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IMPACT OF GLOBALIZATION ON FINANCIAL DEVELOPMENT IN NIGERIA

Abstract

This study examines the impact of globalization on Nigerian financial development with particular reference to foreign direct investment, trade openness, exchange rate, government expenditure, interest rate and inflation. The statistical data used for the study were obtained from Central Bank of Nigeria publications and [Statistical Bulletin 2020] and [World Development Indicators 2020]. The study employed the autoregressive distributed lag (ARDL) model. Major findings from the study show that foreign direct investment, trade openness and government expenditure have a positive and significant impact on financial development in Nigeria while exchange rate, interest rate and inflation rate have a negative significant impact on Nigerian financial development. It is recommended that Nigeria must face the challenges of globalization. For a country to belong to the race, major changes and restructuring are imperative, hence, Nigeria must develop the internal structure and the will to adopt those policies that brought about the benefits from globalization.

Keywords: Globalization, Financial Development, Nigeria, Autoregressive Distributed Lag.

JEL Classification: C22, D53, F65

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1. Introduction

Globalization in the past has chosen to take up most mechanism in dealing with financial development, improving the social welfare of states and strengthening political ties between countries. The literature has generally emphasized that the link between financial development and globalization has become stronger over the past three decades as globalization stimulated institutional reforms that promote financial development and economic growth [Balcilar, Gungor and Olasehinde-Williams 2019]. Exploring the impact of globalization on the Nigerian financial development is in fact an issue of substantial importance for governments and regulatory authorities. This is because financial development through domestic reforms can intensify trade and capital flows, and thereby can lead to higher economic growth. Globalization further reduces international transaction costs and would establish a correspondence between the financial and real sectors of a global magnitude. The authorities and countries are increasingly being more concerned with improving their financial inclusiveness, having a better management of the banking system and maintaining an overall financial stability.

However, globalization has different meanings depending on the context in which it is used. Globalization as the World Health Organization [World Health Organization 2017] puts it, is "the increased interconnectedness and interdependence of peoples and countries generally understood to include two inter-related elements: the opening of international borders to increasingly fast flows of goods, services, finance, people and ideas; and the changes in institutions and policies at national and international levels that facilitate or promote such flows". The concept of globalization is not new in Nigeria. It has always existed and has been embraced in most frameworks of the country. Nigeria has since been engaging in the globalization process, adopting policies such as disinvestment, privatization, commercialization and devaluation. However, recent data from the Economic Report on Nigeria in 2015 shows that Nigeria has been experiencing slow financial development. Some of the reasons for this challenge include the devaluation of the country's currency (Naira) which ultimately led to higher cost of purchasing goods and services, structural problems that resulted in lack of transparency, low oil prices and revenue caused by liquidity, restricted fiscal policies and tighter monetary policies which engender high interest rates and reduced activity in the capital market.

The global scene in the twenty first century has witnessed a resurgence of international banking and a holistic integration of business transaction with little or no restriction. However, United Nations Conference on Trade and Development [UNCTD 2015] report shows that globalization policies are much more favorable to North America, Europe and

some part of Asia compared to African countries whose economic, political and social growth have been stunted by some of these policies, hence their failure in benefiting from globalization.

Globalization has been gaining more popularity as an engine of enhancing growth prospects in emerging economies. The inflows of foreign capital backed up by domestic financial reforms in the Nigerian economy have also boosted the potency and growth of its financial market. Therefore, it is important that Nigeria develops an understanding of whether globalization has translated into having a substantial influence on the financial development of this major emerging economy.

Financial development is a key factor to get greater growth and economic development rates, because it influences on saving decisions and investment [Ang 2008; Levine 2005]. Financial development through domestic reforms can intensify trade and capital flows, and thereby can lead to higher growth in the economy. Globalization further reduces international transaction costs and would establish a correspondence between the financial and real sectors of a global magnitude. In others words, globalization would facilitate exchanges in the real economy at a global scale.

Nigeria being the giant of Africa has long accepted globalization as a means to achieving rapid financial development. Paradoxically, with so many natural resources at its disposal, at least 50% of the world - over three billion people live on less than \$2.50 (N900) a day. And closer to home, Nigeria has one of the world's highest economic growth rates, averaging 7.4% (according to the Nigeria economic report released in July 2014 by the World Bank) but over 80 million Nigerians, 42.4% of the population currently live below the poverty line, according to the United Nations and Nigeria's human development index reportedly ranks 152nd position [UNDP 2016]. About forty percent of Nigeria population are extremely poor earning less than \$1 a day [NBS 2020]. Given these figures, coupled with her high unemployment rate, currently at 33.3 percent in December, 2020, vulnerable economy, bad policies, unhealthy investment climate, high level of indebtedness and corruption, it is clear that Nigeria is one of the most disadvantaged countries engaged in globalization.

