

## **FINANCIAL OPENNESS AND ECONOMIC GROWTH IN NIGERIA (1960-2014)**

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### **ABSTRACT**

The transitional nature of the global economies from strong national economies to a set of interlinked trading groups has accelerated over the past few years with the collapse of communism and the blending of the world trading nations into a single market. Never before have so many economies been opened to global trade and finance flow than now, after the liberalization of the former communist economies. The global financial and economic crisis of 2008-2009 was an opportune era to revisit the issue of international financial integration. At a wider dimension, the relationship between financial openness, capital flows and economic growth has been a subject of heated controversy. Contrarily, on the largely positive perception of trade integration, economists differ sharply about the effect of financial integration on growth. However, this study critically analyzes the effect of financial openness on economic growth in Nigeria. The research time frame ranges from the period of Pre-Structural Adjustment Programme, Structural Adjustment Programme and Post-Structural Adjustment Programme. The empirical Econometric model employed for analysing the effect of Financial Openness and Capital Flows on Economic Growth in Nigeria was formulated based on the adopted and modified model of Doucouliagos and Paldam (2009), and Ekanayake and Chatrna (2010). The Ordinary Least Square (OLS) method was used to estimate the model that regress real Gross Domestic Product (GDP) on Capital Flows as a ratio of Gross Domestic Product, Trade Openness, Inflation Rate and Financial Openness in

Nigeria during the reviewed period. The results revealed that Trade Openness (TOPEN) and Inflation Rate (INF) is significant factors jointly influencing the growth rate of Nigeria economy. Amongst others, this study recommends that national monetary authority should effectively regulate and monitor the liquidity level in the financial sector via money in circulation and credit disbursed to the private sector in order to foster real sustainable growth.

**Keywords:** Capital Flow, Financial Liberalization, Economic Growth, Financial Openness, Foreign Direct Investment

## 1.0 Introduction

For several years now, the international economy has been in a state of transition from a group of strong national economies to a set of interconnected trading partners. The transition was opined by Ulsan (2012) to have accelerated over the past few years with the dismantling of communism and the integration of global trading nations into a single market. Sbia et al. (2014) stresses that among the most essential motivators of international growth into the twenty-first century is advanced economic integration and investment. However, the authors adds that in the past not much economies were opened to international trade and finance flow, after the liberalization of the former communist economies. Hsu et al. (2013) believes that the global financial and economic crisis of 2008-2009 was an advantaged period to revisit the issue of global financial integration. Omoke (2010) argues that the crisis instigates the possibility that integration among advanced economies went too far, bolstering the argument about the desirability of a laissez-faire approach towards financial integration. The researcher argues further that the heavy exposure of European financial institutions to assets connected with sub-prime United States mortgages substantially describes Europe's financial havoc and subsequent recession. This opinion was strengthened by the menace of huge and volatile capital flows is raising concerns in emerging markets about their adverse and destabilizing influence on financial stability and economic growth (Long et al., 2013; Dabor et al., 2015). Hence, the recovery of the emerging markets from the crisis and their stronger long-term growth potentials are the essential motivators of such capital flows. Prabirjit (2007) highlights that the episodes of financial and economic distress linked to capital flows e.g. Asian financial crisis of 1997-1998; and relative under-development of their financial mechanisms further heightened such concerns.

At a more diverse dimension, Sbia et al. (2014) argues that the interconnection among financial openness, capital flows and economic growth is the question of heated debate. Another opinion to the largely positive perception of trade integration, economists differ sharply about the effect of financial integration on growth. Hsu et al. (2013) posits that in principle, accessing savings from foreign sources could encourage investment and growth in destination economies, in addition, accessing a wider range of investment opportunities could add to more efficient investments and growth in the source countries. Practically, the international historical experience did not yield evidential results to bolster a positive linkage between financial integration and growth. In contrary, nations such as China have speedily grown not minding limited degree of financial integration (Ulsan, 2012; Heimann, 2003; Long et al., 2013). In addition, even on purely theoretical grounds, financial integration may entail negative growth and welfare effects. Financial integration in the presence of distortions and externalities can lead to sizable welfare costs in the worst case scenarios (Sbia et al., 2014; Hsu et al., 2013). For example, Nigeria suffered a severe foreign debt crisis which had a protracted impact on growth. However, by and large emerging markets maintained varying degrees of restrictions on their capital accounts until the early 1990s. Prabirjit (2007) states

that remarkable turnaround since that time has forced emerging markets to join the global trend towards financial integration, although at a more controlled pace than the headlong rush of advanced economies.

