

## Research Article

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## Real sector performance amid financial globalization: The Nigeria growth prospects

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**Abstract:** Financial globalization has drawn so much attention and has been identified as the major cause of the global financial crisis. With clear evidence of financial globalization in Nigeria, agreement on the magnitude and net effect on the nation's economic sectors has not received more research attention. This article aims to investigate how Nigeria's sectoral performances are impacted by financial globalization. The sectors of interest include Trade, Agriculture, Construction, Industrial and Service. Annual Time series data for the period, 1981-2019 was analysed using a Classical Linear Regression Method in an Error Correction Framework. Results established a strong significant association between financial globalization, construction and trade sectors. It indicates the insignificant consequences of financial globalization on the industrial, service, and agricultural sectors, respectively. The result further finds that terms of payment impact the

agricultural sector, while terms of trade impact the industrial sector, respectively. The exchange rate is the only variable that shows a significant negative impact on the five selected sectors. The article suggests that government and monetary authorities concentrate on stabilizing the currency rate since doing so improves terms of trade, builds local capacity, and boosts sectoral performances.

**Keywords** – Finance, Globalization, Real sector, Growth, Nigeria

### 1. INTRODUCTION

Financial globalization has been identified as a captivating topic of study for researchers of Development Economics. This is attributed to its tremendous fluctuation of access and experience across nations as well as its obligatory importance in rolling out policies. There are other advantages to financial globalization as well. The improvement of opportunities for minimizing volatility is one of the main advantages. It achieves this by distributing the risk. Further benefits are registered on the level of development of a nation's financial system (Rodrik & Rosenzweig, 2010). The concept of financial globalization is older than a thousand years. A large number of countries in the developing world still find themselves under the rule of today's developed countries and invariably witness huge capital outflows from their motherland for decades. For several years, countries like England, France, Portugal, and others. dominated world geography following activities and the process of colonization. They implemented their central system of power in these colonies by force and accumulated as well as transferred the maximum possible resources from here to them. Tax revenues and trade in the colonies created

across the world were ultimately, hugely invested in a few ruling countries. This process of cross-border capital flows gradually reduced and eventually ended with the commencement of World War II. This volume of international capital flows a hundred years back that happened until the war started is comparable to the level today (Schmukler, 2004). The rise of financially liberated economic superpowers especially in the last three decades has proved that financial globalization has a significant impact on indicators of economic development. Financial Globalization is being advocated for favourable influence on the economy as well as the society (Singh, 2011).

The introduction of the Structural Adjustment Programme (SAP) in 1986 led to a greater degree of financial globalization in Nigeria in the late 1980s (IMF, 2008). The index of financial globalization constructed by Chinn and Ito (2007) for many countries, including Nigeria, has shown that the country is yet to be fully financially globalized. This notwithstanding, financial globalization can be of huge benefit to Nigeria and help in the development of the nation. The enabling framework would be to channel activities of financial globalization towards those sectors in the economy where its impact will be felt immensely and the contribution of that particular sector large enough to spur economic growth speedily. The extent to which national economies have accepted financial globalization in the last few decades has been unprecedented. The difficulty in assessing the actual effect of globalization on national economies has been attributed to the fact that financial globalization is a difficult concept to track and monitor, especially in an economy with frequent volatility of financial markets. This is not peculiar to the Nigerian nation (Obaseki, 2014).

The international trade sector is more or less a determining measure of financial globalization (Adegbite, 2007). However, unfortunately for Nigeria and some other developing nations especially in the African continent, their share of world trade has continued to dwindle ever since the advent of financial globalization. For instance, external borrowing which has been an upshot of financial globalization has been a blessing as well as a cause for Nigeria. Kur, Chukwu and Ogbonna (2021) argue that financial globalization which has led to the continued reliance on external borrowing to finance their deficit budget has raised questions given that the enormous borrowing has not produced the expected results in regards to the increase of investment necessary for growth.