The reality of globalization has undoubtedly exposed most financial institutions in developing countries both formal and informal sectors to stiff competition, dynamics of world economic climate, accelerated formulation and execution of economic policies and programmes which broadened access to competing for scarce resources. Turyahikayo [Turyahikayo 2014] noted that the impact of globalization is more adverse in developing

economies especially considering the fact that they have little or no access to the resources required to complete favourably in the global scene.

Policy measures such as financial and trade liberalization have officially been declared as determinants of financial development. Freeing the financial system from government intervention allows a more efficient allocation of resources by various economic agents while liberalizing trade reduces the power of interest groups who capture politicians to shape policies in their favour which impedes financial development. As such, the liberalization process reduces inefficiency, improves transparency and fosters a competitive environment which is conducive for the financial development of the country as a whole.

This paper is organized into five sections. Section I deals with introduction. Section II examines the literature that is relevant to the study while section III deals with the methodology that is applied for the study. The fourth part presents data analysis and interpretation while the fifth section which is the final part concludes the study.

2. Literature Review

Shahbaz et al. [Shahbaz 2017] examined the relationship between globalization and financial development in India. The Authors endogenize economic growth, population density, inflation and institutional quality for the period of 1971-2013 by using Bayer-Hanck combined cointegration method, the study provides evidence of cointegration among these variables. The long run and short run estimates from the autoregressive distributive lag (ARDL) model and causality tests respectively suggest that globalization in its all forms [political, social and economic] and its overall measure as well as inflation are detrimental to financial development, while economic growth and population density both promote financial development.

Nasreem et. al [Nasreem 2020] examined the role of financial globalization, institutions and economic growth on the development of financial sector in European countries using panel data covering the period of 1989–2016. Results from the study indicates that economic growth and institutional quality are positively associated with financial development. On the other hand, financial globalization hinders the process of financial sector development.

Law et al. [Law 2015] investigated the dynamic effects of globalization on institutions and financial development for the East Asian economies, using panel data tests. Their empirical study provides evidence that globalization has a significant influence on institutional

quality, and that institutional reforms in turn facilitate and support financial development, in particular the development of the banking sector. Globalization is also found to have a favorable direct impact on stock market development, without passing through the institutional quality channel.

Shuaib, Ekeria and Ogedengbe [Shuaib, Ekeria, Ogedengbe 2015] examined the impact of globalization on the growth of the Nigerian economy over the period 1960 – 2010. The study employed the Johansen cointegration and error correction model and found that growth of external debt ratio was inversely related to economic growth in Nigeria.

Utuk [Utuk 2015] analyzed the impact of globalization on economic growth in Nigeria in terms of trade and capital flows from 1970 – 2011. Using descriptive method of analysis, the study found that increased trade and capital flows engendered by globalization can enhance the country's growth performance.

Adesoye, Ajike and Maku [Adesoye, Ajike, Maku 2015] examined the impact of economic globalization on output growth of the Nigerian economy over the period 1970 – 2013. The study employed Engle-Granger cointegration and error correction model and found that a higher exchange rate and inflation rate, an increase in foreign direct investment, growth in trade and openness and a lesser interest rate enhance the growth rate of output in Nigeria.

De Nicolo and Juvenal [De Nicolo, Juvenal 2014] focused on the effects that measures of financial integration as well as globalization has on real activities in some advanced and emerging economies between 1985 and 2008. The study which employed a dynamic panel analysis and focusing on three dimensions of real activity which include measures of macroeconomic instability, growth volatility and growth itself observed that globalization and financial integration are associated with lower growth volatility, higher growth and lower possibilities of declines in real activity. It did not however find any evidence of a trade-off among globalization, macroeconomic stability, growth and financial integration.

Nwakanma and Ibe [Nwakanma, Ibe 2014] examined the causal relationship between globalization and economic growth in Nigeria from 1981 to 2012. In carrying out the study, Johansen cointegration and Granger causality tests were employed. The results show that there is a positive and insignificant relationship between financial integration, human resource development and trade openness, while gross fixed capital formation was negative and insignificant. The results further revealed that a unidirectional causality runs from financial integration to gross fixed capital formation.

Okpokpo, Ifelunini and Osuyali [Okpokpo, Ifelunini, Osuyali 2014] through their study interrogated globalization as a potent driver of economic growth in Nigeria using the non-

oil [agricultural and manufacturing] export as reference point from 1970 – 2011. The study employed the augmented dicker fuller [ADF] unit root test and ordinary least square [OLS] technique and found that globalization has no significant impact on non-oil export and that globalization has not been a potent driver of growth of the non-oil export in Nigeria.

