# Globalization Review

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*Globalization: Building Human Capital*

*HEINRICH BOLL FOUNDATION*

*NIGERIA WORKING GROUP ON GLOBALIZATION*
Globalization Review

Note for Contributors

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Please use the following guidelines to ensure you include all the relevant aspects otherwise your paper may be rejected before entering the production process which will delay publication.

- Please provide a hardcopy of the manuscript. The article must be original and is not being submitted elsewhere plus the same final version of the paper on MS Word by email to bolubamise@yahoo.com.
- The final finished version of the paper, checked for grammar, spelling and typographical errors.
- A brief autobiographical note should be supplied for all authors, including full name, appointment, name of organization and email address.
- A structured abstract set out under 4-6 sub-headings: Purpose; Methodology/Approach; Findings; Research limitations/implications (if applicable); Practical implications (if applicable); and, the Originality/value of paper. Maximum is 250 words in total. In addition you should categorise your paper under one of these classifications: Research paper, Viewpoint, Technical paper, Conceptual paper, Case study, Literature review or General review.
- Please list up to six keywords that describe your paper.
- References should be in Harvard style (see below) and carefully checked for completeness, accuracy and consistency. End notes should be numbered consecutively. Post notes not permitted

Harvard-style references

You should cite publications in the text: (Adams, 1997) using the first author’s name. At the end of the paper, a reference list in alphabetical order should be supplied:

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If available online, the full URL should be supplied at the end of the reference.
- All, figures, illustrations and charts should also be supplied in both electronic format and as high quality originals.
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- Figures may also be submitted in the following standard image formats: .ppt - MS Powerpoint, .eps - Postscript, .pdf - Adobe Acrobat portable document, .ai - Adobe Illustrator, .wmf - Windows Metafile. If you are unable to supply graphics in the formats listed above, please ensure that figures supplied as .tif, .gif, .jpg, .bmp, .pcx, .pic, .pet are files of at least 300 dpi and at least 10 cm wide.
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- Each article should be accompanied by a letter signed by the author(s) giving copy right of the article to the publisher.

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EDITORIAL

The late Pop John Paul II in 2002 at his address to the Pontifical Academy of Social Sciences said:

"The increasing interdependence among people, families, businesses and nations, as well as among economies and markets - known as globalization - has revolutionized the system of social interactions and relations. If it has positive developments, it also harbours disturbing threats, notably the exacerbation of inequalities between the powerful economies and the dependent ones, between those who benefit from new opportunities, and those who are bypassed. This fact invites you to think about the subject of solidarity in a new way." (emphasis mine).

Emeke Emeagwali, probably the most notable Nigerian in the Diaspora recently in a feature article in Nigerian newspapers concluded likewise that "we have to start thinking" or else Africa should bid development farewell and our developmental challenges would be transferred to future generations and that, I submit would be unfair. We believe each generation should make the greatest effort to address and correct challenges it faces whilst laying solid foundations for the future.

Our concern for the present and future of Nigeria drove us since 2003 with other stakeholders to provide information and education about globalization, especially the influence of the global multilateral trade systems on national development. We have sponsored research into Nigeria's Trade Policy in the Global Context, examined the Impact of Foreign Direct Investments in Agriculture, evaluated the Impact of GMOs to Sustainable Agriculture amongst others. Similarly we have held capacity building workshops for over 450 NGOs / Government agencies/Trade organizations, Chambers of Commerce, the academia, and the Media amongst others, in an effort to build a pool of knowledge workers familiar with global trade practices. We have over 12 publications on Trade and development in this era of globalization. These all in an effort to supply answers to the challenges of national development in this age of globalization.

However, something has been missing and that is the subject of this edition of our journal. We find the near total silence of Nigerian academic institutions, especially in proffering solutions to the challenge of globalization quite intriguing. We believe and affirm, that a society that is not built on the knowledge provided by its intellectuals is a retrogressive society and would wish that the Nigerian academic community re-enact her central role in social advancement made very popular in the 60s and 70s by the radical schools in Ibadan, Lagos, Enugu and Zaria.

To engage globalization, the necessary human capital must be available. All over the world academic institutions are examining their curricula to produce the human capital that would lead their respective nations in this era, Nigeria cannot afford to lag behind. One way of doing this to our mind, is to produce the necessary human capital that can lead Nigeria into a global world, and this can only be done where the curriculum adequately reflects emerging global issues. We are aware of some of the challenges, not in the least a government that is hostile to intellectual discourse, but we believe our academic institutions can do more.

