty reduction and improvements in overall human welfare. Although economic growth has increased around the world due to globalization, much of the population in the world is still trapped in poverty and inequality (United Nation, 2005). Accordingly, from Keynesian perspective, financial globalization is adjudged to generate negative spill-over effects in the economy. Xu & Gui (2019) posit that financial globalization tend to reduce the power of government in managing the economy.

In Nigeria, financial globalization occurred under difference circumstances. The gradual removal of barriers to capital mobility and introduction of greater exchange rate flexibility created opportunity for de facto and de jure financial globalization. Between 1986 and 1991, Nigeria witnessed substantial de facto financial openness that birthed numerous banks (Lewis & Stein, 1997). The expected improvement in social and economic outcomes in terms productive employment, equitable income distribution, poverty reduction and improved standard of living has led to widespread adoption of financial globalization in Nigeria. However, despite the depth of financial integration in Nigeria since the early 1980s, the country has experienced disappointing levels of development in the past two decades. This has sparked unending controversies on the effectiveness of financial globalization in driving the process of development. Given the foregoing, this study examined the implications of financial globalization on employment in Nigeria.

2. LITERATURE REVIEW

2.1 Theoretical Literature

This study is anchored on the financial liberalization proposed by McKinnon (1973) and Shaw (1973). The fundamental assumption of the theory is that financial liberalization is a necessary ingredient in the generation of high saving rates and investment, which offer opportunities for

rapid and sustained development of the economy. The theory also advocated for developing countries to move away from financial repression by adopting open cross-border financial policy for increased financial integration with the rest of the world. Gibson & Tsakalos (1994) are of the view that financial liberalization is necessary for financial markets to operate efficiently and to provide new opportunities for financing in the existing economy. Furthermore, Honohan & Schiantarelli (2000) acknowledge the multifaceted nature of reforms that occur in line with financial liberalization. They also point out that, in some cases, the process of financial liberalisation involves reversals in capital inflows.

Furthermore, the inflow of capital is perceived as adding new resources, technology, managerial ability and competition to capital-poor countries to improve productivity and overall economic outlook. The proponents of financial globalization argue that removing constraints in the financial segment of less developed countries plays a key role to bring them in line with that of the advanced nations. Thus, the implementation of financial globalisation by developing economies will drastically aid production and the capital flow required for transformation. It is further argued financial barriers have the capacity of lowering growth rates that otherwise would be higher if the economy is opened to financial activities. Based on the standard one-sector neoclassical growth model, the traditional theoretical channel through which financial globalization affects economic growth is the augmentation of capital. In other words, the financial liberalization theory predicts that financial globalization should lead to flows of capital from capital-rich economies to capital-poor economies since, in the latter; the returns to capital should be higher.

2.2 Empirical Literature

Diaconu & Bayar (2020) examined the impact of various globalization types on socio-economic development in eleven European Union (EU) states that faced the transition from a centralized to a market economy, during the period 1993-2016. The study followed broad measure of globalization cutting across all the key dimensions and the results revealed that economic, political and cultural globalization positively influences the socio-economic development of all the selected countries. These findings may offer valuable information for the policy makers of the eleven economies which could enhance the development in a globalized era. The study, therefore, suggested for an improved policy initiatives to offer opportunities rapid social and economic development.

Utilizing simultaneous equations on for a sample of 89 countries over the period 1990-2011, Dhrifi (2013) assessed the effect of financial development on poverty reduction. The model was based on a trilateral relationship connecting growth, inequalities and poverty. The study decomposed the financial development effects on poverty reduction into two opposite effects: a growth effect and a disparity one. Econometric analysis was applied for estimation techniques. The findings showed that while the indirect effect of financial development on poverty is not robust and ambiguous, the direct effect of financial development, through the channels of insurance, access to credit services and savings, is robust to reducing poverty. The study further observed that this effect depends on the magnitude and sign of the effects of financial development on inequality and growth. Additionally, institutional quality was found as an important determinant of the relationship between financial development and poverty. In

accordance with the findings, the study concluded that it is useful to encourage financial development and create microfinance institutions designed to provide microcredit to poor households.

