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Capital Flight and Financial Globalisation: Will Further Opening up Increase Capital Flight out of Nigeria?

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Abstract: Capital flight is a challenge to many emerging economies especially those with yet to be perfect financial structures and systems. This study undertakes a study of capital flight as it applies to the Nigerian environment in the face of the current episodes of financial globalisation and capital outflows out of the economy. It adopts paired sample and the ordinary least square techniques with the main variables of exchange rates, Kaopen, investment and others to perform its analyses. The main finding is that the Nigerian capital flight has not been significantly increased by the financial globalisation process but it also indicates that Kaopen (an index of financial globalisation) is significant in the process of acquisition of external assets and might therefore, jeopardise the country's ability to retain capital within the economy for development purposes. Exchange rates and domestic investment show significance and thus are impacted by the process. The study recommends the improvement in the domestic investment variables and a cleaner float of the currency to retain capital and improve the environment so that Nigeria can reap the benefits associated with the process of financial globalisation.

Key words: Kaopen, capital account liberalisation, external assets, domestic investment, exchange rate, Nigeria

INTRODUCTION

Capital flight specifically refers to the movement of money from investments in one country to another in order to avoid country-specific risks (such as hyperinflation, political turmoil and anticipated depreciation or devaluation of the currency) or in search of higher yield. Capital flight has become an issue in recent times in the Nigerian financial environment such that three national dailies (The Guardian, Daily Vanguard and The Sun) ran editorials on it between April 11 and 20th 2010. Capital flight could be more exacerbated by the onslaught of financial globalisation.

A general definition of the topic is the increased economic integration between countries through the flow of information, goods, services, technology and people (Adubi, 2005). Globalization has led to a degree of homogenization of products and services across the globe of consumption preferences and options shaped by expectations of what can be acceptably sold in richer countries across the globe (Kyyd and Mansfield, 2000). The process of globalisation was powered by imperial conquests of new lands and the need to accumulate resources by the first world from the new unconquered world. It is neither a new phenomenon as some would have people believe, nor is it a culmination of history. The process however, picked up again in the mid 1980's, presumably due to prevailing democratic governance. Globalization is an important aspect of economic life in the world today and it can no longer be denied that it affects every facet of existence of the people and countries in the world. Many scholars have worked on different aspects of globalization and these have led to categorization of the process into different aspects.

Financial globalisation has been variously defined. United Nations Conference on Trade and Development (1996, 2006) defines globalization as the third layer of internationalization; the first layer being the expansion of international trade, the second layer was the financial integration that was witnessed in the 1970s on the adoption of flexible exchange rate regimes. The third layer now referred to as globalization which commenced in the 1980's has been enabled by information technology.

The main objective of this study is to identify the impact of financial globalisation as represented by continuous opening of the capital account and removal of restrictions on the capital flows on one hand and the impact of this on capital flight in Nigeria on the other.

CAPITAL FLIGHT AND FINANCIAL GLOBALIZATION

The existence of capital flight in any economy is indicative of its inability to sustain a culture of investment which is due to many reasons some of which may be peculiar to those countries. Capital flight disrupts long term development as a result of lost long term development capital which flees the economy.

Additionally, it does not encourage private long term investments but encourages investment in highly liquid short term assets. This is the basis for the hot money flows that frequently applies to capital flight estimates. Existence of capital flight in an economy is an indication of loss of confidence in the system.

The role of Foreign Direct Investment (FDI) in capital flight is under a priori expectation and rational hypothesis that FDI should eliminate or reduce the impact of capital flight in an economy. Kant observes that capital flight is invariably related to FDI and concluded that FDI and portfolio inflows would reduce capital flight and this can be caused by a general improvement in the investment climate of the country. Financial globalization as an aggregate concept refers to rising global linkages through cross-border financial flows (Khose *et al*., 2006) while integration, refers to an individual country's linkage to the international money or capital market and is seen as a gradual process through which cross border capital flows increase, financial markets co-movements become stronger and products prices and market infrastructure converge to common standards (Agnes and Zannello, 2006). Globalization with its different aspects and types and as a multidimensional process has been accepted as an overwhelming force that can hardly be resisted by countries and cultures across the globe. Increasing financial globalization is associated with rising financial integration and has been blamed for contagion resulting from damaging financial crises that sweep across countries when economies that are intra-regionally connected rather than being inter-regionally connected. Financial globalization is based on the effects of the different types of financial flows. Common flows are foreign direct investment and equity that have been on the rise and debt flows which have considerably reduced.