Omolade, Morakinyo and Ifeacho [Omolade, Morakinyo, Ifeacho 2013] investigated the nexus between globalization and economic development of Nigeria over the period 1980 – 2011. The study employed Johansen co-integration and Granger causality tests and revealed that trade openness relates negatively with economic development in Nigeria. The study further revealed that a unidirectional causality flows from economic development to globalization without such in reversed order and that trade partners appear to be gaining more than the country especially the developed trade partners.

Sede and Izilein [Sede, Izilein 2013] examined the causal relationship between economic growth and globalization in Nigeria. In carrying out the study, Johansen co-integration, Granger causality and variance decomposition tests were employed. The study found that globalization does not Granger-cause economic growth in Nigeria.

Falahaty and Law [Falahaty Law 2012] investigated the linkage between globalization and financial development in Middle East and North African (MENA) countries over the period 1991-2007. Using the Panel Vector Auto-regressive (PVAR) and Fully-Modified Ordinary Least Squares (FMOLS) approaches, they reported that globalization positively affects financial development and economic growth in the MENA region, while globalization does not play any role in driving institutional quality. Their findings also suggest that governments should play a major role in designing appropriate economic policies to derive the optimal results from globalization in the MENA region.

Garcia [Garcia 2012] focused on the relationship between financial globalization and financial development in transition economies and concluded that financial globalization positively and significantly enhanced the growth process of financial system in these countries. However, the reverse is the case when the overall development process of the financial system was put into consideration. It thus implies that financial globalization did not result into a better performance of the basic financial system in these transitions economies.

Loto [Loto 2011] examined the effect of globalization on Nigeria's growth process using the mundel-fleming model of open macroeconomics. The study was able to discover that the Nigerian economy has not benefitted immensely from globalization as trade openness insignificantly impact economic growth. It therefore called for the diversification of the

Nigerian economy to guarantee trade improvement relationship with the rest of the world in order to benefit from globalization.

A cursory look at the above literatures shows that there has not been consensus among the researches that have been carried out in Nigeria on the effect of globalization and Nigeria financial development. Hence, this forms the gap which this study intends to investigate.

3. Methodology

3.1.Data Source

Secondary data that spanned 1981 and 2019, sourced from the Central Bank of Nigeria (CBN) publications and Statistical Bulletins (from 2020) and World Development Indicators (WDI 2020) were used for the study.

3.2. Model Specifications

In order to establish the relationship that exists between the study's variables, the following econometric model employed by Figini and Santerelli [Figini, Santerelli 2005] and was modified thus;

$$FD = f [FDI, OPEN, EXR, GOV, INT, INF] \dots \dots \dots [3.1]$$

The estimation regression equation based on the above functional relation is:

$$FD_t = \beta_0 + \beta_1 FDI_t + \beta_2 OPEN_t + \beta_3 EXR_t + \beta_4 GOV_t + \beta_6 INT_t + \beta_7 INF_t + \mu_t \dots \dots \dots [3.2]$$

Where:

FD = Financial Development [dependent variable]

FDI = Foreign Direct Investment

OPEN = Trade Openness

EXR = Exchange Rate

GOV = Government Expenditure

INT = Interest Rate

INF = Inflation Rate

μ =stochastic error term

$\beta_0 \dots \dots \dots \beta_7$ = regression coefficients of the parameter estimate

3.3. Data Analysis Method

The study examines the trends in globalization and Nigerian financial development from 1981 - 2019 using an autoregressive distributed lag (ARDL) model. This is an ordinary least square (OLS) based model which is applicable for both non-stationary time series as well as for times series with mixed order of integration. The autoregressive distributed lag (ARDL) model is used to evaluate, estimate and analyze the globalization of the explanatory variables (Foreign direct investment, Exchange Rate, Foreign direct investment, trade openness, government expenditures, interest rate and inflation rate) and Financial Development on the dependent variable. The outcome from this approach is used to predict and conclude this study.