OECD (2010) reports that foreign investment shows how an economy financial investment made to acquire lasting interest in enterprises operating outside of the economy of the investor. The investor's purpose is to gain an effective voice in the management of the enterprise. Some degree of equity ownership is almost always considered to be associated with an effective voice in the management of an enterprise and a threshold of 10% equity ownership qualifies an investor as a foreign direct investor. According to Kornecki (2008), foreign investment measures the amount of foreign capital entering a country during a one year period. The foreign direct investment stock represents the total amount of productive capacity owned by foreigners in the host country (Adu et al., 2013; Tekin, 2012; Dabor et al., 2015). However, in recent times, as the privatization and reconstruction process nearly comes to an end, the main reason to pursue foreign direct investment (FDI) in major sectors of the economy is to enhance productivity, encourage employment, stimulate innovation and technology transfer (Ajagbe and Ismail, 2015), as well as enhance sustained economic growth as witnessed in most developing nations of the world like Nigeria. An important concern raised by economic watchers is that the dimension of FDI that does exist is usually skewed towards the extractive industries. Asiedu (2002) describes that this means the differential rate of the investment inflows into Sub-Saharan African countries like Nigeria has been adduced to be due to natural resources and the size of the domestic market. Nigeria as a country, given her natural resource base and large market size, qualifies to be a major recipient of foreign investment in Africa and indeed is one of the top three leading African countries that consistently received FDI in the past decade (Economy Watch, 2010). Hence, not minding the position of Nigeria as the third leading African economy in terms of FDI inflows, Asiedu (2003) concludes that the amount of FDI attracted into the country is a mediocre volume considering the resource base and potential need of the country. This study intends to critically investigate econometrically whether financial openness and capital flows accelerates economic growth in Nigeria since a decade after the country's independence and considering previous economic reforms. In order to realize the objectives of the study the paper is structured into five sections. Section one is the introduction, section two is an overview of financial openness and economic growth in Nigeria. The third section captures the research methodology. This is followed exclusively by data analysis and discussion of findings. The remaining section of the paper draws some implications that emerge from the discussion.

## **2.0 Literature Review**

### **2.1 Financial Openness**

The concept of financial liberalization and financial openness are interchangeably adopted in finance literature. Adam (2011) opines that financial openness and liberalization are regarded as among growth ingredients in developing countries. Tekin (2012) argues that financial liberalization that took place in developing countries in the late 1970s up to the early 1990s was part of government plans to allow domestic markets play essential roles in the economic development process. Ayanwale and Bamire (2007) provides a broader concept indicating that financial liberalization consists of the deregulation of the foreign capital account, domestic financial, and the stock market sector perceived separately from the domestic

financial sector. The researchers conclude that full financial liberalization occurs when at least two of the three sectors are fully liberalized and the third one is partially liberalized.

Bennett (2005) views financial liberalization as a group of operational reforms and policy agenda aimed to deregulate and transform a country's financial mechanism with the view to achieving a liberalized market-oriented system within an appropriate regulatory framework. Adu et al. (2013) adds that financial openness is a measure directed at dismantling regulatory control over the institutional structures, instruments and activities of agents in different segments of the financial sector. Sukar et al. (2007) contributes that such measures can be linked to internal or external regulations. Hence, it is obvious that financial liberalization emphasizes on eradicating controls that restrict financial operations and enabling market forces serve as the price mechanism for financial services.