Focusing on 35 developing countries over the period 1990-2004, Bharadwaj (2014) applied panel data to evaluate the impact of real and financial integration on poverty headcount and gap. The study also summarizes the channels and transmission mechanisms, such as greater openness to trade and foreign investment, through which the process of globalization could affect poverty in the developing economy. Econometrics tools formed basis for the data analysis tool and the results revealed that, on an aggregate level, capital flows via FDI have an adverse effect on poverty level. Additionally, the result revealed that trade-induced income growth is significant in reducing the incidence of poverty. More so, it was found that an excessive policy of openness to external trade without complementary support mechanisms is negatively associated with the depth of poverty in developing economies.

Rewilak (2017) examined whether financial development is conducive for reducing poverty. As opposed to using the conventional OLS, the study followed the specification of an instrumentation variable estimator because it has the potential for addressing endogeneity concerns. The findings showed that both financial deepening and greater physical access is beneficial in reducing the proportion of people below the poverty line. The study further applied alternative measures of financial instability and the results also challenge existing findings that it may increase the incidence of poverty. In addition, the results remain robust even when controlling for mobile money, thereby providing a further valuable contribution to the literature. The conclusion provided by the study is that the poverty reducing effect of financial deepening may be heightened if it coincides with increasing the inclusiveness and accessibility of the financial sector.

Kheir (2018) empirically estimated two models to examine the impact of financial development on poverty reduction in Egypt. The first model was dependent on poverty by the ratio of domestic credit to the private sector (percentage of GDP) and the second model is dependent on the poverty by the ratio liquid liabilities to GDP or M3/GDP. The study relied on annual time series data which covered the period 1980-2015. The study showed that, in long run, bidirectional causality exists between economic growth and poverty. Financial development and poverty are found to be complementary as bidirectional causality exists between them. Similarly, the short run result showed that there is bidirectional causality between financial development and poverty reduction. Based on the findings, the study recommended that governments should remove policies that impede the ability of banks to offer loan products or undermine the commercial incentive structure for banks or borrowers.

3. METHODOLOGY

3.1 Research Design

In this study, an ex post facto research design was adopted. The choice of this approach emanates from the fact the data required shall the collected from existing sources which are devoid of manipulations.

3.2 Model Specification

The model for this study is based on the financial liberalization theory which predicts that financial globalization would lead to flows of capital from capital-rich economies to capital-poor economies and to generate high saving rates and investment, which offer opportunities for rapid and sustained development. The formal specifications of the functional forms of the models are provided as:

$$EMPL = f (CAOP, PORT, BRMS, MKCP) \tag{1}$$

The dynamic ARDL model for equations (1) is specified as follows:

$$EMPL_t = \alpha_0 + \sum_{i=1}^{K} \alpha_{1i}\Delta EMPL_{t-1} + \sum_{i=1}^{K} \alpha_{2i}\Delta CAOP_{t-1} + \sum_{i=1}^{K} \alpha_{3i}\Delta PORT_{t-1} + \sum_{i=1}^{K} \alpha_{4i}\Delta BRMS_{t-1} +$$

$$\sum_{i=1}^{K} \alpha_{5i}\Delta MKCP_{t-1} + \beta_1 EMPL_{t-1} + \beta_2 CAOP_{t-1} + \beta_3 PORT_{t-1} + \beta_4 BRMS_{t-1} + \beta_{5i} MKCP_{t-1} + e_t \tag{2}$$

Where: EMPL = employment generation, HDI = Human development index, INCQ = Income inequality, CAOP = capital account openness, PORT = portfolio investments as a share of GDP, BRMS = broad money supply (percentage of GDP),   MKCP = market capitalization as a share of GDP, α_0 = constant parameter, m1 – m6 = vector of coefficients of the lagged regressors, a = optimal lag length, Δ = first difference operator, δ = coefficients of the ECM which captures the speed at which the model converges to equilibrium in the long-run and e_{1t} = random error term.

