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AN EMPIRICAL ANALYSIS OF POVERTY AND GLOBALIZATION (A CASE STUDY OF VISION 20, 2020)

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ABSTRACT

Poverty has been identified as a serious impediment to economic growth in Nigeria and other countries but it can be reduced through the perfect linking of our economy with the outside ones. Thus, this paper attempts to analyze the impact of globalization on poverty reduction by building macro econometric equations to show the causal relationship between income per head and some selected macro economic variables. In view of this, the study makes a fresh insight into the effect of globalization on poverty reduction in Nigeria by using vision 20, 2020 as a case study. The empirical findings show that global economy has positive relationship with poverty reduction which is in consonant with the objectives of the current landmark vision 20, 2020. The findings also reveal that net foreign Trade (excess of export over import) is an impetus for initiating and sustaining a fast growing economy in developing nations which will in turn reduce poverty. Hence, we recommend that, the productive minority should be encouraging through various incentives so as to be able to promote exportation in Nigeria.

INTRODUCTION

Globalization is viewed as a century long process, tracking the expansion of human population and the growth of civilization that has accelerated dramatically in the past 50 years. Early forms of globalization existed during the Roman Empire, the Parthian Empire and the Han Dynasty, when the Silk Road started in china, reached the boundaries of the Parthian Empire, and continues onwards Rome (Wikipedia the free encyclopedia 2008). The Islamic Golden Age is also an example, when Muslim traders and explorers established an early global economy across the old world resulting in a globalization of crops, trades, knowledge and technology, (Wikipedia, 2008). However, global integration continued through the expansion of European trade, as in the 16th and 17th centuries, when the Portuguese and Spanish Empires reached all corners of the world after expanding to the America. Globalization has had a tremendous impact on culture particularly on indigenous culture around the world. That is why Wikipedia (2008) describes globalization as a process by which the people of the world are unified into a single society and functioning together. This process is a combination of economic, technological, socio culture and political forces. The negative effects of globalization manifested most visibly in widespread poverty throughout the developing world, as one of the major threats to social progress and human security. Ben (2000) defines poverty as the inability to attain a minimal standard of living. It is a symptom of increasing welfare dependence and decrease self-sufficiency of the nation, which is a nation specific within an economic scenario that is highly influenced by the global environment.

In most cases poverty alleviation is perceived to be government or donor organization handouts of money to affected individuals to ensure that the individual, families and communities can afford the privately offered service. “Island of prosperity” such as Nigeria has continued to flourish in “an ocean of unspeakable poverty”. People in developing countries were still living without access to clean drinking water, education, good health and other basic services of life. This is an affront to human dignity and should not be allowed to continue. Today billions of people live in abject poverty, nearly one billion are illiterates and some 14million died yearly for lack of adequate medical care. This flagrant contradiction is unacceptable, and should be remedied immediately. Policymakers, development organizations, and advocacy groups have expressed concern about the impact of globalization on poverty. Globalization may spur higher income growth due to increased specialization, more efficient capital and labor flows, and wider diffusion of technology. But globalization’s impact on poverty hinges on the extent to which the poor participate in the income-growth process, something that cannot be guaranteed. The objectives of this vision which include the injection of 75% local inputs into export products leaving Africa for Europe, achieving one digit inflation rate, reduction of poverty etc are

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desirable to everyone but the high level of corruption in the country puts the success of the vision in doubt. In addition the economy is largely dependent on the oil sector and the non- diversification to other viable sector makes the economics growth requires to meet the vision 2020 perhaps an illusion, (Fakunle, 2007).
In line with the debates surrounding the vision 20- 2020, this paper intends to answer the following questions:

- What is the nature of the trade – off between poverty alleviation and globalization?
- To which extent could globalization reduce poverty in Nigeria through the ongoing vision 20 – 2020 programmes?

This paper is stratified into five subsections viz: introduction, literature review, methodology, analysis interpretation of empirical results and lastly conclusion and recommendation.