### ***2.2 Status of Financial Openness in Nigeria***

Adu et al. (2013) posits that liberalization and deregulation gained wide recognition only after 1986 when the global push has been building since the collapse of the Gold Standard in the early 1970's. Asiedu (2003) adds that the concept of universal banking was implemented more than two decades after the Banking Deregulation Act was proposed USA. Liberalization as a trade policy takes the centre stage in the country aimed at promoting deeper integration within the global economy. Adu et al. (2013) stresses that efforts at liberalizing the current accounts transactions that comprised trade in goods (visible) and trade in services (invisible), payments of factor incomes and international transfers, include the removal of controls through the promulgation of the Foreign Exchange Miscellaneous Act of 1995 and trade reforms. Between 2000 and 2006, the economy witnessed further liberalization with progressive reduction of the prohibition list, reduction in tariffs, and the acceptance of the Common External Tariff (CET) policy for the ECOWAS member nations (Sukar et al., 2007; Econterms, 2010).

In March 2006, the CBN further liberalized the foreign exchange market as well as give full effect to the documentation policy (Going Global, 2010). Authorized dealers are now allowed to approve all account transactions covered in the foreign exchange manual without reference to the CBN (Asiedu, 2003; Ayanwale, 2007; Adu et al., 2013). The current status of capital account liberalization in Nigeria has followed a systematic reduction of restrictions on capital flows into the economy including the following measures; foreign investors are allowed to invest in government bonds and securities of not less than one year maturity, subject to the issuance of a certificate of capital importation (CCI) by the processing bank. They are also allowed to invest directly in equity as well as in the capital market through a broker but they are to obtain a CCI as evidence of such investment. Foreign investors are allowed to extend loans to private entities without restrictions. Nigerian residents are allowed to invest in foreign currency denominated securities, subject to the repatriation of proceeds from such investment. Finally, holders of ordinary and exports proceeds domiciliary accounts are guaranteed unrestricted access to the use of their funds.

### ***2.3 Benefits of Financial Openness***

Tekin (2012) mentions three widely accepted interrelated benefits of financial openness such as more opportunities for risk sharing and risk diversification, better allocation of capital among investment opportunities, and potential for higher growth. Doucouliagos and Paldam (2009) describes that financial openness or integration should offer additional opportunities

to share risk and to smooth consumption inter-temporally. This is an important element of financial integration. Ayanwale (2007) provides empirical evidence that sharing risk across regions enhances specialization in production, thereby resulting in well-known benefits. The author adds that increase in the set of financial instruments and in the cross-ownership of assets resulting from financial integration should offer additional possibilities to diversify portfolios and share idiosyncratic risk across regions. Georgios (2003) refers to the theoretical models of risk-sharing when agents in an area fully share risk, the consumption of agents in one region co-moves with that of agents located in other regions of that area, while consumption does not co-move with region-specific shocks. In addition, financial market integration promotes risk sharing benefits through asset markets and this may create economic incentives for countries to join a currency union and give up control of their monetary policy.

Opinions from extant literature think that greater financial integration should allow a better allocation of capital policy (Adu et al., 2013; Tekin, 2012). The overall eradication of barriers to trading, clearing and settlement platforms will enable firms to select the most efficient trading, clearing and/or settlement mechanism. Moreover, investors will be permitted to invest their funds wherever they believe these funds will be allocated to the most productive uses. Biwott et al. (2013) concludes that efficient flows of capital across borders within the region have the capacity to mitigate the effects of any asymmetric macroeconomic shocks. Another implication of greater financial integration, which is partially linked to the issue of capital allocation described above, is additional economic growth. One channel through which financial integration acts upon economic growth is greater financial development. Financial integration should increase flows of funds for investment opportunities in some regions. This should be the case whenever financial integration facilitates the access to investment opportunities in these regions, provided they are more productive relative to foreign ones. With additional funds flowing in, further financial development of these regions appears plausible (Reinhart and Rogoff, 2003).

#### ***2.4 Barriers to Financial Openness***

Theoretical perspective indicates that financial integration might not be enough to generate the most efficient economic outcome, unless it results in financial markets in which one can perfectly hedge risks (Ogunmuyiwa and Ekone, 2010; Omoke, 2010). Risk agents can attain full risk sharing and perfect consumption smoothing when financial markets are complete. Graham and Barry (2009) posits that extending the set of financial tools when markets are incomplete is assured to be useful only if the new tools result to adequate hedging opportunities to complete the markets. Or else, it is possible that all agents might actually be worse off because returns on assets in various states rely on prices at the state level. Dabor et al. (2015) argues that bringing in a set of new security can alter the balance prices of the existing securities in a manner that the new returns offer lesser rather than more risk sharing prospects. However, from the view of a risk-averse agent who seeks to share risk, allowing new financial tools when markets are incomplete could be hazardous.