Financial globalization: The opening of a country's financial markets to foreign capital and financial institutions is far from complete therefore, still developing for most developing countries including Nigeria. Institutions propelling financial globalisation are not as much present in Nigeria as international financial products in form of bonds or equities (Schmukler, 2004). Where present it is in form of mounting external assets Nevertheless, capital has been observed to move a lot more freely within the circle of developed countries and a negligible part of the funds have moved to the emerging markets where they have been more return-chasing than anything else.

Developing countries benefit only where certain thresholds have been established. Mishkin (2006) enumerates three major benefits that the process brings to a developing country like Nigeria as the lowering of the cost of capital, thereby encouraging investment which in turn promotes growth and improvement in domestic allocation of capital. The most important benefit and one not usually emphasized the globalization of a country's financial system if it is designed to promote competition in domestic financial markets and the development of better property rights and institutions.

Major areas of financial integration are grouped into four and as Foreign Direct Investment (FDI) debt flows between the corporate and industrial world, debt flows between governments on bilateral or multilateral bases and portfolio investments. These have all increased the process of financial globalisation in one way or the other. Kenen (2007) divided units involvement in the process into two, the public sector and the corporate world. The involvement of the public sector is seen in the issuance of debt instrument under either of the national laws: domestic or foreign (the country where such instrument is domiciled and priced). The corporate sector is involved through cross border merger, acquisitions and FDI. They are also involved when they sell or buy stocks overseas; holding the corporate debt instruments of other countries. Finally, the introduction of the banking sector by worldwide interbank market lending and borrowing is seen as dangerous in retrospect of the Asian financial crises in the late 1990's.

Foreign direct investment has increased in importance because it tends to be more stable and less prone to reversals and is believed to bring with it indirect benefits of foreign investment in terms of managerial and technological expertise. The main benefits of the financial globalization or integration can be seen in the immediate advantages of the improvement in the financial market conditions of the country and has been recorded as more efficient international allocation of capital which enables the international investors to move capital where it is most needed and can obtain the required return.

Capital mobility encourages a race to the bottom in the provision of social and environmental infrastructure and amenities both within decentralized and sub-regional states and among countries in the world capital markets. This motivates governments to reduce corruption waste and inefficiency and to provide a more business oriented, competition-friendly environment (Keen and Marchland, 1997).

Hogbin and Triesman (2005) discuss the environment of the country as important. This is because more naturally and humanly endowed countries will do better since most countries are unlikely to start from the same level and less endowed countries tend to give up because of little competitive strength but Nigeria is an exception.

Globalization has almost become a monster that is conquering countries at will and subduing countries opposed to it and in the process seriously curtailing the ability of the state to deploy independent monetary policies (Ojo, 2010) and limiting the powers of the national monetary authorities. With the zenith of nationalism winding down in the last decades of 20th century, globalization has been the main driving force in world affairs.

The implications of this is that there is the transfusion of the bad side of globalization in form of pollutions, contagions (Whalley, 1991) and good side as a true international price for factor costs, especially of labour and capital. Equally, it has led to serious reduction in the cost of goods and services in the ensuing process engendered by competition. The benefits derivable from the process have been country-specific and cannot be generalised. This shows that countries have specific attributes and features that have aided or repelled growth or development. Main precursor of financial globalisation challenges have been the excessive debt (both foreign and domestic) and fixed exchange rates.

For countries and economies that have liberalised their capital accounts, management of the exchange rates and domestic inflation automatically become problems. Both have compounded the problems of developing countries in the management of capital flows affecting their countries. However, the much assumed theory of development and growth accompanying globalisation cannot be fully accepted in the face of robust tests that insignificantly prove the theory though it cannot be wished away.