4. Data Analysis and Interpretation

4.1. Descriptive data of the variables

The empirical section begins by analyzing the summary statistics of all the variables in the model. The summary statistics is presented in Table 1 below:

Table 1: Descriptive data of the variables

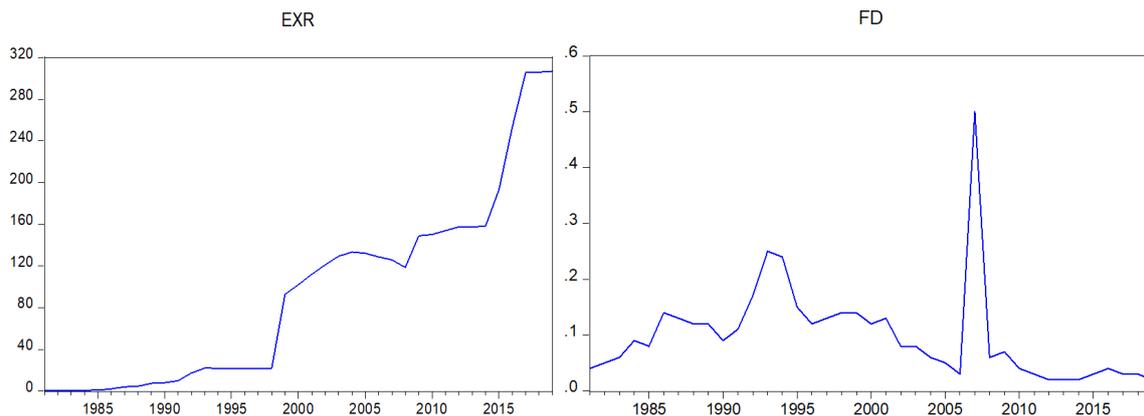
	EXR	FD	FDI	GOV	INF	INT	OPEN_
Mean	94.25879	0.098205	0.369231	3.729744	19.15641	6.327179	32.30128
Median	102.1052	0.080000	0.291000	2.090000	12.56000	6.780000	34.02000
Maximum	306.9206	0.500000	1.919000	9.450000	72.84000	11.06000	53.28000
Minimum	0.610000	0.020000	-0.019000	0.910000	5.390000	0.320000	9.140000
Std. Dev.	92.86518	0.087596	0.444358	2.837985	17.05731	2.767752	12.40491
Skewness	0.806529	2.679663	2.163963	0.795453	1.784551	-0.603410	-0.368593
Kurtosis	2.846208	12.54885	7.554544	2.166363	5.000545	2.650024	2.250671
Jarque-Bera	4.266617	194.8422	64.14656	5.242139	27.20359	2.565711	1.795526
Probability	0.118445	0.050000	0.080000	0.072725	0.600001	0.277244	0.407480
Sum	3676.093	3.830000	14.40000	145.4600	747.1000	246.7600	1259.750
Sum Sq. Dev.	327709.8	0.291574	7.503261	306.0581	11056.17	291.0972	5847.504
Observations	39	39	39	39	39	39	39

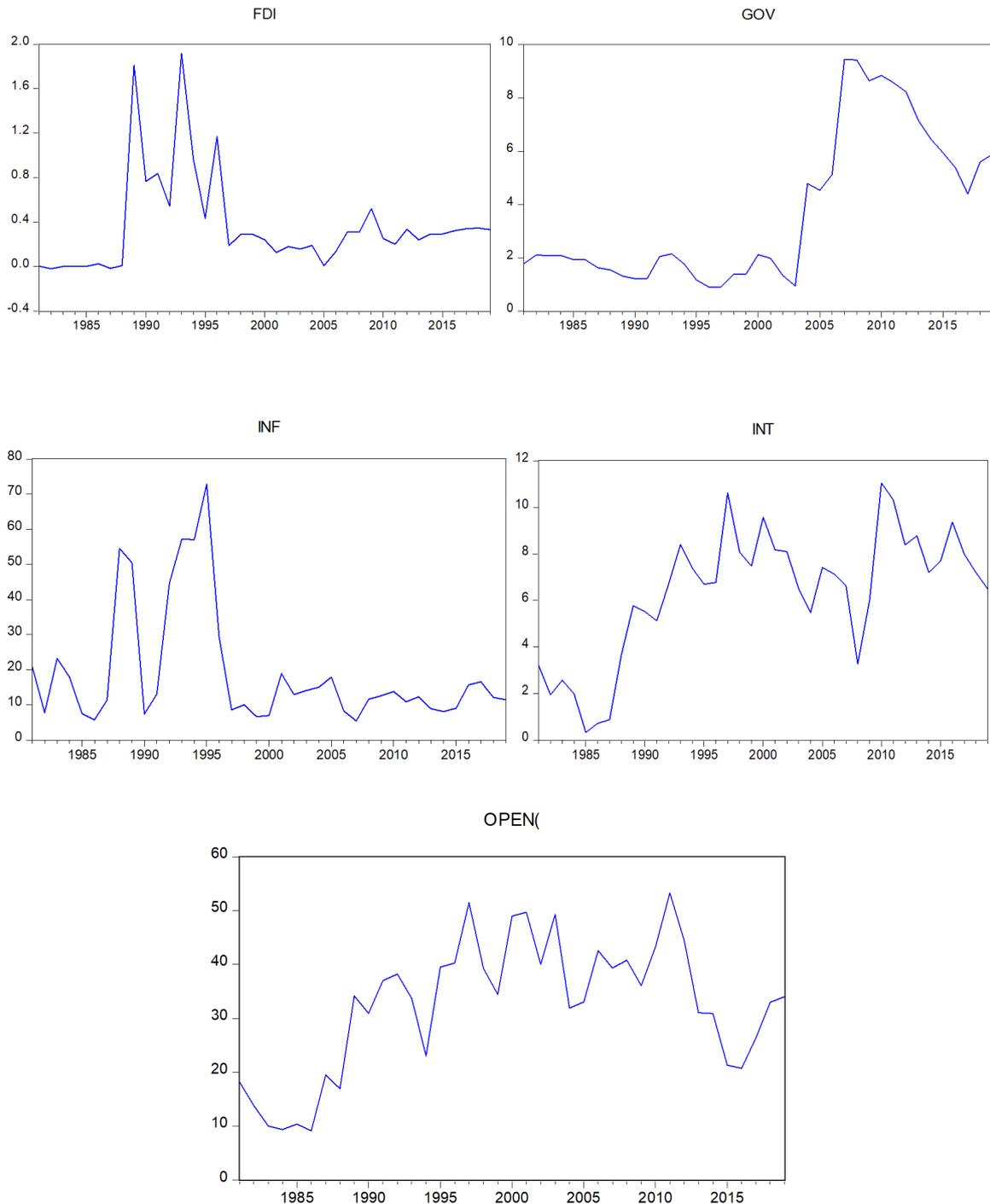
Source: Authors Computation from E-view 9.0 [2021].