This notwithstanding, other sectors of the Nigerian economy may not depend entirely on trade to benefit from financial globalization. Over time, different sectors of the Nigerian economy has severely negatively impacted by globalization (Kur, Abugwu, Abbah & Anyanwu, 2021). This is the reason different sectors of the economy need to be analysed to determine the extent of the effect of financial globalization on these sectors. In addition to the above, some economic activities in the country have been identified as hindering the country from fully tapping the benefits of financial globalization and fully establishing its effect on the various sectors of the country's economy. According to recent data, a country's capacity to gain from foreign capital flows is influenced by the quality of its governance (Olanrewaju & Adegbola, 2017). This is a major challenge for the Nigerian nation. However, despite the existence of convincing data and the perceived effects of financial globalization on the Nigerian economy, scholars have been unable to come to a consensus on the precise scope and overall influence of financial globalization on sectoral performances. This paper aims to investigate how Nigeria's real sector performance has been affected by financial globalization.

## **2. LITERATURE SURVEY**

### **The trade sector**

In economic development, the importance of International Trade cannot be over-emphasized. This necessitated the relevance attributed to it by the Classical and the Neo-Classical Economists as the engine of growth of any economy commonly referred to as the Development process. Financial globalization and International trade have succeeded in connecting nations of the world over time. International economic relationships have been fostered continuously and most importantly by foreign trade. The role international trade plays in socio-economic well-being and development is huge (Mobosi, Okonta & Ameh, 2022). It has contributed immensely to the growth and advancement of the world economy as well as the growth and advancement of nations in the areas of production

subcontracting and the distribution of industrial activities (Nwokocha & Okonta, 2022). Its contribution to the economy of countries is not primarily restrained to measurable gains. It extends to gains from structural change-facilitation and foreign flow of capital benefits. International trade promotes indebt efficiency in the creation of goods and services through resource redistribution to countries with relative superiority in the production of particular goods or services. International trade has therefore been referred to as a catalyst and basic tool of economic prosperity (Frankel & Romer, 1999).

The magnitude of international exchange around the globe has increased immensely in the last few decades. Nigeria has not been left behind in this trend. During this time, the country has seen a significant increase in the amount and value of its international trade. Of particular note is the Economic Complexity Index (ECI) foreign trade statistics in 2014 which identifies Nigeria as the 41st largest export economy and 119th most complicated economy in the world. In 2013, the country's exports were \$94.8 billion and its imports were \$53.3 billion, resulting in a favourable trade balance of \$41.6 billion. In the same year, the per capita GDP and the national GDP were \$521 billion and \$5.6 billion, respectively. The top four exports of the nation are Crude Petroleum (\$75.3 billion), Petroleum Gas (\$10.3 billion), Cocoa Beans (\$561 million), Refined Petroleum (\$3.07 billion), and Special Purpose Ships (\$463 million). The top five imports into the country include cars (\$1.87B), wheat (\$1.42B), rolled tobacco (\$1.34B), refined petroleum (\$9.5B), and special purpose ships (\$1.01B). In conclusion, the majority of the nation's exports, or 79.4% of all exports, are crude petroleum. Petroleum Gas follows, making up 10.9 per cent of the total. 17.9% of all imports are refined petroleum, which dominates the import market. Following this, automobiles make up 3.51 per cent of all imports.

The performance of the international trade sector will be conceptualized in this study using the ratio of trade to GDP. The trade-to-GDP ratio is a measure of how important international trade is to a nation's economy. It is the total of goods and services exports and imports expressed as a percentage of gross domestic product. It is determined by dividing the total amount of imports and exports for a certain period by the gross domestic product for the same period. For instance, the World Bank's collection of development statistics, produced from officially acknowledged sources, reports that commerce (percent of GDP) in Nigeria was 21.12 percent in 2015.

### **The Nigerian service sector**

The Nigerian service sector has been spearheaded by Telecommunications, and motion Pictures popularly referred to as Nollywood. This industry has benefited from a lot of supportive government policies, attracted a great deal of FDI, and as a result has helped to diversify the economy of the country. According to significant data rebasing in 2014, the sector has made the largest sub-Saharan African contribution to the country's diversification.