Marc Bowles (2009) opines that financial integration might hurt some. Though in an intersecting generation model, the author reveals that banks alone do a better job of sharing risk inter-temporally than do financial markets. Additionally, when a financial structure adds both banks and financial markets, the latter constrain the former since agents can always opt out of the banking engagements to enter financial markets. In such situations, a mixed financial mechanism do not perform better than a financial market alone. Considering this, when a few regions with structurally varying financial structures open up to financial trades,



it is not clear that all regions will benefit. However, in theory, Bennett (2005), opines that if financial markets are not integrated, entailing differential investment and consumption opportunity sets across countries, investment barriers will affect investors' portfolio choices and companies' financing decisions. In addition, if purchasing power parity does not hold, exchange rates affect the cost of consumption across countries, and, thus, exchange rate risk influences the price of assets to investors abroad. Biwott et al. (2013) argues that foreign asset pricing frameworks recognize these impacts by including exchange rate risk as priced factors and can, thus, be adopted to empirically evaluate the issue of financial market integration.

### ***2.5 Openness, Financial Development and Economic Growth***

Heimann (2003) stresses that the connection between openness to world trade and economic development has remained a source of strong argument among development economists. Several research have proposed that outward orientation and openness improve growth performance through its positive effects on capital flows, foreign direct and portfolio investments, and development of domestic financial markets (Asiedu, 2002; Heimann, 2003; Manni and Afzal, 2012). It is argued that foreign investments encourage competitiveness, efficiency in resource allocation, economies of scale, and technological knowledge or transfers. Feeny and McGillivray (2008) observes that greater openness and more trade flows have enabled the developing countries to benefit from research and development (R & D) in advanced economies. They link the increasing spillover from research and development to more trade flows between industrial and developing countries.

Openness and the associated free flow of capital promote industrial growth and development. Openness fosters open competition that drives innovation, greater resource allocation, efficiency, and technological advancement. Sbia et al. (2014) have attributed the rapid growth of some developing countries, such as South Korea and Taiwan, to increased openness. Also recent models in wage inequality suggest that greater openness to trade has enabled some developing countries to narrow the wage differentials within these countries and between them as a group and the more advanced countries. Hsu et al. (2013) argues that openness boosts the relative demand for unskilled workers and reduces the gap in wages between unskilled and skilled workers. However, intense import competition is said to have adverse effects on profitability of the firms and it is feared that this may also lead to unemployment in the liberalizing country (Ayanwale and Bamire, 2007). Also, the prospects of capital flight have been a major argument against liberalization and openness. The Mexican experience was a case of serious outflow of funds that precipitated a number of problems. However, it is argued that such unsuccessful trade liberalization is the failure of the government to create a credible trade liberalization policy (Ogunmuyiwa and Ekone, 2010; Omoke, 2010).

The relationship between financial and economic development is a subject that has also generated strong discussion. Omoke (2010) mentions that majority of theoretical expositions suggest that a well-functioning stock market can significantly influence industrial growth rate. But there are disagreements as to the direction of the effect on growth. While some development economists argue that financial development has little or no effect on growth, others foresee a strongly positive link between economic and financial development (Heimann, 2003; Manni and Afzal, 2012). However, there is little conflict that a properly functioning stock market guarantees liquidity, risk diversification, data acquisition about firms, corporate control, and savings mobilization. Really, alterations in these variables will change the degree of industrial development. For these reasons, the thinking of writers that suggest a positive association between financial sector performance and economic growth

seems more appealing. Hence, financial growth engenders higher economic growth through the mobilization of savings.