Edison *et al.* (2002) after thorough and rigorous tests of financial globalisation impacts on development could not conclude on the alternative because of the variety of reasons adduced are soft rather than hard for this phenomenon. These soft attributes are those that Khose *et al.* (2003) believe are responsible for the different results and non-robustness of the results that emanate from the theory that financial globalisation aids development.

Ayhan *et al.* (2007) assert that these factors are social infrastructure. These factors are governance, rule of law and respect for property rights, efficient allocation of capital and expanded international risk-sharing opportunities, growth and stability benefits, rather than capital-labour relationship. Domestic markets liberalisation has also made it impossible for a full understand of why this theory cannot be established. It is argued that a lot depended on issues like governance, ethics and freedoms to ensure that incoming capital is put to its best uses to earn growth-inducing returns otherwise, such capital will leave the economy in capital outflow. If Total Factor Productivity (TFP) factors aid growth then it must have been in place to synergise with the incoming capital flows. Ayhan *et al.* (2007) in an exhaustive study refer to the TFP factors as collateral benefits as being some of the immediate possible gains of financial globalization where there was none before.

For capital account liberalisation to work favourably for a developing country like Nigeria, the thresholds expected of these soft factors must have been achieved. The strength of these soft factors determines the impact of the inflows for growth or development of the domestic economy. The factors also depend so much on the development of supporting institutions and markets. If the financial market is sufficiently developed, the institutions already have adequate capacity, strong governance and rule of law are in place, it can be expected that capital inflows can be of benefit to the domestic economy. The issues dovetail to the importance of investment in these soft areas to improve the quality of life and of governance.

Consequently, investment becomes the varying factor to growth in developing and emerging financial markets of the world such as Nigeria. Mishkin (2006) also argues that the developing countries are not poor because there is not enough capital and that it is far from clear that emerging market economies are finance constrained, in other words, they may not have trouble getting capital for investments. However, throwing money at investments does not work which in most cases has resulted in bad and misapplied loans.

Financial globalisation, capital outflows and volatility: The role of financial globalisation in economic development certainly has its side effects in reduction of consumption. But it has been the major cause of consumption volatility in developing countries (consumption being a better measurement of living standards than direct capital accumulation or acquisition) (Khose *et al.*, 2003).

Sudden outflows of capital resources are seen as volatility and can seriously affect the standard of living and per capita income of the domestic residents. Document that emerging markets currency crises which are typically accompanied by sudden stops or reversals of external capital inflows are associated with significant negative output effects which invariably impinge on domestic residents. Equally, capital outflows that happen during the reversals of capital inflows can be best described as capital flight. Capital outflows that happen when capital flees to safety and may be regarded as reverse flows when it is non-resident capital but as capital flight when it is resident capital leaving the economy for external investment. This scenario is usually preceded by risks in the domestic economy. Since, international capital is highly risk-averse and therefore very volatile countries that depend any of the three way flows expose themselves to volatility. The promotion of FDI is seen to be a better option for a country that must expose itself to inflows of foreign capital. The success of this is however, limited by the macroeconomic factors that influence investment in the soft attributes. This situation brings in the type of policies initially put in place to attract FDI and to sustain its continuance or growth. The matters at issue are that capital account liberalisation that impels financial globalisation cannot be undertaken in isolation without sound domestic policies in place, nor can it be done without algorithmic steps for its implementation. In addition, there must be capacity to manage its eventual fallouts and cyclic effects.

Financial globalisation and capital account liberalisation: The flows of capital in an unrestricted manner through financial integration or globalization can lead to a serious financial instability in an economy if not handled properly. The incredulity of a possible global market for financial products and services are too tempting to ignore (Quelch and Hoff, 1993). The flow of finance in the international arena means that funds can move in an unrestricted manner between countries as it seeks returns higher than or commensurate with its attendant risks. Each of these reasons can significantly lead to capital flight or the reaping of benefits in the process of financial globalization. These are the main reasons for the statement within international monetary and financial circles that financial globalization is neither the magic wand to turn an economy around nor can it be unmanageable (Lawrence, 2000).