According to Q1 2017, an economic report of Nigeria released by the National Bureau of Statistics on Tuesday, May 23, 2017, the service sector's performance accounts for over 55% of Nigeria's economic performance. The Performance of various sectors showed that the Industrial sector recorded 16.63% growth, the Public Administration sector recorded 10.73% growth, Agric Sector recorded 3.39% as against 4.11% recorded in the last quarter of 2016 while the Service sector recorded 14.95% growth second only to the Industrial Sector. The service sector made up 54.8 per cent of Nigeria's rebased gross domestic product (GDP) in 2014, up from 53.0 per cent in 2013. Historically, oil and gas production has been the main driver of the country's economy. However, the rebasing showed that the service sector had experienced tremendous expansion.

A large portion of foreign direct investment goes to the telecom sector. 35 per cent of all private FDI that entered Nigeria between 2001 and 2011 was invested in the country's telecom sector. (USITC, Trade Executive Briefings, March 2017). The performance of the service sector will be conceptualized in this study using the sector's contribution to GDP.

### The construction sector

Any nation's social and economic development depends heavily on the building and construction industry. Agriculture undoubtedly is a vital economic factor, and means of livelihood (Odimegwu, 2022). Besides from the employment generation potential of the sector, activities in the sector are crucial to growing links between sectors effectively and promoting economic development. For example, to sustain economic development in a country, infrastructural development in the form of transportation – road, air, sea, rail, construction of institutional buildings, industrial development and many more. The construction of factories and parks and the provision of accommodation in the form of residential buildings cannot be ignored.

Housing is a significant factor in societal, economic, and civic growth, according to Kissick et al. (2006). The accomplishment of more general socioeconomic development goals is greatly helped by several housing-related initiatives. Global economic growth is significantly influenced by this, especially in developing countries. Numerous sorts of people have found work in this industry, particularly in locations with heavy building activity. The FCT and the several State capitals. Due to the multiplier effects of its activities on the expansion of other sectors, particularly the real estate business, the building materials industry, etc., the sector has played a crucial role in sectoral linkage. To transform a nation's power sector or the transport sector or housing or industrial sectors, active participation and effective as well as efficient performance of the construction sector are required. The present study will conceptualize the Construction sector performance with the share of the construction sector to GDP.

### The agricultural sector

Despite having a great endowment of oil and other mineral resources, Nigeria's economy mostly depends on the agriculture industry. The country's economy is mostly based on agriculture in terms of output and employment creation. Crops make up 80% of the agricultural sector's contribution to the country's Gross Domestic Product (GDP), forestry makes up 3%, and fisheries account for 4%. For over 65% of the workers in the country, the industry has been a source of productive employment. Naturally, it has also greatly contributed to natural food self-sufficiency by providing over 90% of the total food consumed in the nation as well as the need for fibre of the rapidly expanding population of the nation. The agricultural sector accounts for more than 80% of the nation's non-oil export profits. The industry provides the raw ingredients needed by agroindustrial businesses (Bola, 2007).

Because the sector has provided the necessary foreign exchange revenues for a capital development project in the nation, agricultural exports have significantly aided Nigeria's economic development. As new items are occasionally added to the country's existing exports, exports have increased throughout time. Statistics indicate that in 1960, almost 75% of all merchant exports were made up of agricultural export items. The country had a strong reputation for producing and exporting important crops during the 1940s and 1950s (Ekpo & Egwaikhide, 1994).

The sector consistently takes the lead in the nation's employment creation and economic activity. It employs almost two-thirds of the labour force (Bola, 2007). It's crucial to emphasize that farming activity continues to be a significant source of employment, with productivity being the single most important factor determining living standards in both rural and urban sections of the nation. The majority of agricultural revenue comes from the over 90% of persons who work in the crop subsector in rural areas. This crop segment easily supplies raw materials to the processing sector (Olatunji, 2002). The performance of the agricultural sector will be conceptualized in this study using the sector's contribution to GDP.