For those who have followed the World Trade Organization and the evolution of the Doha Development Agenda, a major turn around was in Cancun, when for the first time, developing countries raised objections to the way global trade was being negotiated at their expense. Since then things have never been the same in the multilateral trade system. The collapse of the WTO negotiations which was quite apparent at the 5th Ministerial Summit (the highest decision making body) in Hong Kong in December 2005 provides a unique opportunity for developing countries to assess the benefits or otherwise of the global multilateral trading system for national development. Unfortunately, most of the analyses have not been from Nigerian academia.

The collection of papers in this edition were selected from papers presented at a one day conference on the theme "Globalization of Academy: Building Human Capital for National Development" held with the Support of Heinrich Boll Foundation at the Covenant University on 24th October 2006. It was a unique opportunity to examine how we can produce the necessary human capital that can take on the challenges of globalization, because, challenges, sure we will have, but can we meet these challenges?

The papers range from examination of the impact of regional economic integration into the development process, to the development of a computer system for resource sharing and human resource performance measurement and how to integrate global trade into curriculum of tertiary institutions as well as the role of languages in deepening the global trade system. The papers are quite groundbreaking and filled with innovations, which we recommend to policy makers for implementation. Beyond that, we believe it is high time that the Nigerian academic community generate the kind of knowledge provided by its intellectuals is a retrogressive economy. We believe and affirm, that a society that is not built on the knowledge provided by its intellectuals.

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We thank the host Covenant University for proving the platform for the exchange of ideas and do hope the documentation of our experience will stir up debate about the quality of human capital that we expect from academic institutions in Africa.

Editorial Board.
February 2007.
The Impact of Globalization on Foreign Direct Investment in Nigeria

Adetiloye K. A. and Olokoyo F.O.*

Abstract:

The globalization index released yearly, especially by A.T. Kearney has become a very important measure of globalization for most countries of the world. Methodology of these indices includes economic variables which include Foreign Direct Investment and Trade. We take a look at the index to see how Nigeria is faring in its efforts to attract Foreign Direct Investment to the country and discover that the efforts are not yielding fruits. As it is, the world is becoming more globalized at a faster rate than Nigeria is opening up. This discovery suggest that the country would need to open up at a greater pace in order to attract the quantum of Foreign direct investment that would assist in developing the country at the required growth rate. Apart from this the obstacles that can prevent this are briefly discussed.

Keywords: Economic Growth, Foreign direct investment, globalization, Multinational corporations

Introduction

An important part of the globalization process in recent years, has been the continuous rise in the foreign direct investment (FDI). UNCTAD (2000) shows that from 1979 to 2000 the ratio of world FDI stock to world gross domestic product rose from 2% to 16% and the ratio of the world FDI flows to global gross domestic capital formation (CGDF) rose from 2% to 14%. This fact shows that the share of the countries increase with a global market phenomenon. Foreign affiliates of Multinational Corporations (MNCs) share of world production is 15% in manufacturing and other tradables (Lipsy 2002). Foreign direct Investment (FDI) has emerged as the most important source of external finance flows to developing countries during the 1990s and has become a significant part of capital formation in these countries despite the fact that their share global distribution has continued to dwindle.

FDIs flow as part of a bundle of resources including capital, production expertise and technology, organizational and managerial skills, marketing know how and access through the marketing networks of MNCs who undertake direct investment in host countries. FDI can be expected to contribute more to the domestic investment than the domestic saving aggregated by the host countries. Successful FDIs are available for the entrepreneurs of the host countries to copy from. Khee et al (1998) refer to them as the catalyst because they initiate and nurse non-traditional export oriented production outfits into maturity by combining their technical marketing and managerial know-how and their access to world markets with domestic endowments.

However, it is widely believed that the trend towards globalized production and marketing has major implications for developing countries' attractiveness to foreign direct investment (FDI). Nigeria is not left out in this pursuit of foreign direct investment. The boom of the FDI flows to the developing world since 1990s indicate that the multinationals enterprises have increasingly considered those host countries to be profitable investment locations. Others have equally argued that determinants and motivation for FDI in developing countries have changed in the process of globalization (Kokko, 2002).