Prabirjit (2007) show how a properly structured financial sector can boost economic development by pooling savings. Particularly, properly functioning stock market offers funds for long-term risky, but high-return, industrial projects seldom funded by other financial markets. This is as a result that the stock market can pool together long-term capital required for such projects. Hence, pooling of resources provide diversification, protects savers from idiosyncratic risk, and enables the stock market to finance lumpy and risky, though profitable, long-term industrial projects (Dabor et al., 2015). Also, a well-developed stock market promotes efficient distribution of the pooled savings. Ulsan (2012) highlight the role of financial sector in distributing capital towards more beneficial deals, or better investment prospects. Through efficient distribution of resources to beneficial long-term investments, the stock market increases productivity in the real sector. The third role of a well-functioning stock market, or financial system as a whole, is its ability to guarantee adequate liquidity. That is, investment in long-term, high-return deals will be almost impossible without a liquid stock market. Tekin (2012) reveals that a highly liquid stock market makes it possible for portfolio investors to acquire financial assets, and this enables industrial firms to have access to long-term funds. The investors are encouraged to invest in these assets because they have access to their savings throughout the investment period. Thus, a liquid stock market enhances investment in profitable projects with prospects for long-term growth (Ogunmuyiwa and Ekone, 2010; Omoke, 2010).

### 3.0 Research Methodology

#### *Model Specification*

In a bid to econometrically foster the dynamic relationship among financial openness, capital flows and economic growth, the first lag of economic growth is incorporated in this formulation. Therefore, the dynamic econometric model for this study is expressed based on the lead of empirical studies by Sanusi et al. (2012) growth model. The econometrics equation is expressed thus:

$$RGDP_t = \beta_0 + \beta_1 CAPFLOW_t + \beta_2 FOPEN + \beta_3 TOPEN_t + \beta_4 INF_t + u_t \dots\dots\dots (1)$$

Where:

RGDP: Real Gross Domestic Product

CAPFLOW: Capital Flows

FOPEN: Financial Openness Proxy as the ratio of FDI to GDP

TOPEN: Trade Openness Proxy as the ratio of total trade to GDP

INF: Inflation Rate

T: Time

$\beta_0$  : is intercept or constant;

$\beta_{1-4}$  : is parameters of the explanatory variables; and

$\mu$  : is error term.

The expected signs of the co-efficient are expressed as follows:

$\beta_1 > 0$ ;  $\beta_2 > 0$ ;  $\beta_3 > 0$ ; and  $\beta_4 < 0$

#### 4.0 Presentation of Data and Discussion of Findings

Table 1: Data on Financial Openness and Economic Growth in Nigeria

Year	TOPEN (%)	FOPEN (%)	CAPFLOW (N'Million)	INF (%)	RGDP (N'Million)
1960	34.54	1.70	129.2	0.43	2,489.00
1961	33.55	2.12	127.4	0.54	2,501.20
1962	28.62	1.67	127.6	0.67	2,597.60
1963	28.81	2.75	170.2	0.53	2,825.60
1964	32.36	4.35	193.8	0.29	2,947.60
1965	34.95	3.55	169.8	0.88	3,146.80
1966	32.03	3.26	162.4	2.49	3,044.80
1967	33.67	2.87	190.2	2.02	2,527.30
1968	30.40	3.49	154.0	2.44	2,543.80
1969	31.93	2.82	65.4	1.79	3,225.50
1970	31.09	2.44	49.2	1.75	4,219.00
1971	35.67	2.15	293.4	1.65	4,715.50
1972	33.73	4.14	269.2	9.41	4,892.80
1973	40.59	2.16	144.8	4.61	5,310.00
1974	40.02	0.96	(5.9)	13.53	15,919.70
1975	40.26	1.18	141.1	33.93	27,172.02
1976	44.64	0.80	(50.6)	21.1	29,146.51
1977	46.71	0.78	150.4	21.48	31,520.34
1978	41.33	0.39	1,111.9	13.3	29,212.35
1979	43.62	0.44	813.2	11.65	29,947.99
1980	46.91	-0.81	97.4	10	31,546.76
1981	50.11	0.70	929.5	21.42	205,222.06
1982	38.67	0.59	3,470.9	7.18	199,685.25
1983	30.89	0.50	2,735.7	23.22	185,598.14
1984	27.28	0.60	171.9	40.71	183,562.95
1985	27.66	0.64	(2,555.0)	4.67	201,036.27
1986	21.55	1.06	(1,900.9)	5.39	205,971.44
1987	45.83	2.33	(16,743.3)	10.18	204,806.54
1988	37.85	1.24	(18,447.3)	56.04	219,875.63
1989	40.97	6.40	(30,221.9)	50.47	236,729.58
1990	58.16	1.75	(49,245.3)	7.5	267,549.99
1991	67.61	2.22	(27,482.9)	12.7	265,379.14
1992	65.48	2.72	(138,755.6)	44.81	271,365.52
1993	56.21	4.34	(19,740.9)	57.17	274,833.29
1994	40.99	2.47	11,252.8	57.03	275,450.56
1995	88.24	3.93	(3,254.0)	72.81	281,407.40
1996	69.27	4.12	(423,462.7)	29.29	293,745.38
1997	74.50	3.94	(261,207.8)	10.67	302,022.48
1998	58.68	2.98	116,718.8	7.86	310,890.05
1999	64.23	2.91	(366,820.7)	6.62	312,183.48