The process of globalization has magnified the problem of capital flight as the resultant effects of unfair competition with unequal trading partners yielding unequal rewards have taken roots flows of capital across countries and Africans countries are at the receiving and losing end. International Monetary Fund prescription have remained the same for a myriad of different problems facing the developing countries on issues such as competition in the financial market, privatization of government or state owned enterprises, budgetary and austerity measures, good governance, currency devaluation and possible dollarization of the domestic currency (Agbese, 1992). The World Bank Institutions, Stiglitz (2002) says, simply promote the wall street activities and capital markets of the developed countries by promoting special corporate interest with flawed economic theories, lack of transparency to the public and not living up to their avowed goals. The globalization experience of Nigeria indicates that the country started late and is yet to catch up. The process was on initially in 1987, only to drop off later in year 1997. This particular trend shows the inconsistency of policies resulting in inconsistency of inflows of foreign investment in Nigeria.

The financial globalization has defined by two separate studies from the angles of de facto and de jure. The de jure index of financial globalization is more explicit and has been improving gradually with the process of adjustment programmes Nigeria undertook in the mid 1980s. It is to be noted that the index has a maximum of 2.543 for completely open and floating exchange rates of the developed countries. The index for Nigeria moved from -1.12942 in the 70s to 0.45086 as at year, 2007 and has dropped further with current practices. Regulatory policies have steadily improved the landscape for a more liberalized foreign exchange market but this has not been sufficient for Nigeria to reach the mid-point. The four measurements have continuously been varied to the disadvantage of the foreign exchange market. By these measurements, Nigeria is not financially globalised.

VARIABLES, MODELS AND DATA SOURCES

The literature is awash with methodologies of how to measure financial openness and globalization. Three of such measures are in Adegbite (2007a, b). Averatex represents the exchange rates over the years, Kaopen index is the legal openness of the transaction on the capital account GDPP capita represents the per capita output. FinDepn shows the deepening of the financial system. Exports create opportunities for external assets and possibility capital flight while imports create financial liabilities. Intdiff is the differential returns on domestic and foreign investment while invt is the gross capital formation and Fsavs is financial savings and the source of investment.

The financial globalization process is tested with the de jure measurement of the capital account opening process which is different from the actual de facto conditions existing and encouraging flights of capital. Legally, the de jure is the implicit and the lawful means by which economic units move funds in and out of the country. The Kaopen measures the intensity of the openness of the capital account. It shows the process of the capital account opening process Nigeria has engaged in the previous years. The absolute figure for financial savings is used. The availability of financial savings makes resources available to investors to undertake investments in the economy. Following the OLS modelling process, the equations adopted for the de facto measurements are:

$$\text{Financial asset} = \alpha + \beta_1\text{Avex Rate} + \beta_2\text{GDPPC} + \beta_3\text{Findeepn} + \beta_4\text{Kaopen} + \beta_5\text{Tradeopeness} + \beta_6\text{Export} + \varepsilon i \quad (1)$$

$$\text{Financial liability} = \alpha + \beta_1\text{Avex Rate} + \beta_2\text{GDPPC} + \beta_3\text{Findeepn} + \beta_4\text{Kaopen} + \beta_5\text{Ttradeopenness} + \beta_6\text{Iimport} + \varepsilon i \quad (2)$$

And for capital flight the following equations is:

$$\text{CAPFT (WB)} = \alpha + \beta\text{Avex Rate} + \beta\text{Kaopen} + \beta\text{Invest} + \beta\text{IntDiff} + \beta\text{FSAVC} + \beta\text{Reserv} + \mu \quad (3)$$

The following are the sources of the data used in this study:

- From international financial statistics CD-ROM (May, 2009). Average exchange rate (avexrate) which can be supported from other sources such as Central Bank of Nigeria's Statistical Bulletin of various issues. Nigeria foreign exchange market had moved from fixed to floating exchange rate regime in September 1986
- From the IMF's international balance of payments, external assets and liabilities position were obtained
- From world economic information database WEOI of the IMF, the data on real gross domestic product per capita was obtained
- Kaopenfor all countries including Nigeria was made available with permissions to use from Professors Chinn and Ito (2007) of the Portland state university and University of Wisconsin and National Bureau of Economic Research (NBER) of the United States
- Other variables were from Central Bank of Nigeria Statistical Bulletin, 2009 and where needed were transformed into foreign currency

RESULTS AND DISCUSSION

Table 1 shows an paired sample of the variables over time with the significant one flagged. Capita flight of both types has not been significantly affected by financial globalisation in Nigeria as it is not significant any level. The fact that there are significant relationships in the other variables indicate that there have been are changes indeed in exchange rate averatex and investment invt beyond 0.01 level but had not affected the dependent variable.

The FSAVC and Reserve demonstrate the same level of significance at 0.1 which shows an improvement but the sign is however an indication of the market determination that a reduction can be achieved by the further opening up of the foreign exchange market.

Also, financial globalisation process by other results does not seem to have serious effect on capital flight in Nigeria, though the impact of the process on exchange rates is not in doubt.

Table 2 shows that the acquisition of financial liabilities, the exchange rate variable is significant at 0.05. Also, significant is the Kaopen measure at 0.05 to buttress the fact the there is a measure of liberalisation in the exchange rate management in Nigeria. Exports out of country is a way of building assets outside the country as it is significant also beyond 0.01. Export is significant for asset at 0.001 level while import is not for liabilities for all periods. None is significant during the current episodes of globalization.

Table 1: Pre- and post-globalisation paired samples test

		Bootstrap				
					95% CI	
Variables	Mean	Bias	SE	Sig. (2-tailed)	Lower	Upper
Pair 1 Preavertex-PostAvex rate	-85.94176	0.00795	10.07442	0.001***	-104.6488200	-65.016190
Pair 2 PreCapft-PostCAPFTW	-2140.66118	-79.70264	2069.37182	0.364	-6450.0018800	1414.026180
Pair 3 PreCapftD-PostCAPFTD	1226.19176	-56.81441	1895.49019	0.539	-2749.0252000	4759.036470
Pair 4 PreInvt-PostInvt	-2.65444E5	-238.74616	40099.98977	0.001***	-3.44921E5	-1.86576E5
Pair 5 Pre-FSAVC-Post-FSAVC	-574.69529	-1.42943	168.02768	0.052*	-948.1669200	-270.809690
Pair 6 PreReserve-PostReserve	-9235.58059	-26.43585	3679.94679	0.079*	-17304.2404200	-2655.886580

Abridged results of PASW output; t-statistics are in parentheses; *, **, ***denote the level of significance at 10, 5 and 1%, respectively

Table 2: Regression estimates of Nigeria financial globalization

Variables	Financial assets (a)	Financial liabilities (b)	Pre-globalisation financial assets (a)	Post-globalisation financial asset (b)
Constant	23999.53 (2.548)	-99451.83 (-0.84878)	-1281.549 (922.122)	-164872 (-10065)
Avex Rate	-3192.14 (-0.4899)	1429.81 (1.96685)**	447.00 (248.32)	2444.13 (1.1905)
Kaopen	835771.6 (3.8271)***	-22977.99 (-0.952264)	-850.54 (656.99)	3480 (2.1608)**
GDPP capita	58.2135 (0.895975)	-5.556 (0.429)	0.008 (0.0119)	3.147 (0.1903)
Findeepn	-41965.68 (-2,0602)**	2918.39 (1.4302)	-6.746 (4.457)	0.0111 (0.0264)
Export	94.732 (7.224)***	-	-0.0015 (0.003)	59.004 (2.548)***
Population	-13066.46 (0.8874)	256.36 (0.15)	-	16636.8 (0.9791)
Import		-1.759 (-0.6)	-	-
D Watson	1.73	1.71	1.62	2.06
R^2	0.92	0.62	0.73	0.97
Adj. R^2	0.90	0.53	0.56	0.95
F-statistic	49.83	6.77	4.45	67.74
Observations	37	37	17	20