Literature Review

There has been a raging issue of both academic and public debate which concerns the impact of globalization on the well being of the poor and highly indebted countries. Of course, as is common in some contentious public debates, different people mean different things by globalization: some interpret it to mean the global reach of new technology and capital movements from surplus area to enhance development in deficit regions of the world: some yet refer to it as an out sourcing by domestic companies in rich countries, however, other protest against the tentacles of corporate capitalism or its hegemony (economic, military and cultural integration) as of exploitation which could worsen the ailing situation of the poor countries. In this paper, we shall limit ourselves to interpreting globalization simply as openness to foreign trade and long – term capital flows based on the existing definitions in the literature. Most people who are labeled "anti-globalization" consider the term to be too vague and inaccurate. However, Podobnik (2005) stated that "the vast majority of group that participated in these protests draw an international networks of support and they generally cal for forms of globalization that enhance democratic presentation, human rights and egalitarian". In line with Podonik's view, stiglitz et al (2005) criticise the anti-globalization movement, which was developed in opposition to the perceived negative aspects of globalization. In a strict sense, the term "anti-globalization" is in many ways a misnomer, since the proponents represent a wide range of interest and issues and many of the advocates of the anti-globalization movement do support closer ties between the various peoples and cultures of the world through, for example, aid assistance for refugees and global environment issues. The members that are aligned with this view point prefer instead to describe themselves as the Global Justice Movement. The Anti-Corporate – Globalization Movement, the Movement of Movement (a popular term in Italy, the "Anti-globalization" movement (popular in France), the "counter-globalization" movement and a number of other terms. Whatever their names are called in any where, the stylized fact is the "anti-globalization" is a propaganda that should be dismissed with ridicule. No sane person is opposed to globalization that is international integration which attends to the rights of people, not private power systems.
Using the index of Swiss Think Tanks (KOF) to measure the dimensions of globalization, Gaston and Martans (2008) view the world's most globalized countries to be Belgium, followed by Austria, Sweden, the United Kingdom and the Netherlands. The least globalized countries according to (KOF) – index is Haiti, Nyanmer, the Central African Republic and Burundi. Other measures conceptualize globalization as diffusion and developed interactive procedure to capture the degree of its impact, (John, 2006). From the perception of different schools of thought, it means that there is a gap in the literature showing a disparity between the lovers of globalization and the so called anti-globalization advocate. This prompts the need for the current study. In December 2007, World Bank economist Branko Milanovich called much previous empirical researches on global poverty and inequality into question because, according to him, improved estimates of Purchasing Power Parity (PPP) indicate that developing countries are worsen-off than previously believed. Milanovichs' findings are therefore in support of anti-globalization movement claiming that those scholars in support of globalization and economic integration are merely optimistic in disguise. Again another possible explanation in support of anti-globalization is that globalization of the world's financial system could usher in costly banking crises that the developing nation have experienced in the process of financial integration. The empirical findings of Kaminiski and Reinhart (1999) suggest that a flawed sequencing of domestic financial liberalization, when accompanied by capital account liberation increases the chance of domestic banking crises and/or exchange rate crises. These crises are often accompanied by output collapse. As a result, the benefits from financial integration may not be evident in most of the developing countries. Consistent with this explanation, a growing literature suggests that the pro-cyclical nature of capital flows appears to have had an adverse impact on domestic consumption in developing economies. One manifestation of this pro-cyclicality is the phenomenon of "sudden stop" of capital inflows (see Calvo and Reinhart 1999). More generally, access to international capital markets has a pro-

cyclical element, which tends to generate higher output volatility as well as excess consumption volatility (relative to that of income). Reinhart (2002), for instance, finds that sovereign bonds ratings are pro cyclical. Since the spreads on are strongly influenced by these rating, this implies that costs of borrowing on international markets are pro cyclical as well. Kaminsky and Reinhart (2002) present more direct evidence in the pro cyclical behavior of the capital inflows through globalization which may even decline the perceived low standard of living of the poor countries. Easterly et al (2001) explore the various sources of output volatility when globalization is present, using data for a sample of about 74 countries over an estimated period of 1960 – 1997. They found that a higher level development of home countries financed sector is often accompanied with lower output volatility. On the other hand, an increase in the volume and tempo of trade openness could undoubtedly lead to an increase in the volatility of output, especially in developing countries. Their results indicate that neither financial openness nor the volatility of capital flows has a significant impact on domestic output per head. In essence, they posit that globalization may yield positive result in poorly indebted countries. Buch et al (2002) use data for 25 countries to examine the link between financial openness, which ushered in by globalization and domestic output variation. They report that there is no consistent empirical relationship between financial openness and output, which is required to meet the urgent needs of the world poor. Gavin and Hausman (1996) study the sources of output volatility in developing countries over the periods (1970 – 1992). They find that there is a significant positive association between the worldwide capital flows and output production and distribution. O' Donnell (2001) examines the effect of financial integration on the growth of output over the period 1971 – 1994 using data for 93 countries. He found that the higher degree of financial integration is associated with lower (higher) output per head in OECD (non-OECD) countries. His results also suggest that countries with more developed financial sectors are able to reduce output volatility through globalization or diversification of their financial assets. It means globalization may favor the rich or advanced countries at the expense of the poor countries. Other cumulative studies looked into the effect of capital flows on domestic investment designed to develop the third world emerging markets. For instance, Bosworth and Collins (1999) analyzed such relationship using data covering 1979 – 1995, focusing on variation within countries over time rather than variation across countries. These optimistic authors first removed the country means from data, and they regressed investment and saving shares on various form of capital inflows relative to GDP. They found that more Foreign Direct Investment (FDI) which is the first fruit of globalization in poverty stricken nations and bank lending are positively associated with increase in domestic investment. In contrast, the association between portfolio capital flows and domestic investment while positive is not statistically significant. These authors made an attempt to deal with the possibility that capital flows are endogenous, meaning that capital flows and domestic investment can both be determined simultaneously by a common third factor. The World Bank's report on Global Development Finance (2001) replicated the Bosworth – Collin's study using data set with more countries and a longer time period (1972 – 1998). It found that the association between FDI (or other long term capital inflows or bank lending) and domestic investment is stronger than between short term debt and domestic investment. The association between portfolio capital and domestic investment is not statistically significant.