2000	63.96	2.53	(390,356.3)	6.94	329,178.74
2001	68.28	2.80	(211,211.3)	18.87	356,994.26
2002	47.12	3.26	(437,210.9)	12.89	433,203.51
2003	60.89	3.04	(855,899.2)	14.03	477,532.98
2004	57.75	2.18	(914,214.1)	15.01	527,576.04
2005	68.95	4.48	-2496880.15	17.85	561,931.39
2006	56.20	3.14	-2491546.58	8.4	595,821.61
2007	59.16	3.15	-1666525.44	5.4	634,251.14
2008	63.19	3.49	-992280.303	11.5	672,202.55
2009	54.52	4.22	1862597.808	12.6	718,977.33
2010	56.37	2.26	305561.3077	13.8	776,332.21
2011	65.19	3.29	-831406.393	10.9	834,161.83
2012	59.47	2.15	-1949198.42	12.2	888,893.00
2013	65.89	2.38	-2159711.85	8.5	950,114.03

Source: CBN Statistical Bulletin (2014)  
World Bank Development Indicators (2014)

Table 2: Estimated Regression Results

Variable	Coefficien t	Std. Error	t-Statistic	Prob.
C	3.462185	0.998498	3.467392	0.0017
CAPFLOW/GDP	2.088563	4.582691	0.455750	0.6520
FOPEN	-0.133444	0.149506	-0.892566	0.3794
TOPEN	0.152953	0.020166	7.584689	0.0000
INF	0.068498	0.015749	4.349436	0.0002
R-squared	0.828100	Mean dependent var	10.58791	
Adjusted R-squared	0.804390	S.D. dependent var	2.359238	
S.E. of regression	1.043439	Akaike info criterion	3.057974	
Sum squared resid	31.57419	Schwarz criterion	3.282439	
Log likelihood	-46.98556	F-statistic	34.92578	
Durbin-Watson stat	0.827345	Prob (F-statistic)	0.000000	

a) Dependent Variable: LOG (RGDP)

The estimated result for the multiple parameters regression specified to capture the effect of financial openness and capital flows on economic growth in Nigeria between 1960 and 2014 presented in Table 2 reveals the effect of incorporated factors for the econometric analysis of the study. Table 2 reports that changes in capital flows as a ratio of GDP (CAPFLOW\_GDP), trade openness (TOPEN) and inflation rate (INF) exert positive influence on changes in real gross domestic product (RGDP). This changes is as a proxy of economic growth in Nigeria within a decade post-independence until 2014 fiscal year. In addition, these effects conforms with the theoretical expectation excluding the effect of inflation rate. This implies that for a percentage change increase in capital flows as a ratio of GDP (CAPFLOW\_GDP), trade openness (TOPEN) and inflation rate (INF), the Nigerian economy will grow by 2.1%, 0.15%, and 0.1% respectively.

Table 2 also reports that financial openness (FOPEN) exerts negative effects on economic growth in Nigeria during the review periods and this does not conform with the apriori expectation based on sign. However, in terms of magnitude of effect, a percentage change in financial openness (FOPEN) deteriorates Nigeria’s economic growth by 0.13%. In assessing the partial significance of the estimated parameters for the incorporated macroeconomic indicators, the t-statistics results are presented in Table 2. The result shows that the estimated parameters for trade openness (TOPEN) and inflation rate (INF) were found to be statistically significant at 5% critical level because their p-values are less than 0.05. While, the parameter for capital flows as a ratio of GDP (CAPFLOW\_GDP) and financial openness (FOPEN) was found insignificant at both 5% and 10% critical level.