3.3 Data Analysis Techniques

The autoregressive distributed lag (ARDL) model was applied in estimating the dynamic relationship between financial globalization and socioeconomic development. The estimation of the ARDL preceded the evidence of mixed integration and establishment of cointegration test amongst the variables. In other words, after establishing mixed integration and long run relationship among the variables, then the ARDL estimation was performed to determine the dynamic relationship between independent and each of the response variables. Additionally, the error correction coefficient was used to determine the speed at which the model reconciles dynamics of short-run with the equilibrium of long-run. More so, descriptive statistics shall be utilized to gain useful insights into the distribution of the each of the variables over the study sample and other important summary statistics.

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

The descriptive statistics of mean distribution, standard deviation and normal distribution of each of the variables are presented in Table 1.

Table 1: Summary of descriptive statistics

	EMPL	CAOP	PORT	BRMS	MKCP
Mean	15.026	0.211	2.329	15.805	15.386

Median	14.700	0.300	1.096	13.090	13.086
Maximum	25.000	0.300	15.802	24.900	51.002
Minimum	10.320	0.000	-6.700	8.460	3.350
Std. Dev.	3.863	0.126	5.457	5.409	11.044
Jarque-Bera	1.441	6.743	6.823	4.128	12.67
Probability	0.487	0.034	0.033	0.127	0.001
Observation	35	35	35	35	35

Source: Researcher's computation from E-views 10

The results showed that employment generation has a mean value of 4. 15.026 percent whereas capital account openness and portfolio investments inflows have mean values of 0.211 and 2.329 percent respectively. The mean values of broad money supply and market capitalization are 15.805 and 15.386 percent respectively. The results further showed that employment generation fluctuated between minimum level of 10.320 percent and maximum level of 25.00. The standard deviations showed that the observations for all variables except portfolio investment are close to their respective mean values. The probability values of the Jarque-Bera statistics showed that employment generation and broad money supply are normally distributed at 5 percent level.

4.2 Unit Root Test Results

The unit root test was conducted at 5 percent level using ADF method and the results are presented in Table 2.

Table 2: ADF unit root test results

Variable	ADF statistics at levels	ADF statistics at first difference	5 per cent critical values	Order of integration
EMPL	-2.473	-5.245	-3.548	I(1)
CAOP	-2.541	-5.221	-3.548	I(1)
PORT	-2.885	-5.157	-3.548	I(1)
BRMS	-2.617	-5.265	-3.548	I(1)
MKCP	-4.754	-	-3.548	I(0)

Source: Researcher's computation from E-views 10

The results of the ADF unit root tests showed that market capitalization is stationary at levels because the ADF statistic (-4.754) is greater than the corresponding 5 percent critical value (-3.548). Thus, the null hypothesis of unit root is rejected in this case. This implies that market capitalization is integrated of order zero. The other variables in the model were not stationary at levels which prompted the first difference test of the variables. The results showed that the variables are all stationary at first difference, which implies that they are integrated of order zero. Evidence of levels and first difference stationary process indicates that the variables are mixed integrated. This finding provides basis for the choice of bounds cointegration method.

4.3 Bounds Cointegration Tests

The evidence of mixed integration from the ADF unit root tests necessitated the test for cointegrated using the bounds method. The results are presented in Table 3.

Table 3: Cointegration test results

Series: EMPL CAOP PORT BRMS MKCP		
Null Hypothesis: No long-run relationships exist		
Test Statistic	Value	K
F-statistic	6.971	4
Critical Value Bounds		
Significance	Lower [I(0)] Bound	Upper [I(1)] Bound
10 percent	2.45	3.52
5 percent	2.86	4.01
2.5 percent	3.25	4.49
1 percent	3.74	5.06

Source: Researcher's computation from E-views 10

Note: K represents number of the explanatory variables

As observed from the bounds cointegration test results, the F-statistic (6.971) is greater than the critical value (4.01) at 5 percent. This implies that the variables in the model are cointegrated at 5 percent level of significance. Consequently, the null hypothesis of no cointegration is rejected at 5 percent level. In other words, employment generation has long run relationship with the measures of financial globalization. The evidence of cointegration between employment generation and financial globalization corroborates with the findings of Azam, Haseeb & Samsudin (2016) and Bayar (2016) which highlighted long run relationship between employment and financial development.