### The industrial sector

Mining, quarrying, processing, and craft are all included in the industrial sector. Thus, the Industrial Sector's subset of Manufacturing. The word "industry" is frequently used as a synonym for "manufacturing" in Nigeria and many other developing countries. This is explained by the fact that the manufacturing industry is the most dynamic part of the industrial sector. The ensuing impact of Nigeria's industrial sector on the country's economic growth over

the past ten years has been a recurrent topic of examination. In the majority of developing countries, this is typically the case. There is a lot of research on this impact. Few countries have seen major growth and wealth accumulation without making sizable investments in the industrial sector. The optimum sector for emerging countries' economies, including those in Africa, has been recognized as the industrial sector. This is explained by the fact that the industry is labour-intensive and export-oriented. There is a direct link between a country's degree of exports and its level of economic success. The industrial sector raises the average earnings of inputs by steadily adding value to them to prepare them for sale, increasing the money that will be made when sold. Compared to commodities, the industrial sector is more resilient and less sensitive to outside shocks (KPMG, 2014).

Generally speaking, the industrial sector is a significant catalyst for the modern economy, and thanks to its numerous advantages as a vital sector for economic development, it has become a leader in many fields. Compared to other economic sectors, this one generates investment capital more quickly (Ogbu, 2012). According to statistics, the Industrial Sector contributed 3.2 per cent of Nigeria's GDP in 1960, 5.4 per cent in 1977, and 13 per cent in 1992. In 1993, it decreased to 6.2 per cent, and in 1998, the whole manufacturing capacity utilization rate drifted downward to 2.4 per cent (Chete & Adewuyi, 2004). The industry generated 4% of the country's GDP in 2003 (Tamuno & Edoumiekumo, 2012). Today, the Industrial Sector is used as a benchmark for assessing a nation's economic performance (Amakom, 2012). Nigeria has excelled at manufacturing items. According to recent surveys, Nigerian products are exported to other nations. Nigerians now buy products that were created there. The Industry Sector's performance has gotten better over time. From 142.2 in 2000 to 165.4 in 2013, the Industry Production Index grew (CBN, 2013). The performance of the industrial sector as well as the value it adds will be conceptualized in the current study.

### 2.1. Review of related empirical literature

Presented below are some empirical pieces of evidence from related studies conducted within and outside Nigeria. Punia (2015) conducted a study using selected sectors of the Indian economy – Agriculture, Education, Technology etc. The study found that globalization has a favourable effect on the agricultural sector and has improved the lives and comfort of the people. Punia has expressed concern about the rise in poverty and corruption as a result of globalization. According to Chang et al. (2009), a significant investment in human capital can enhance the effects of openness-driven growth. When financial markets are more developed, price inflation is reduced, and public infrastructure is consistently available, it improves more.

According to Gu and Dong (2011), a nation's level of financial development heavily influences whether financial globalization has a negative or positive impact on growth. If a country's financial system does not evolve and improve in tandem with financial openness, volatility will take the place of growth. A stronger productive capacity attained by significant technological improvement, according to Dreher's 2003 analysis of 123 countries from 1970 to 2000, is necessary for financial globalization to generate economic growth. Numerous research on the connection between financial globalization and countries' productive capacity have found that the latter is positively impacted by the former due to increasing industrial sector capacity. Ojo and Ololade (2014) conducted research on the Industrial Sector during the globalization era. On-time series data of pertinent manufacturing output, current account balance, and trade openness variables, the ordinary least squares econometric technique was applied. According to the report, there were very few and extremely insignificant benefits of globalization in the industrial sector. This inevitably means that globalization has a relatively small contribution to economic growth in the Nigerian economy's industrial sector.

George-Anokwuru (2018) investigated the impact of globalization on economic growth in Nigeria between 1981 and 2016 by looking at imports, exports, foreign direct investment, and gross domestic product (GDP). The author used the short- and long-run dynamics Autoregressive Distributed Lag (ARDL) test, as well as limits co-integration tests. The model's short-run and long-run versions both show that imports have a major impact on growth and are adversely correlated with GDP. However, exports have both positive short- and long-term effects on GDP that are

substantial. Therefore, exports boost economic expansion. The findings also demonstrate that GDP is negatively impacted by FDI (foreign direct investment). This indicates that FDI is unsuccessful at spurring real growth in the nation. The author also demonstrated that Nigeria has not yet fully reaped the rewards of globalization. Our study topic, based on the review above, is whether Financial Globalization has improved the major development indices of the Nigerian economy. Our ability to accurately assess its overall impact in Nigeria will be aided by this.