It is therefore beyond doubt that the rules of the game have changed in some respect. For instance, tariff jumping FDIs that serve large protected markets should have become less relevant to various developing countries. Some developing countries, Nigeria inclusive liberalized their import regime and relaxed administrative rules on external trade. Also successive rounds of liberalization have reduced the relevance of market access through FDI for many products (UNCTAD, 1998: 115). Hence it remains open to debate whether globalization has positive or negative impacts on foreign direct investment in developing countries in general, and Nigeria in particular. This paper therefore seeks to address the question of globalization-induced changes in the Foreign Direct Investment growth in Nigeria in a nutshell. More importantly, it looks at the current level of globalization in Nigeria, if this matches the level of inflowing foreign direct investment, and takes a peep into the future to know the rate that the country needs to be opened up to meet the current speed of globalization in the world.

Foreign Direct Investment and Globalization:

The dual gap analysis forms the theoretical backbone of the demand for foreign investment by developing countries around the world. For these countries, the analysis is more amplified when the need to develop the economy and catch up with other countries of the world is broached. In the analysis, the need and ability to attract investment funds, goods and services to complement the available domestic resources are important (Oloyede, 2002), Iyoha (2002), as the domestic resources where sufficient may need to be complemented with foreign input of goods and services in the development process. There is no doubt that, most Third World Countries are either limited by investment or trade in order to push forward their economic growth aspirations.

Capital intermediation happens in between nations as finance flows from surplus countries to deficit countries where higher returns and more efficient use of resources is possible (Dunn and Mutti, 2004), and this can be achieved only if there is free mobility of capital between countries and is assumed where the domestic economy assures higher returns for incoming capital which is only possible in a globalising economy. Globalization has been described as a process of compressing time and space resulting in increasing cross border flows of goods and services, finance, people, information and culture.

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Globalization connotes a growth of international exchange and interdependence (Scholte 2000, 15), while some identify globalization with large-and-growing flows of trade and capital investment between countries. Most professionals in finance have simply come to see globalization as the collapsing of world markets into one. (Adgebite, 2006). Therefore for a free flow of capital resources, an assured degree of openness to capital flows into economies that assures higher returns is a must.

Foreign private direct investment, as major component of international flows, refers to investment by multinationals companies with headquarters in developed countries (Thirwall 1994) into a foreign economy. It has been subdivided into portfolio and direct investment where the former is assumed a less important role as a result of the definition of the term foreign investment as investment made to acquire a lasting interest in a foreign enterprise with the purpose of having an effective voice in its management (IMF, 2000) and the WTO maintains the word “acquisition” and separation between “home country” and “host country” in the investment process (WTO, 1996). Foreign investment comes in a bundle, with technology and entrepreneurial expertise (Feldstein, 2006), which benefits the host country (Oyerenyi, 2003) and is only possible and networked through the Multinationals corporations (Aremu, 2006), which can be asset-exploiting or asset augmenting. It is asset-exploiting, when the project directly promotes financial and market expansion of a company. For asset augmenting the direct investor will influence the firm’s performance indirectly by improving resource and strategic asset acquisition (WIR 2006, 170). Foreign direct investment (FDI) in Nigeria is defined as investment undertaken by an enterprise that is wholly or partly foreign-owned (UNCTAD, 2006).

However, openness of the economy to the outside world plays an important role in the inflow of capital resources through the MNCs, which comes with the progressive lowering of barriers to trade, liberalization of domestic financial markets and removal of restrictions on capital movements and implementation of privatization programs. The advantages seem to weigh in favor of the host countries at least in the short run. While it is often believed that the host country also benefits from the Overseas investment activities of their corporations as well, as the MNCs become improved in their competitiveness and performance in their respective industries. (Boltho 1996) competitiveness is defined as the ability to sustain growth in open setting. But the immediate downside is the lowering of investment savings, the capital stock and likely worsening balance of payments situation in the home country.

Prerequisites for globalization are many and demanding for closed economies since opening up the economy suddenly renders the economy vulnerable to sudden shocks which the economy must be ready to handle in a manner that does not allow further deterioration in the macroeconomic variables of the country. This is probably the reason why some economies remain closed. Apart from this, social malady like corruption has continued to weigh against Nigeria heavily. World Economic Forum (2006), reports that Nigeria was down 18 places in one year in global competitiveness! Equally Transparency International (2006) ranked Nigeria 38th most Corrupt country in Africa and 145th in the world. These have continued to drop Nigeria’s rankings on Global competitiveness ratings and corruption levels, which show how expensive it is to set up a business firm in Nigeria.

Globalization, which has suddenly caught up with most countries, have made some to move far ahead of others while others were on lookers at first but later reluctantly joined the train and have been having it uneasy adapting to the process. Other caught up so fast they have continued to reap the benefit while others have simply lagged behind not knowing how best to overcome the challenge. Globalization continues to advance despite worldwide economic and political instability, but it is moving forward on different paths in different nations (Kearney, 2006) and at different speed.