OLS estimates. t-statistics are in parentheses. ***, **, *denote significance at 1, 5 and 10% levels, respectively. Estimates of the adopted variables

The observations included for all periods were 37 for liabilities and assets respectively while the globalization period has 17 observations each. This underscores the role of mis-invoicing in siphoning resources out of Nigeria and especially export under-invoicing as the commonest method of engaging in capital flight out of Nigeria. The values are positive throughout the period covered by the study. This shows that higher (market-determined) rates of exchange fostered the increase in the foreign financial liabilities acquisition which might be due to further financing advantages that firms borrowing from overseas enjoy. The de jure measure which provides a measure of confidence to investors is significant at 0.01 for financial assets but not for liabilities. Absolute values are however, higher for assets. This is significant and shows the extent that the capital opening process of the Central Bank of Nigeria has allowed entities in the financial system to invest abroad. Capital account openness also impact on the borrowing or claims by foreign nationals on Nigeria. A higher level of Kaopen (say in the positive region) would produce higher figures with the assets acquisition becoming more dominant. In addition, the fact that Nigeria recently liquidated most of the foreign debts could have caused the non-significance of the variable in liabilities acquisition. The positive sign indicates that the more Kaopen level the country attains, the higher the assets Nigerians will acquire overseas. With every point gained in the index, an increase in external asset acquisition to the tune of $835.771 million occurs.

Per capita income (GDPPC) estimates comes with positive coefficients and standard errors but not significant in the financial assets but has negative coefficients in the liability flows. Generally, the population is not investing overseas nor are they borrowing from abroad. This might be because of the high level of poverty in the country and the inability to muster minimum requirements to purchase assets overseas. Financial deepening is negative with high coefficients and significant at 0.05 level with external liabilities and also negative under the financial assets. It is instructive to note that while the financial system is developing more products to absorb and dispense finance, the figures shows a negative coefficient indicating that with more financially deepened system less assets would be acquired abroad. This was the a priori expectation. There was less acquisition of assets in the pre-globalization period. With this result, financial deepening in Nigeria shows promise and it can be used to further discourage overseas investment.

Trade values of export and import were tested under assets and liabilities, respectively. Import can only lead to liabilities and exports to assets acquisition. It can be concluded that factors that have been responsible for the growth of the financial system and financial deepening are all traceable to internal dynamics of the Nigeria financial system and not necessarily any financial globalisation as earlier presumed. Issues such as banking sector recapitalisation were not induced by globalisations but the need to prepare the system for the next phase of banking operations which of course had external growth implications.

In spite of the de jure measurement, de facto determinants measures what the use to which Nigeria has employed the global financial market in the sourcing and usage of funds and the direct linkages with international financial centres. The determinants of the measure in the regression estimates have showed different signs and various levels of significance for the endogenous variables regressed against financial assets and liabilities. For the rate of exchange avexrate, financial asset is significant beyond 0.05 level indicating the tendency of lower exchange rates in encouraging the acquisition of liabilities by Nigerians abroad. Export as an independent variable was more significant in acquiring financial assets outside of Nigeria than import was in acquiring liabilities. The indication here is that Nigeria had significantly used

Table 3: capital flight regression results

Variables	CAPFT
Constant	-5.0007 (-1.7912)
Avex Rate	-0.38035 (0.007245)
Kaopen	-2167.124 (-1.767622)*
IntDiff	2063.427 (2.14268)**
Invt	-0.008736 (-0.505270)
FSavs	-0.015905 (-2.7151)***
Reserves	0.94924 (3.741654)***
AR (1)	-0.387927 (-1.905259)
R^2	0.57
Adjusted R^2	0.46
Durbin Watson	2.2
F-statistics	5.21
Observations	38

t-statistics are in parentheses; *, **, *** denote the level of significance at 10, 5 and 1%, respectively