Okeke and Iloh (2020) investigate modern globalization, the social sciences, and the difficulty of scholarly endeavours in developing countries. It defines current globalization as a synonym for the third wave of globalization, which began after World War II and was significantly influenced by American globalism. The definition of social science in the paper is broadly defined as "any study or branch of research that deals with human behaviour in its social and cultural elements." The emerging world regions of Latin America, Africa, Asia, and the Middle East are specially mentioned while discussing social science studies in this work. The main argument of the essay is that the current state of globalization calls for new interdependencies and sensibilities in social science studies.

### 3. PROBLEM STATEMENT

In the past few decades, national economies have adopted financial globalization to an unprecedented degree. Researchers and economic analysts have paid such close attention to this development and are so intrigued by it that some claim that financial globalization, along with its many benefits, is the primary reason for the recent global financial crisis, while others maintain that financial globalization has made a significant positive contribution to reducing the impact of the crisis, particularly in terms of the housing market. Olanrewaju and Adegbola (2017) contends that, despite the recent increase in global financial market integration and the globalization of the goods market, this integration hasn't progressed as far toward complete integration as is generally thought. The cases of Brazil in 1999, Ecuador in 2000, Turkey, Argentina, and Uruguay in 2001, as well as the Asian and Russian crises of 1997–1998 provide convincing evidence in favor of the assertion made by economists that globalization has exacerbated worldwide crises. Therefore, determining how financial globalization affects emerging economies has remained an ongoing study project.

Because financial globalization is a tough notion to measure and monitor, particularly in an economy with frequent financial market volatility, it has been impossible to determine the true impact of globalization on national economies. This is not unique to Nigerian culture (Obaseki, 2014). In this sense, financial globalization differs from other ideas that focus only on trade or the exchange of goods and services because it affects many different areas of the economy and can be challenging to monitor in its entirety, particularly given the rise in illegal activities taking place on a global scale. These problems are brought on by the fact that financial globalization is a complicated process with associated risks and different stages of growth. Its impact and presence can always be diminished to obscurity. This may have happened on purpose or accidentally. Therefore, it should come as no surprise that it has increased the frequency of financial market volatility.

The rapid globalization of capital markets has led to a destabilization of the reverse flow of capital in Nigeria. An illustration can be found in the 2008 global financial crisis. The downturn in the American mortgage market was what sparked the crisis (Prasad et al., 2010). Due to the downturn, money started to migrate backward from Nigeria to the US and other European nations. Most Foreign Direct Investments (FDI) from Europe and the US to Nigerian banks, which also extended to the country's stock market, were off-loaded, released, and transferred to the US and to some other economies in the West to stabilize their economies during the height of the crisis. The Nigerian capital market experienced a severe decline as a result. Since most banks in the country are active participants in the country's capital market, this led to liquidity issues for the majority of them, which were then reflected in the capital market. Nigeria has demonstrated its financial integration on a global scale through the aforementioned incident. When a nation has special connections to international capital markets, it has achieved financial integration (Rodrik & Rosenzweig 2010). Financial integration will occur when the domestic financial

systems and markets in neighboring economies and those in the same region are closely integrated. A sign of a country's increasing international financial integration is the complete removal or facilitation of exchange control systems and an increase in the ratio of capital flows, and it has grown steadily and closely alongside the globalization of finance.

However, several economic practices in Nigeria have been shown to be impeding the nation's ability to fully reap the benefits of financial globalization and understand how it affects the various economic sectors of the nation. Recent research indicates that a nation's capacity to gain from foreign capital flows is influenced by the effectiveness of its governance. For the country of Nigeria, this is a significant challenge. A nation's capacity to draw in foreign direct investment is closely correlated with the domestic governance environment within that nation. Even said, poor governance may actually make it more difficult to track the impact of foreign investment and the overall economic output if the country is successful in luring it in. The institutionalization of the corruption epidemic in Nigeria has had negative implications on the country's route to economic progress (Ejumudo & Ayegbunam, 2015). Because of this, it is not very practical to provide an accurate assessment on the precise scale of the impact of financial globalization on the sectoral output of the Nigerian nation while controlling for government and corruption.