Method of Comparison

Many indices have been used to measure globalization: (Kearney, 2001) and Lockwood and Redoano (2005) have used like indices, which are simply the same irrespective of the choice made of the two. They comprise of economic which deals with trade, foreign direct and portfolio investment and income, under which the amount of income earned and paid out to resident non-nationals and nationals not resident within the country as a proportion of Gross Domestic Product of the country, is measured. Personal contact, technological connectivity, political and social engagement are all parameters used by the methodologies to arrive at the globalization index attained by each country surveyed. We chose the Lockwood and Redoano method since it dates back to 1987 for Nigeria and 1985 for the world, and because it allows a time series comparison and for the break down of each of the components. From the indices, it is clear that some are expensive commitments and a drain on national resources while others improve the GDP and yet others may not be of any economic value. Political engagements are expensive if undertaken outside the nation especially peacekeeping forces; treaties are commitments to the nation and generations yet unborn. Undertaking a political arrangement domestically, which incidentally may not count for the index is the only benefit here in Nigeria. The rest have been resource gulping for the country, with no economic value added. The economic sector has trade and foreign direct investments as parameters which are areas of benefit for the citizen of the country. For social interaction, globalization can be of benefit to the cultural aspect of life of the citizens if positive values are imbued; but this is not so. These involve the usage of the Internet, telephone and other means of communication utilized by the nationals of the country. Though not empirically tested yet, there is widespread belief that the usage of these facilities have increased in the country and consequently an improvement in Nigeria ranking should result but rate of increase still appear slow when compared
Table 1: Nigerian Globalization Index and Foreign Direct Investment 1990 - 2004

<table>
<thead>
<tr>
<th>Year</th>
<th>Economic</th>
<th>Social</th>
<th>Political</th>
<th>Overall</th>
<th>Change</th>
<th>FDI$m</th>
<th>Change%</th>
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<tr>
<td>1987</td>
<td>0.157</td>
<td>0.000</td>
<td>0.315</td>
<td>0.187</td>
<td>-----</td>
<td>N/A</td>
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<tr>
<td>1988</td>
<td>0.155</td>
<td>0.000</td>
<td>0.347</td>
<td>0.205</td>
<td>9.620</td>
<td>N/A</td>
<td></td>
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<tr>
<td>1989</td>
<td>0.159</td>
<td>0.000</td>
<td>0.383</td>
<td>0.231</td>
<td>12.682</td>
<td>N/A</td>
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<td>1990</td>
<td>0.181</td>
<td>0.000</td>
<td>0.387</td>
<td>0.247</td>
<td>6.930</td>
<td>587.888</td>
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</tr>
<tr>
<td>1991</td>
<td>0.192</td>
<td>0.002</td>
<td>0.421</td>
<td>0.277</td>
<td>13.760</td>
<td>712.370</td>
<td>21.180</td>
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<tr>
<td>1992</td>
<td>0.171</td>
<td>0.002</td>
<td>0.493</td>
<td>0.309</td>
<td>11.550</td>
<td>896.640</td>
<td>25.870</td>
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<td>1993</td>
<td>0.210</td>
<td>0.003</td>
<td>0.574</td>
<td>0.386</td>
<td>24.920</td>
<td>1345.370</td>
<td>50.945</td>
</tr>
<tr>
<td>1994</td>
<td>0.192</td>
<td>0.003</td>
<td>0.585</td>
<td>0.381</td>
<td>-1.300</td>
<td>1959.220</td>
<td>45.627</td>
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<tr>
<td>1995</td>
<td>0.200</td>
<td>0.002</td>
<td>0.589</td>
<td>0.388</td>
<td>1.837</td>
<td>1079.270</td>
<td>-81.531</td>
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<tr>
<td>1996</td>
<td>0.187</td>
<td>0.003</td>
<td>0.603</td>
<td>0.389</td>
<td>0.003</td>
<td>1593.460</td>
<td>47.642</td>
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<tr>
<td>1997</td>
<td>0.193</td>
<td>0.004</td>
<td>0.575</td>
<td>0.376</td>
<td>-3.340</td>
<td>1539.450</td>
<td>-3.508</td>
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<tr>
<td>1998</td>
<td>0.179</td>
<td>0.004</td>
<td>0.575</td>
<td>0.367</td>
<td>-2.393</td>
<td>1051.330</td>
<td>-31.707</td>
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<tr>
<td>1999</td>
<td>0.182</td>
<td>0.003</td>
<td>0.603</td>
<td>0.386</td>
<td>5.177</td>
<td>1004.820</td>
<td>-4.424</td>
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<tr>
<td>2000</td>
<td>0.202</td>
<td>0.003</td>
<td>0.631</td>
<td>0.416</td>
<td>6.995</td>
<td>930</td>
<td>-7.406</td>
</tr>
<tr>
<td>2001</td>
<td>0.198</td>
<td>0.003</td>
<td>0.583</td>
<td>0.384</td>
<td>7.692</td>
<td>1104.400</td>
<td>15.755</td>
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<tr>
<td>2002</td>
<td>0.103</td>
<td>0.005</td>
<td>0.392</td>
<td>0.331</td>
<td>13.802</td>
<td>1281.100</td>
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<td>2003</td>
<td>0.101</td>
<td>0.005</td>
<td>0.529</td>
<td>0.290</td>
<td>-12.390</td>
<td>1200.000</td>
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<tr>
<td>2004</td>
<td>0.101</td>
<td>0.005</td>
<td>0.624</td>
<td>0.350</td>
<td>20.690</td>
<td>2127.086</td>
<td>77.257</td>
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Sources:
(a) Column 1 - 5 from Lockwood and Redoano (2005)
(b) Column 6 from authors' calculations
(c) Column 7 From UNCTAD database
(d) Column 8 from authors' calculations