Table 1 above shows the summary of descriptive statistics of the variables included in the model. It shows the existence of wide variations in the variables as depicted by the mean values during the study period. The analysis carried out in the above table shows that the standard deviation of the exchange rate (EXR) has been unusually high. This depicts a high degree of volatility in the exchange rate during the period under investigation. The analysis was also fortified by the value of the skewness and kurtosis of all the variables involved in the model. Two of the distributions are negatively skewed while most of the variables are positively skewed. Variables with value of kurtosis less than three are called platykurtic (fat or short-tailed) and EXR, GOV, INT and OPEN qualified for this during the study period. On the other hand, variables whose kurtosis value is greater than three are called leptokurtic (slim or long tailed) and FD, FDI and INF variables qualified for this during the study period. Jarque-Bera test shows that the residuals are all the variables are normally distributed since the probability exceed 5%. In summary, the descriptive statistics revealed that most of the data sets are not normally distributed. This is so because the probability values of the variables exceed 5%.

4.1. Graphical Presentation of all data

For the purpose of testing the stationarity of the time series used in the study, the graphical plot of the time series is shown in figure I below. It was observed that the variables trended toward with varying degrees of fluctuation as shown graphically thus indicating the non-stationarity of the variable.





4.2. Augmented Dickey Fuller (ADF) Test

The analysis is based on time series data. This requires some preliminary tests on the data to determine its reliability for econometric analysis. Thus, this study seeks to avert the occurrence of spurious results. To do this, Augmented Dickey Fuller (ADF) test was used. The ADF test was adopted because it is a robust test for serial correlation and time dependent heteroskedasticities. Table II presents the results of ADF test statistics for the levels and first differences of the annual time series data for the period of the study.

Table 2: Results of ADF Test Statistics

Variables	ADF	Critical Values	Order of Integration
EXR	-2.345	-3.553**	I[0]
FD	-4.554	-4.273*	I[1]
FDI	-7.032	-4.273*	I[1]
INF	-4.171	-4.273*	I[1]
INT	-6.425	-4.273*	I[1]
OPEN	-6.567	-4.577*	I[1]
GOV	-5.795	-5.424*	I[1]

Note: *Indicates stationary at the 1% level, and **Indicates stationary at 5% level.

Source: Authors Computation from E-view 9.0 (2021)

The result of the ADF unit root test suggests that all the variables except Exchange rate were non-stationary. They however became stationary after the first difference was taken. However, following Harris and Macquarie [Harris, Macquarie 1995], Gujarati [Gujarati 2009], both I(1) and I(0) variables could be carried forward to test for co-integration which forms the basis of the next section. The ADF unit root test suggests checking the long run association of this study using Auto Regressive Distributed Lag (ARDL) model.