Scholars haven't been able to come to a consensus on the precise magnitude and overall influence of financial globalization on the Nigerian economy, despite the existence of abundant evidence to the contrary and perceptions of its effects on the country's economy (Adesoye et al. 2015; Nwakanma & Ibe, 2014). This study investigates the effect of financial globalization on the Nigerian economy's real sectors. Monitoring the influence of financial globalization on sectoral performances is vital in redirecting foreign financial assistance towards the high potential sectors.

#### 4. RESEARCH METHODOLOGY OR METHODS

The Neo-Classical Growth (NCG) Model is the theoretical framework used to direct the modelling for this study. According to the conventional neoclassical growth model, the expansion of capital is the direct traditional theoretical channel through which financial globalization affects economic growth. According to the conventional NCG theory, as a result of financial globalization, capital should move from capital-rich to capital-poor economies because the latter should offer higher returns on investment. Theoretically, in capital-poor nations, these financial flows should supplement the meagre domestic savings and, by lowering the cost of capital, enable greater investment. The World Bank's economic indicators for Nigeria (2017) and the Central Bank of Nigeria's statistical database, both of which have time series data from 1981 to 2017, were used.

The purpose of the article is to provide a solution to the topic of how much financial globalization affects other industries in Nigeria, including commerce, agriculture, construction, and services. To model this, the variables for those sectors' performances are defined as a function of financial globalization measured as the stocks of foreign assets and liabilities as a percentage of GDP (FGL), trade openness measured as exports plus imports as a percentage of GDP (TOP), the standard deviation of terms of trade in goods and services used as a proxy for supply shock (TOT) controlled by exchange rate volatility (EXRV), and the volatility in the GDP growth rate (VY).

$$SEP_{i,t} = f(FGL, TOP, TOT, EXRV, VY, INQ)_t \text{ ----- (3.1)}$$

where

$SEP_{i,t}$  = performance of sector  $i$ , at time  $t$ , and is measured as the share of the sector to GDP ( $i = 1$  for Agriculture (AGR),  $i = 2$  for Industry (IND),  $i = 3$  for Construction (CONS),  $i = 4$  for Trade (TRD) and  $i = 5$  for Services (SER)).

FGL = financial openness measured by the stocks of foreign assets and liabilities as a share of GDP,

TOP = trade openness measure as exports plus imports as a ratio of GDP,

TOT = the standard deviation of terms of trade in goods and services proxy for a supply shock

EXRV = exchange rate volatility,

VY = volatility in the growth rate of gross domestic product.

INQ = institutional quality captured by governance variable

$$SEP_{i,t} = \lambda_0 + \lambda_1 FGL_t + \lambda_2 TOP_t + \lambda_3 TOT_t + \lambda_4 EXRV_t + \lambda_5 VY_t + \lambda_6 INQ_t + \mu_t \quad (3.2)$$

## 5. DATA ANALYSIS AND DISCUSSIONS

The result presented in Table 4 has shown that financial globalization (fgl) has an insignificant impact on real sector development or performance, except for the constructions (cons) and trade (trd) sectors. It shows that financial globalization has an insignificant association with the agriculture, industry and services sectors in Nigeria. Constructions and trade sectors that have a significant association with financial globalization indicated a negative impact. It shows that in the short-run, one base point increase in financial globalization decreases the construction sector by 1.65units and the trade sector by 1.8units respectively. By implication, the construction and trade sectors in Nigeria are most vulnerable to financial risk, since increased globalization rather exposes them to high risk. Agriculture and industrial sectors that indicate short-run linear functions of financial globalization have an insignificant impact, underlining the fact that the real sector of the Nigerian economy has not felt better as a result of financial globalization.