The F-statistic result indicates that all the incorporated macroeconomic indicators are simultaneously significant at 5% critical level. While, the adjusted R-squared result reveals that 80.4% of the total variation in economic output growth is accounted by changes in capital flows as a ratio of GDP (CAPFLOW\_GDP), financial openness (FOPEN), trade openness (TOPEN) and inflation rate (INF) during the review period. The Durbin- Watson test result reveals that there is presence of positive serial correlation among the residuals, because of the d-value (0.8273) is far from zero but close to two.

The empirical econometric model employed for analyzing the effect of financial openness on economic growth in Nigeria is formulated based on the adopted model of Doucouliagos and Paldam (2009), and Ekanayake and Chatrna (2010). The model integrates changes in capital flows as a ratio of GDP (CAPFLOW\_GDP), financial openness (FOPEN), trade openness (TOPEN) and inflation rate (INF) during the review period. While, economic growth is proxied by RGDP product growth as the regression result indicates. The classical Ordinary Least Square (OLS) is employed as the econometric method of estimation. The estimated models results revealed that changes in capital flows as a ratio of GDP (CAPFLOW\_GDP), trade openness (TOPEN) and inflation rate (INF) exert positive influence on changes in RGDP as a proxy of economic growth in Nigeria between a ten year period post-independence until 2014. In addition, financial openness (FOPEN) exerts negative effects on economic growth in Nigeria. Table 3 indicates the results of the Engle-Granger Co-integration of the data analyzed for this study.

Table 3: Engle-Granger Co-integration Results

Series	Co-integration Test at Level	Decision
	Intercept	
$ECT = RGDP - (\alpha_0 + \alpha_1 L + \alpha_2 K + \alpha_3 DC + \alpha_4 WOP)$	-2.0359**	Stationary i.e. Co-integrated
1% Critical Value	-2.6603	
5% Critical Value	-1.9552	
10% Critical Value	-1.6228	

Note: \* significant at 1%; \*\* significant at 5%; \*\*\* significant at 10%.

The long-run relationship of the effect of financial openness and capital flows on economic growth in Nigeria between 1970 and 2013 was examined using the Engle-Granger co-

integration test technique and the test results are shown in Table 3. The co-integration result presented in Table 3 indicates that the estimated residual (ECT) from the main empirical model (2) was found to be stationary at level -2.6603. This indicates that the null hypothesis “no co-integration” was rejected at 1% significance level. This implies that there exist long-run relationship among economic growth, changes in capital flows as a ratio of GDP (CAPFLOW\_GDP), financial openness (FOPEN), trade openness (TOPEN) and inflation rate (INF) between 1970 and 2013.

### **5.0 Conclusion and Recommendations**

This study examines the implications of financial openness on economic growth, amidst macroeconomic fluctuations in Nigeria between 1960 and 2014. This ranges from the period of Pre-Structural Adjustment Programme (SAP), Structural Adjustment Programme (SAP) and Post-Structural Adjustment Programme (SAP) eras. The study also incorporates the significant effect of the 1980s oil boom on industrial productivity growth. The results revealed that trade openness (TOPEN) and inflation rate (INF) is significant factors jointly influencing the growth rate of Nigeria’s economic growth. This study recommends that the monetary authority should effectively regulate and monitor the liquidity level in the financial sector via money in circulation and credit disbursed to the private sector in order to foster real sustainable growth. Also that the monetary policy rate should be relatively stable and strictly monitored considering its deteriorating effect on output level and facilitate the disbursement of investment funds created on the basis of the financial depth and liquidity in the economy. In addition, non-inflationary driven monetary expansion policy should be adopted in order to enhance the level of financial depth in the economy. This tends to increase output level via investment expansion and availability of investible funds for both private and public sectors. The concerned monetary authority should ensure long-term price stability in the economy to foster high level of financial liquidity integration in the system to promote output.

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