The Johansen co-integration test was used to test for the existence or not of a long run relationship among the variables. The Johansen methodology was preferable for the study because it has the advantage amongst others of allowing for more than one co-integrating vector. The result of the Johansen co-integration test is shown in Table 3 below:

Table 3: Johansen Co-integration

H_0	H_A	Trace	Critical Values [5%]	H_0	H_A	Trace	Critical Values [5%]
$r \leq 0$	$r > 0$	103.6680*	95.75366	$r \leq 0$	$r > 0$	42.11113*	40.57277
$r \leq 1$	$r > 1$	61.55981	69.8577	$r \leq 1$	$r > 1$	31.43336	30.45155

$r \leq 2$	$r > 02$	30.85777	43.47644	$r \leq 2$	$r > 02$	13.05005	29.58774
$r \leq 3$	$r > 3$	17.04870	34.71414	$r \leq 3$	$r > 3$	9.604039	14.13162
$r \leq 4$	$r > 4$	5.48274	26.4881	$r \leq 4$	$r > 4$	5.715274	10.26460
$r \leq 5$	$r > 5$	17.4264	15.19401	$r \leq 5$	$r > 5$	5.76274	14.17646

Note: r represents number of co-integrating vectors and k represents the number of lags in the unrestricted VAR model. *Denotes rejection of null hypothesis at the 5% (1%) level.

Source: Authors computation (2021)

Results in Table 3 above reveal one co-integrating vector based on the trace and maximum eigenvalue statistics at 5% level for the model. Since the variables are co-integrated, there is, therefore, a long run relationship among the variables.

The study examined the extent to which globalization has impacted on the Nigerian financial development between 1981 to 2019. Accordingly, the study utilized the trends in globalization and Nigerian financial development using an autoregressive distributed lag [ARDL] model. This is an ordinary least square (OLS) based model which is applicable for both non-stationary time series as well as for times series with mixed order of integration for the purpose of investigating globalization [Foreign Direct Investment (FDI), Trade Openness (OPEN), Exchange Rate (EXR), Government Expenditure (GOV), Interest rate (INT), and Inflation Rate (INF) and financial development.

4.3. Test of Hypotheses

H₀₁: Foreign direct investment does not have significant impact on the Nigerian financial development.

H₀₂: Exchange rate does not have significant impact on the Nigerian financial development.

H₀₃: Trade openness has not significantly impacted Nigerian financial development.

H₀₄: Government expenditure has no significant impact on financial development in Nigeria.

H₀₅: Interest rate has not significantly impacted financial development in Nigeria.

H₀₆: Inflation rate has not significantly impacted Nigerian financial development.

Six null hypotheses above were formulated and tested for the study. They were rejected based on overall significant of models using F statistics at 5 percent level of significance. The result of the estimate based on overall significant of models using F statistics at 5 percent level of significance shows that Nigerian financial development as a whole has benefited from globalization.

Based on the results of the study, the researcher reached following findings;

- i. The unit root confirms that the variables used in the models are non-stationary at levels and indeed they are of random walk and integrated.
- ii. The result of the financial sector development in Nigeria shows that foreign direct investment (FDI), trade openness (OPEN) and government expenditure (GOV) were all positive against exchange rate (EXR), interest rate (INT), and inflation rate that were negative.
- iii. The co-integration result shows that the variables used for the study have long run relationship.

Table 4: ARDL regression Analysis

Dependent Variable: FD

Method: ARDL

Date: 02/17/21 Time: 14:02

Sample [adjusted]: 1981 2019

Included observations: 35 after adjustments

Maximum dependent lags: 4 [Automatic selection]

Model selection method: Akaike info criterion [AIC]

Dynamic regressors [4 lags, automatic]: FDI EXR GOV INT INF

Fixed regressors: C

Number of models evaluated: 12500

Selected Model: ARDL [4, 4, 4, 4, 3, 4]

Variable	Coefficient	Std. Error	t-Statistic	P value
FD(-1)	0.108	0.246	0.440	0.675
FD(-2)	0.242	0.244	0.990	0.360