**Table 1: Impact of Financial Globalization (FGL) on Real Sector performance**

	D(lnAGR)	D(lnIND)	D(lnCONS)	D(lnTRD)	D(lnSER)
DlnFGL	0.2890 (1.158)	0.1654 (1.070)	-1.6585*** (-2.7417)	-1.8005** (-2.967)	0.1116 (0.1970)
DlnTOP	0.0815** (2.153)	0.0180 (0.378)	-0.2917 (-1.3647)	-0.2543 (-1.1935)	-0.2006 (-1.168)
DlnTOT	-0.0469 (-0.192)	-0.2700** (-2.107)	-0.1287 (-0.2469)	-1.1530** (-2.069)	0.0200 (0.0493)
EXRV	-8.76E-05*** (-4.307)	-4.91E-05*** (-3.923)	-0.6492** (-2.1877)	-0.7376** (-2.597)	-0.0001** (-2.957)
VY	-0.1984** (-2.669)	-0.2278** (-2.908)	-0.7133** (-2.111)	-0.8095** (-2.404)	-3.77E-23*** (-5.8102)
DINQ	2.84E-10*** (6.701)	5.37E-11*** (8.2603)	2.32E-10 (1.0781)	2.53E-10 (1.1481)	4.37E-10** (2.8706)
ECM_AG(-1)	-5.45E-05 (-0.772)				
ECM_IN(-1)		2.58E-05 (1.1862)			
ECM_CO(-1)			0.0013 (1.9327)		
ECM_TRD(-1)				-9.82E-05 (-0.4514)	
ECM_SER(-1)					-0.0002** (-2.7891)
Constant	16.929*** (5.293)	9.9706 (16.542)	7.1192*** (42.541)	13.9241*** (5.453)	8.5325 (53.461)***
R <sup>2</sup>	0.9607	0.9117	0.6834	0.7121	0.8055
Adjusted R <sup>2</sup>	0.9509	0.8896	0.6043	0.6401	0.7569
F	97.83	41.322	8.637	9.895	16.575
Obs. after Adjustments	36	36	36	36	36

*t* statistics in parentheses, and \**p*< 0.05, \*\**p*< 0.01, \*\*\**p*< 0.001

The outcome also demonstrates that only the agricultural sector has a short-term significant beneficial connection with trade openness. A positive but insignificant correlation exists between the industrial sector and financial globalization. Similarly, while other variables stay constant, there is a negligible correlation between the construction, trade, and services sectors and financial globalization. Empirically, when other parameters are held



constant, the percentage increase in trade openness boosts the industrial sector by 8.1 per cent and decreases the trade, services, and construction sectors by 29 per cent, 25 per cent, and 20 per cent, respectively. The outcome's evidence also demonstrates that terms of trade (total) have short-run linear functions of all real sectors, except the services sector, which had a negligible positive correlation.

As anticipated, the result in Table 4.6 indicates that the major determinants of the variations in the real sectors' development in Nigeria are exchange rate volatility, output volatility and governance quality or effectiveness in Nigeria. Specifically, exchange rate and output growth volatilities have shown to exhibit short-run negative significant linear functions of real sector developments, such as agriculture, industry, constructions, trade and services sectors respectively. Quantitatively, the result revealed that a point increase in exchange rate volatility decreases agriculture, industry, construction, trade and services sectors by 0.008%, 0.0049%, 65%, 73% and 0.01% respectively. While a point increase in output growth volatility decreases agriculture (19%), industry (22%), construction (71%), trade (80%) and services (4.37E-23) sectors respectively. On the other hand, the impact of governance quality, though, significant, has a minimal association with the real sectors' development.

According to the ECM report, only the services sector indicates a significantly slower rate of change. The distortion of unit root and cointegration inherent in the model results in a 0.02 per cent, one-year lag adjustment of services sector development to long-run equilibrium. As a result, the services sector's development needs more time to recover from shocks to its determinants. Comparing these findings with previous reports and findings, the positive interaction of output volatility, exchange rate volatility and governance quality to sectoral development confirmed the high-risk index ranking of Nigeria's economy. Since 2015, Nigeria has been ranked 18th highest in terms of business and operational risk in a new Operational Risk Index Report released by BMI Research, a member of the Fitch Group. The ranking was based on a country-comparative evaluation of the labour, logistics, trade & investment and crime and security risk in Africa. In sub-Saharan Africa, the survey highlighted that Nigeria provides investors with one of the most challenging and hazardous working environments, with the main business risks coming from the deteriorating domestic security situation. However, it also pointed out that businesses profit from the nation's low labour costs and a sizable labour pool with a wide range of skill sets, making it a popular investment location on the continent.