To summarize, across different recent studies, FDI is one of capital inflows through globalization that tends to be found positively associated with domestic investment and domestic growth in relatively consistent manner. Other form of inflows from abroad could also have a positive relationship but in any of the cases of inflows, recipient countries are expected to have optimum size of work forces that are capable to utilize the resource from the capitally intensive nations. Otherwise, they will be rendered dumping grounds and the intended benefits of globalization will be at stake. In this regards, we can conclude tentatively that the only way for vision 2020 to yield positive results in developing countries is that their inherent consumption prone attitudes should be re-sharpened to production oriented attitude like that of Japan. The outcome of our analysis will shed more light.

METHODOLOGY

This subsection briefly explains the methodology underlying the causal relationship between income per head and integration of the world's economy through global trading summarized above. During the few decades of the past century, a growing body of literature has examined the implications of external trade on domestic economies. While some studies focus on financial integration and growth, some other examines the rationale for economic diversification, globalization and inequality. As with several earlier studies, standard practice is followed here in building econometric equations to show a relationship between poverty alleviation and globalization, However the model that is adopted in this work takes its lead from the priori work of Buch et at (2002). The models are stated in functional forms as follows:

a. INPH = F (FDI, NFT, PINV), b. INPH = f (GDP, CPI)

Where: INPH = income per head, GDP = Gross Domestic Product, CPI = Corruption Perception Index, FDI = Foreign Direct Investment, NFT = Net Foreign Trade and PINV = Portfolio Investment

Note: Income per head is the proxy for poverty alleviation while Foreign Direct Investment, Net Foreign Trade and Portfolio Investment capture globalization. Our data was sourced from CBN Statistical Bulletin (Various publications) and transparency international (www.TI. Org) and covers a period of 13 years ranging from 1996 – 2008

The model was tested based on the following hypothesis

Ho: there is no significant relationship between poverty alleviation and globalization.

Hi: there is significant relationship between poverty alleviation and globalization.

A priori expectation E (FDI) >0, E (NFT) >0 E PINV)<0, E(GDP)>0 AND E(CPI)>0

Analysis and Interpretation of Empirical Result

Our pre- occupation in this section is to determine the extent to which globalization of the world's economy could either reduce or eliminate poverty in Nigeria using the objectives of vision 20, 2020 as a guideline. We regressed the income per head (INPH) on three output variables – Foreign Direct Investment (FDI) Net Foreign Trade (NFI) and portfolio Investment (PINV) for the first equation, and in the second equation we regressed income per head on two variables – Gross Domestic Product (GDP) and Corruption Perception Index (CPI) which yield the result in table 4.1

Table 4 .1

Model	Dependent variable	Intercept	Independent variable					Summary	
			FDI	NFI	PINV	GDP	CPI	R	F
1	Y t –values	1.020 (0.20)** 44.963	2.335 (.000)** 3.282	7.439 (0.000)** 3.282	9.615 (0.000) 0.203			0.64	5.25
2	Y t-value	0.551 (.044)** 12.559				3.324 (0.015)* 10.565	3.631 (0.00 2.219	0.95	73.101

Note

1. the figure in parenthesis are standard errors
2. R^2in equation (1) association with 10 degree freedom while R^2 in equation (2) is associated with 8 degree freedom
3. * indicates significant at 5% level of significance
4. ** indicate significance at both 5% and 1% level of significance