FD(-3)	-1.018	0.203	-5.017	0.002
FD(-4)	-0.388	0.291	-1.334	0.231
FDI	0.011	0.004	2.442	0.002
FDI(-1)	0.012	0.029	0.420	0.689
FDI(-2)	-0.020	0.062	0.331	0.752
FDI(-3)	0.094	0.057	1.653	0.149
FDI(-4)	0.069	0.043	1.588	0.163
EXR	-0.072	0.021	-3.416	0.001
EXR(-1)	-0.001	0.001	-0.788	0.461
EXR(-2)	0.000	0.001	-0.236	0.821
EXR(-3)	0.001	0.001	1.057	0.331
EXR(-4)	-0.001	0.001	-0.687	0.518
GOV	0.013	0.003	4.916	0.002
GOV(-1)	-0.009	0.015	-0.588	0.578
GOV(-2)	-0.031	0.018	-1.745	0.132
GOV(-3)	0.091	0.016	5.641	0.001
GOV(-4)	-0.081	0.012	-6.668	0.001
INT	-0.015	0.006	-2.589	0.376
INT(-1)	0.013	0.009	1.447	0.198
INT(-2)	-0.015	0.010	-1.516	0.180
INT(-3)	-0.009	0.015	-0.594	0.574
INF	-0.061	0.013	-4.625	0.742
INF(-1)	0.000	0.001	-0.300	0.774
INF(-2)	0.000	0.002	0.051	0.961
INF(-3)	0.001	0.002	0.847	0.429
INF(-4)	-0.002	0.001	-1.223	0.267
OPEN	0.084	0.021	3.926	0.002
OPEN(-1)	0.064	0.064	0.991	0.774
OPEN(-2)	0.046	0.053	0.872	0.961

OPEN(-3)	0.063	0.015	4.317	0.002
OPEN(-4)	-0.078	0.023	-3.380	0.000
C	0.227	0.102	2.230	0.067
R-squared	0.97312	Mean dependent var	0.102571	
Adjusted R-squared	0.84768	S.D. dependent var	0.091341	
S.E. of regression	0.035649	Akaike info criterion	-3.936648	
Sum squared resid	0.007625	Schwarz criterion	-2.647931	
Log likelihood	97.89135	Hannan-Quinn criter.	-3.491783	
F-statistic	17.757643	Durbin-Watson stat	2.178634	
Prob(F-statistic)	0.003365			

*Note: p-values and any subsequent tests do not account for model selection.

Source: Authors computation (2021)

The analysis above reveals that FDI, EXR, GOV, OPEN, INT and INF contribute significantly to financial development during the period under consideration. However, exchange rate, interest rate and inflation rate contribute inversely and significantly to the financial development while FDI, OPEN and GOV contribute positively to the financial development during the same period under consideration. The multiple correlation co-efficient (R) of 0.973 indicates a strong positive linear relationship between the independent variables and the dependent variables since the value is close to 1. While the coefficient of determination (R²) of 0.848 indicates that about 84.8 percent of the variance in the dependent variable financial development can be explained by variations in the independent variables. This figure increases the goodness of fit of the model and because of the high value of 84.8 percent; this model is a good fit (F=17.75, p=0.00). The Durbin-Watson statistics of 2.17 indicate that there is no autocorrelation, hence the model is conclusive. This implies that there is a significant relationship between the dependent variable financial development and the independent variables.

Long run relationship exists in the model. It is confirmed by the ARDL Test. In Table 4, the estimations of long run analysis are reported. The estimated long run coefficient of FDI has significantly impact on financial development. This result is in courtesies of the study of Adams [Adams 2009]. The rise in FDI leads to increase more employment opportunities to the people. The positive significant impact of FDI on financial development rejects the null hypothesis that Foreign direct investment does not have significant impact on the Nigerian financial development. The exchange rate has inverse and significant effect on financial development in the long run; this result is in courtesies of the study of Elbadawi et al. [Elbadawi 2012] showed that financial development has the capacity to alleviate the negative effects of the exchange rate on economic growth. Trade openness also have helpful and significant impact on the financial development in long run. This outcome is in courtesies of the study of Sakyi, Villaverde, and Maza [Sakyi, Villaverde, Maza 2015] who provide evidence of positive bi-directional causal relationship between trade openness and economic growth for a sample of 115 developing countries. Government expenditure has significant impact on financial development in Nigeria in long run. The result supports the study of Shahid et al. [Shahid 2013] who examined the impact of government expenditure on economic growth in Pakistan during the period from 1972 to 2009. They further split government expenditure into development expenditure and current expenditure components. Using the autoregressive distributed lag (ARDL) model, the study revealed that in Pakistan, development expenditure positively affects economic growth. Interest rate has a negative and significant impact on the financial development. This result is in favor of the study done by Bundi [Bundi 2013] who investigated the financial liberalization on domestic saving and concluded that interest rate liberalization together with credit control elimination have a negative effect on private domestic saving. Also, in the long-run, inflation rate has negatively impacted on the Nigerian financial development and its significant. The study supports the findings of Kim et al. [Kim 2010] who examined the long- and short-run relationship between inflation and financial development for 87 countries over the 1960-2005 period and found a negative long-run relationship between inflation and financial development coexist with a positive short-run relationship.