This research's findings concur with Stiglitz's (2000) assertion that pro-cyclicality in capital flows is the primary driver of high production volatility. When a nation endures a recession or when foreign bankers or investors foresee economic deterioration, they withdraw their capital from the nation (the current Nigerian experience). The recession is thus exacerbated or perhaps started. A sudden shift in lenders' perceptions of "emerging market risk" can result in enormous capital outflows, undermining the viability of the entire financial system, according to Stiglitz's argument from 2000. "Capital market liberalization exposes countries to vicissitudes associated with changes in economic circumstances outside the country. Stiglitz (2000) contends that short-term, extremely volatile capital flows represent the risk associated with capital market deregulation. Because capital flows are pro-cyclical rather than counter-cyclical, it is implied that there are no gains from the global deployment of capital.

All the fitness tests conducted on the models following OLS properties show that there exhibit robust fits. The respective  $R^2$  are high enough to affirm the above claims. The models explained high variations in the dependent variables, such as the AGR model with 96%, IND(91%), CONS(68%), TRD(71%) and SER(80%).

## 6. RESEARCH IMPLICATIONS

Financial globalization (fgl) is found to insignificantly impact several real sectors' performances, except for the constructions (cons) and trade (trd) sectors. It proved that financial globalization has an insignificant association with the agriculture, industry and services sectors in Nigeria, while the constructions and trade sectors have a negative significant association with financial globalization. In the short-run, one base point increase in financial globalization decreases the construction sector by 1.65units and the trade sector by 1.8units respectively.

Furthermore, a percentage increase in trade openness is found to significantly increase the industrial sector by 8.1% and decreases the construction, trade and services sectors by 29%, 25% and 20% respectively. While exchange rate and output growth volatilities have short-run negative significant linear functions of real sector developments, such as agriculture, industry, constructions, trade and services sectors respectively. Specifically, the study found that a point increase in exchange rate volatility decreases agriculture, industry, construction, trade and services sectors by 0.008%, 0.0049%, 65%, 73% and 0.01% respectively. Also, a point increase in output growth volatility decreases agriculture (19%), industry (22%), construction (71%), trade (80%) and services (4.37E-23) sectors respectively. Lastly, the development in the services sector takes a longer period to adjust back from shocks in its determinants.

These results highlight the fact that a country with a high-risk profile, like Nigeria, is sure to face substantial volatility in its output and exchange rate, particularly during recessions, which may exacerbate the risk load in its real estate and banking sectors. In contrast, countries with lower financial risk attract fresh capital during recessions as a result of greater profit prospects and the effective use of capital. As a result, one of the policy implications of the findings is that Nigeria may use them as a guide while (re)evaluating her financial integration. The fact that financial globalization exposes Nigeria's financial sector and economic growth to more volatile nations is another strong indicator.

## 7. CONTRIBUTIONS TO SCIENTIFIC COMMUNITY AND FUTURE RESEARCH

The knowledge base on the relationship between financial globalization and sectoral output performance has grown as a result of this research. It especially contrasts industry performance in Nigeria under escalating financial globalization. The paper's outcome suggests that Nigeria's sectoral output performances are negatively impacted by exchange rate and output growth volatility. Thus, this outcomes will be informative to government and monetary authorities in focusing more on stabilizing the exchange rate to improve terms of international trade.

## 8. CONCLUSION

The study suggests that the government start by addressing the issue of high financial risk in the economy. Nigeria's sectoral output performances are negatively impacted by exchange rate and output growth volatility, so the government and monetary authorities should concentrate more on stabilizing the exchange rate because it enhances terms of trade, builds local capacity, and boosts sectoral and overall output growth. The paper also suggests that trade openness, terms of trade, and financial globalization be taken into account as a function of financial risk in macroeconomic models and regression analysis explaining production growth in Nigeria. From the aforementioned, it is clear that there is some ambiguity regarding how financial globalization affects a country's ability to conduct economic activity, particularly when it comes to developing countries. When the country's financial risk is minimized and the exchange rate becomes more stable, the study will paint a clearer picture.

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