its export proceeds to acquire foreign assets and most probably engaged in capital flight, this at 0.01 level of significance. Other variables are not significant and their importance can be measured in the signs they carry. Expectedly, the coefficient of per capita income is positive for asset acquisition but low and negative for liabilities showing the portfolio preference of Nigerians to shift assets abroad. For both periods of pre- and post-globalisation, the feature is the same as the assets are higher than the liabilities. Going by these analyses, Nigeria is yet to achieve the level of financial globalization that is expected of an emerging economy but in spite of this is being affected negatively through the various indices of measurement of financial globalisation. It is difficult to reject a hypothesis that financial globalization has a significant impact on capital flight and flows in Nigeria as the external financial assets have been higher than liabilities irrespective of the globalisation processes. Table 3 shows Kaopen is marginally significant in the regression at 0.1 which is not convincing enough for to accept the alternative hypothesis. The sign is more significant as the result indicate a negative impact of financial globalisation on capital flight out of Nigeria. Indications that a more open and market determined rates of exchange for the currency might produce a lower capital flight estimates is important for capital flight management by the financial authorities. The exchange rate is not significant in the estimates for capital flight but significant in the financial globalisation process.

CONCLUSION

The last issue to be addressed, if the country wants to enjoy the benefits of financial globalisation, concerns the factors that make financial globalisation meaningful for countries. They are the collateral benefits or the Total quality Productivity Factors (TPF). These factors are in the quality of education, adequate infrastructure, quality institutions (e.g., executive, legislative, judicial and security), etc. These factors are presently lacking in Nigeria and must be provided if the country wants to benefit from the present wave. All these address the quality of both hard and soft infrastructure of the country.

RECOMMENDATIONS

As much as globalisation can not be avoided by countries that seek to develop in the current process, it must be managed so that its harmful side will be minimized and controlled by the monetary authorities. The following are recommended to deal with the present stage the country is in the financial globalization process.

It is important to encourage the inflow of foreign resources in to the country through adequate and effective management of the exchange rate in the country. Market determined rates would assist in adequate evaluation of incoming resources. Confidence should be given to the foreign investors through cleaner management of the rates of exchange as well as guarantees for incoming ones.

The encouragement of export of products out of the economy must be intensified. However, the economy is constrained by its monoculture and export of crude petroleum only in the raw form. If exports of petroleum must continue then there is need to add value in form of further processing before being exported. Effort must be directed towards industrialization in the country for the country to produce exportable goods in the right quantity and quality. This is the basis for improvements in real terms of trade. As Nigeria must advance in the process, further level of financial globalization steps must be accompanied with capacity to develop the collateral benefits to ensure that the benefits of financial globalisation can accrue to the economy and in the process ensure efficiencies in the management of the financial resources of the country. The floatation of the naira and its ability to trade without Central Bank supplying the major quantity should be considered. Arriving at this point means that the currency (naira) is at the market place.

A point to be addressed is the financial services or deepening in the economy to create more financial products for the economy to absorb inflow of foreign resources and thus make Nigeria a financially developed centre. This would stem the outflow of capital for investment overseas. The monetary authorities would have to make a conscious and deliberate effort to bring confidence into the banking system and encourage the creation of more services and products to meet the needs of investors of different types of both lenders and borrowers. The preponderance and skewness of the banking system lending operations towards short-termism can not encourage growth. The development of institutional capacity to manage the downside effects of the process of financial globalization and integration has yet to be fully ingrained in the Nigeria economic and financial system. This need to be fully looked into and addressed if the benefits that the process brings is to be enjoyed and costs avoided. Nigeria does not have challenges exporting if it can produce more. The basic problem of trade-openness is answered if supportive institutions are able to provide infrastructural and regulatory guidelines and perform expected roles as in other emerging markets like Nigeria. There is the need for Nigerian banks to firm up and begin their financial globalization and integration efforts from the Economic Community of West African States (ECOWAS) sub-region since, it is a dominant economy and the forces of financial centre should normally gravitate towards the country. The creation of a financial centre is long overdue in Africa and highly needed in the sub-region of West Africa. The country should take the bull by the horns in terms of taking financial (Nigeria had taken political responsibility at a time) responsibility and marshalling efforts to have a viable financial centre created in the ECOWAS before the gains of the last recapitalization exercise in the banking industry are fully lost.

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