4.4. Implications of the Results

Findings from this study show that foreign direct investment has significant impact on the Nigerian financial development. The regression result shown in Table 4 shows a significant positive relationship between foreign direct investment and financial development in Nigeria. The result supports the fact that an increase of the ratio of foreign direct

investment (FDI) and financial development implies a greater share of FDI thus increase of the level of globalization. FDI flows (inward and outward) as a percentage of financial development indicate the degree of global investment activities of the economy for a given time period and reflects the changes between two periods.

The exchange rate has inverse and significant effect on financial development in the long run. When exchange rates change, the prices of imported goods will change in value, including domestic products that rely on imported parts and raw materials. Exchange rates also impact investment performance, interest rates and inflation and can even extend to influence the job market and real estate sector. Result from Table 4 shows that the coefficient of exchange rate is significant (at 5 percent significant level). The implication of this result is that the external sector has not contributed to the financial development in Nigeria. This shows that foreign income is a weak driver of trade flows to Nigeria manifesting the mono-product nature of the economy and calls for immediate action for diversification. The negative impact of exchange rate gives the policy makers a signal that players in international trade are adaptive in their decision making.

Trade openness has significantly contributed to financial development in Nigeria. Although increased international trade has spurred tremendous economic growth across the globe raising incomes, creating jobs, reducing prices, and increasing workers' earning power trade can also bring about economic, political, and social disruption. When trade decreases, jobs and businesses are lost. The regression result shown in Table 4 shows that the coefficient of Trade openness is positive and significant. The implication of this is that an economy with globalization affair in her stock exchange market will experience increase in her financial development as trade transaction become favourable to her domestic economy. This could be as a result of positive increase from trade openness and Nigerian financial development.

Government expenditures impacts on financial development in Nigeria. According to the disciplining hypothesis, globalization restrains governments by inducing increased budgetary pressure. As a consequence, governments shift their expenditures in favour of transfers and subsidies and away from capital expenditures. In addition, the role of government refers not only to individual nations, but to international institutions such as the World Trade Organization (WTO) and the International Monetary Fund (IMF), which serve functions relating to global governance. The ability of governments to prevent or reduce financial crises also has a great impact on the growth of capital flows. The policy implication of these results is that there is a greater chance that the impact of government spending can lead to the growth of the real sector, especially when expenditure is on

growth enhancing activities such as domestic public investment that crowds in private investment such as targeted economic infrastructure development.

The result shows that the coefficient of interest rate is negative and its significant. This is in line with the sign which shows a result of poor interest rate policy and the dominants of informal sector in granting credit facility. This finding is in line with Afolabi [Afolabi 2013] and Olukayode and Somoye [2013] that interest rate has indirect relationship with growth. It was discovered from the study that interest rate has a negative impact on financial development in Nigeria. A negative interest rate means that inflation is higher than interest rates. Therefore, savers will see a fall in the real value of their savings. People feel they need to save more because of the low-interest payments on savings.

The result from Table 4 above also shows that the coefficient of inflation rate is negative and significant at 5% percent significant level. The negative effects of inflation include an increase in the opportunity cost of holding money, uncertainty over future inflation which may discourage investment and savings, and if inflation were rapid enough, shortages of goods as consumers begin hoarding out of concern that prices will increase in the future.

The coefficient of determinations R^2 of 0.97312 indicates that about 97 percent of the total variations in financial development in Nigeria are explained by the variations in the independent variables. The F-statistic shows overall significance of the model. The F-statistic is significant at 5% level. The probability of its value (0.000) is less than the 0.05 critical levels. We therefore, reject the null hypothesis that the model is not significant in explaining the variations in financial development in Nigeria. Finally, the Durbin Watson test of autocorrelation shows an absence of positive serial autocorrelation. Therefore, parameter estimates from our model are stable, efficient suitable for policy simulation.

5. Conclusion

From the findings of this study, it would be safe to conclude that globalization has a positive impact on Nigerian financial development. The conclusion is supported by the study findings which showed that there was a very strong positive relationship ($R = 0.97312$) between the variables. The study also revealed that 84.8% of demand for the Nigerian financial development could be explained by the variables under study. From this study it is evidence that at 97% confidence level, the variables produce statistically significant values and can be relied to explain globalization in Nigeria.

On the basis of the analysis and findings, the following conclusions could be drawn about the impacts of globalization on the Nigerian financial development in the short run and the

long run. To a large extent, the Nigerian financial sector as a whole has benefitted from globalization given the overall result. Foreign Direct investment flows meet the *a priori* expectation in both subsectors but not in a very high degree, while the degree of trade openness positively impacted the Nigerian financial development. The Johnson co-integration results show that the variables used for estimation have long run relationship. The Nigerian commercial banks for now are not strong enough to compete with their foreign counterparts. Therefore, the government is enjoined to come up with appropriate macro-economic policies that would protect them.

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