4.4 Estimation of the ARDL Model

Table 4: ARDL results

Dependent Variable: EMPL				
Short Run Form				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(CAOP)	19.256773	5.594094	3.442340	0.0019
D(PORT)	-0.133356	0.068384	-1.950122	0.0616
D(BRMS)	-0.010599	0.098450	-0.107661	0.9151
D(MKCP)	0.013326	0.030682	0.434333	0.6675
CointEq(-1)	-0.410738	0.101103	-4.062564	0.0004
Long Run Coefficients				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
CAOP	28.200600	12.055870	2.339159	0.0270
PORT	-0.324676	0.194306	-1.670948	0.1063
BRMS	-0.025805	0.242388	-0.106463	0.9160
MKCP	0.032445	0.077760	0.417245	0.6798
C	9.786575	3.052241	3.206357	0.0034
R-squared	0.843402		Prob.(F-stat.)	0.0000

Source: Researcher's computation from E-views 10

The results revealed that capital account openness has a significant positive effect on employment generation in the short and long run. In comparison, the long run effect is greater than the short run effect given that a percentage increase in capital account openness will lead to 28.20 percent increase in employment generation in the long run. This finding explains the significant positive contributions of financial integration to economic growth in Nigeria. On the other hand, portfolio investment and broad money supply have negative but insignificant effects on employment generation in the long and short run. This finding indicates that increase in portfolio investments and monetary aggregates did not translate to employment generation during the study period.

The results further showed that market capitalization has a positive but insignificant effect on employment generation. This finding indicates that development of the stock market through increased market capitalization does not significantly contribute to employment generation during the study period. The error correction coefficient (-0.4107) is negative and significant at 5 percent level, which authenticated the evidence of long-run relationship among the variables. It specifically indicates that the short run disequilibrium to adjust to long run equilibrium position at a speed of 41.07 percent. The R-squared (0.8434) also showed that 84.34 percent of the total variations in employment generation are explained by changes in the explanatory variables. The highly significant probability value (0.0000) of the F-statistic indicates that the explanatory variables are collectively significant in influencing employment generation are, which further supported the statistical reliability of the entire model.

Table 5: Post-estimation tests results

Test type	Test statistic	Prob.
Breusch-Godfrey serial correlation LM test	Chi-square (3.151)	0.2069
White's Heteroskedasticity test	Chi-square (11.61)	0.0843
Normality test	Jarque-Bera statistic (2.394)	0.2299
Ramsey RESET Test	F-statistic (2.882)	0.0568

Source: Researcher's computation from E-views 10

The results of the Breusch-Godfrey serial correlation LM test for the four models showed that the probability values of the Chi-square statistics are greater than 0.05. Thus, the null hypothesis of no serial correlation in the models is accepted. This implies that there is no evidence of serial correlation in all the models at 5 percent significance level. Similarly, the White's heteroskedasticity test results also showed that the Chi-square statistics are associated highly insignificant probability values which are greater than 0.05. Consequently, the null hypothesis of no heteroskedasticity is accepted for the four models. In other words, the variance of the residuals is constant over the study period. Evidence of normal distribution was also established from the results. This is because the probability values of the Jarque-Bera statistics for the three models are greater than 0.05. More so, the model stability test showed that the estimated coefficients for the four models are stable at 5 percent level given that the probability values of the F-statistics are greater than 0.05. These results provide enough evidence for the reliability of the models.

5. Conclusion and Recommendation

This study examined the impact of financial globalization on employment generation in Nigeria. The role of money and capital market development in socio-economic development was equally captured in this study through the introduction of broad money supply as percentage of GDP and market capitalization as a share of GDP, which followed their recognition in extant literature. The findings showed that capital account openness contributed significantly in promoting employment generation in Nigeria. This is a pointer that increased financial openness has the potential of promoting economic development. There is also evidence of negative, but insignificant effect of portfolio investment on employment generation. Based on the findings, this study concludes that capital account openness is an outstanding channel through which financial globalization promotes employment generation in Nigeria. It is also concluded from the findings that increase in the financial depth; especially increase in monetary aggregates has the potential of boosting job creation. Given the findings, it is recommended that policymakers should promote gradual and consistent integration of the Nigerian financial system to the international financial environment to optimize the benefits of capital account openness for job creation.

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