The results show that income per head as a proxy for poverty alleviation has a positive relationship with Foreign Direct Investment and Net Foreign Trade but inversely with portfolio investment. This implies that an increase in Foreign Direct Investment or Net Foreign Trade (excess of export over import) will lead to increase in per capital income in Nigeria. While increase in portfolio investment will have an adverse effect on income per head. This is probably due to an increase in bank lending which such investment may cause. Increase in lending rate, will result in higher cost of investment both for the business unit and government undertakings and thereby reducing the country's domestic output, consequently the per capital income. The result of the second equation show that income per head is directly related to Gross Domestic produce (GDP) and Corruption Perception Index implying if the volume of GDP and level of transparency increase, the income per head will also increase. However, the coefficient of the independent variables for the two equation are statistical significant at both 5% and 1% except in case of value show that the two models are reliable which means to a consideration height changes in per capital income can be determined by the rate at which goods, human skills and technology are allowed to flow.

CONCLUSION

This paper investigates the nature of the relationship between globalization and poverty reduction in Nigeria using the current proposed Vision 20, 2020 as a case study. The empirical findings show a positive trade-off between globalization and poverty. The values of R^2 obtained from the two equations are 64% and 95% respectively. The implication of these findings is that economic integration which globalization is deeply rooted, can serve as a means through which poverty and its correlates can be reduced in Nigeria. Therefore, is the need for Vision 20, 2020 to direct its policy search lights to the private sector and that serious attention should be firmly focused on the manufacturing and service sectors of the economy. Championing a regional excellence in these two sectors will alone move our economy in leaps and bound.

RECOMMENDATION

Based on the facts derived from our findings, the following recommendations are made:

i. The Nigerian government should discourage uncontrolled massive movement of funds to donor countries because such act may lead to capital flight, which may go a long way to hinder the success of this Vision. Thus, there is the need for government to create more attractive investment media in the country.

ii. Furthermore, government should step-up the level of transparency of her policies and curtail the level of corruption which has bed-deviled our system.

iii. Finally, the monoculture nature of Nigerian economy will not help Vision 20, 2020 to become realistic. It is therefore, imperative for our government to diversify to other viable sectors of the economy and provide incentives such as tax reduction, concessionary prices for factors of production, raw material, semi-finished goods etc to the private sector. This will actually enhance the growth of this sector and put vision 20, 2020 to the greatest height.

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APPENDIX 1

INCOME PER HEAD (INPH), NET FOREIGN TRANSFER (NFT) PORTFOLIO INVESTMENT AND FOREIGN DIRECT INVESTMENT (FDI) DATA FOR 1994-2006

YEAR	INPH	NFT	PINV	FDI(=N=M)
1994	1.050	43,270.1	-203.5	7,825.5
1995	1.030	195,533.7	-6,705	55,999.3
1996	1.029	746,916.8	-12,056.6	5,672.9
1997	1.025	29,1163.3	-4,785.8	10,007.0
1998	1.024	-85,562.0	-637.5	32,434.5
1999	1.019	326,453.9	1,015.7	4,035.5
2000	1.026	960,700.9	51,079.1	16,453.6
2001	1.037	629,821.7	92,518.9	4,937.0
2002	1.080	425,576.7	16,149.5	8,988.5
2003	1.089	1,416,712.2	18,996.5	13,531.2
2004	1.159	1,505,446.9	46,781.1	20,064.4
2005	1.160	1,612,128.3	47,051.2	18,926.2
2006	1.168	1,763,489.4	47,125.1	17,405.5
2007				
2008				
2009				

SOURCES: Central Bank of Nigeria Statistical Bulletin Volume 17, 2006

APPENDIX 2

INCOME PER HEAD (INPH), CORRUPTION PERCEPTION INDEX (CPI) AND GROSS DOMESTIC PRODUCT (GDP) DATA FOR 1997 -2006

YEAR	INPH	CPI	GDP
1997	1.025	1.8	109,976,600
1998	1.024	1.9	113,509,000
1999	1.019	1.6	116,655,500
2000	1.026	1.2	121,207,800
2001	1.037	1.0	126,323,800
2002	1.080	1.6	131,489,800
2003	1.089	1.4	136,470,000
2004	1.159	1.6	145,380,000
2005	1.160	1.9	147,370,000
2006	1.168	2.2	155,130,000
2007			
2008			
2009			

SOURCE: Central Bank of Nigeria Statistical Bulletin Volume 17, 2006
United Nations Development Programme and Transparency International (www.ti.org)