Table 2: Some Countries FDI in $'millions and Respective Globalization Index.

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<tr>
<th>Year</th>
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<th>Trade</th>
<th>FDI</th>
<th>Glo Index</th>
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Sources:
Column 1-8 UNCTAD Database
Column 9-12 AT Kearney Globalization Index rankings
Observations:

It is easily observed from (Table I) above that the Nigerian globalisation experience has been from ground level and has been progressing so slowly that it is almost non-existent. In 1987 Nigeria moved steadily, improving gradually mainly on the political front because of peace keeping forces that the country maintained in various locations of the world, the treaties that the country assly commits herself (for example WTO in 1995) as she signs oftentimes to belong, and as a result of the then advancing democratic experiment. Nigeria did record something on the economic front where it had a paltry 0.157 while it recorded nothing for the social front. For Nigeria, the political engagements have provided the weight for the globalization, and this has been a drain on national resources. The economic globalization index which has been the most beneficial to the people did not count for much. This trend continued in 1990 when the overall index reached 0.247 out of which there was little increase on the social front but a higher increase in the political arena. Nigeria reached the zenith in 1993 when it attained 0.386 when the globalization index increased by 25% from the previous years figures of 0.306 with the Foreign Direct Investment at $1.345 billion and a percentage increase of 50% over the previous year (1992) with a bold forward increase in the following year to $1.959 billion. Specifically as Nigeria stopped increasing on the political front, the overall index increased and began to decline after the zenith was reached in 2000. A fairly regular sum of $1000 millions was recorded each year until 2004 when it crossed $2,000 millions showing an increase in the FDI at 77% and overall improvement in the global index by 20.7%. Meanwhile between 2002 and 2004 the economic index nose-dived from 0.103 to 0.101. This, in essence means that while the FDI increased, the economic index had become stagnant indicating that there was a faster improvement of FDI by other receiving countries than Nigeria could match!

Recommendation

From the above it is quite clear that the country is not doing enough to be fully globalized as the main index has not only stagnated since 2001, but has actually deteriorated. The country needs to open up a lot more by selling the remaining state owned enterprises (SOEs) to private concerns and where the local entrepreneurial capacity is insufficient, to invite foreign partners to complement the local entrepreneurship. It is observed that the year of quantum increase of 77.25% coincided with the increase in capitalization of banking institutions in country. It is most possible that there is the need for thorough appraisal of equity holdings of businesses to see if they meet global standards to enable these institutions function and compete effectively. It is equally important to remove inhibitions towards foreign private investment in the upstream and downstream sectors of the petroleum industry, as it has been proved that the foreign direct investor would like to invest in the extractive industries (good regulatory institutions will provide direction). These are immediate or short-term solutions to these problems. More importantly the country should open up the economy through an assured and continuous convergence of the exchange rates of the currency with total elimination of the parallel market premium to facilitate convertibility. It is equally important to promote political and macroeconomic stability on a sustained basis, and implement policies that specifically attract foreign investment. For the country to make outstanding progress in the attraction of FDI it should address the issue of corruption and the cost of setting up business in the country.

References


