GLOBALIZATION AND POVERTY: EVIDENCE FOR LOWER-MIDDLE INCOME COUNTRY

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Abstract

The study examined the impact of globalization on poverty rate with evidence from middle-income country. It focused on Nigeria for the period spanning 1981 to 2018. The study employed the ARDL estimation technique, and the results showed that globalization had negative and significant impact on poverty rate in Nigeria. Therefore, the conclusion was made that globalization had contributed significantly in reducing poverty rate in Nigeria. The study recommended the need for the government to maintain strong economic and political global ties with the rest of the world. This would encourage more foreign investors and business opportunities in the country which would aid reduction of poverty rate in Nigeria. More so, there is the need to ensure that the dividend of economic growth from globalization is properly shared among the poor, as this would reduce the number of the poor people below the poverty line.

Keywords: globalization, poverty, ARDL, Nigeria

JEL: F15, I32

1. Introduction

Over the past decades, different economies of the world have been connected due to the implementation of globalization reforms which have eliminated trade hurdles among countries of the world. This has unequivocally facilitated exchange of ideas, and human and non-human resources. This is because no country is self-dependent. Proponent of globalization argued that economic integration enhances economic growth, which helps in addressing economic, political and social issues such as unemployment, income inequality, rising poverty rate and lack of democracy or political instability among others. Aminat (2002) and Harrison and McMillan (2007) stressed that globalization has boosted incomes and helped improve living standards of the poor. In contrast, opponent of globalization noted that globalization brings uneven distribution of benefit and losses (Obadan, 2001). This unevenness has led to a dichotomy between the developed countries that gain and less developed countries that lose, thereby worsening unemployment and poverty rates. Thus, globalization is seen as a coin which can either enhance or retard economic growth and human welfare depending on the level at which a country embraces globalization. However, Gore (2002) emphasized that the co-existence of globalization with chronic poverty does not mean that the former is causing the latter; rather it implies that what is happening within the countries is related to what is happening elsewhere. Also, Klasen (2005) noted that globalization does not necessarily result in poverty increase.

Poverty reduction has always been the central focus of many international organizations such as the United Nations (UN), the United Nation Development Program (UNDP), the World Bank and the International Monetary Fund (IMF). Consequently, poverty issues have remained a recurrent discourse in the archives of these organizations, and a critical objective to be achieved in both the Millennium Development Goals (MDGs) and the Sustainable Development Goals (SDGs). The need to address the issue of rising poverty rate in developing countries has also been responsible for the implementation of globalization policy reforms in many developing countries. While some successes have been achieved, the goal of reducing poverty to a considerable level is still far from being achieved. For instance, in spite of the fact that the Nigerian economy has embraced and implemented globalization reforms, the relationship between globalization and poverty rate appears paradoxical. Figure 1 shows that the increase in trade globalization

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(proxy by trade openness) has been accompanied with rising poverty rate. Furthermore, in spite of the increase in trade openness, the World Poverty Clock complied by the Brookings Institute in 2017, reported that, Nigeria overtook India as the country with the highest number of people living in extreme poverty, with an estimated 87 million Nigerians. Furthermore, in April 2019, the international charity, Oxfam, reported that the number of people living in extreme poverty in Nigeria had risen to 94.4 million people (Obadiah, 2019).

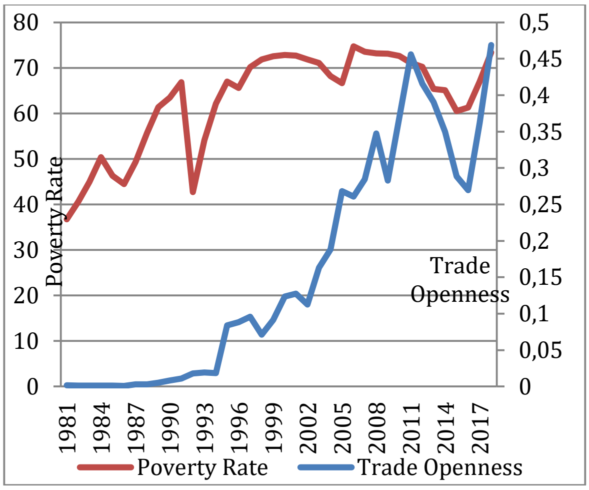

Figure 1. *Trade Openness vs Poverty Rate in Nigeria*
Source: www.cbn.gov.ng and www.nigerian stat.gov.ng

The paradoxical movement between economic globalization and poverty rate in Nigeria has therefore called for the need to examine this issue. Thus, the focus of this study is to examine the extent to which globalization influenced poverty rate in Nigeria over the period 1981 to 2018.

Examining this issue is important because the findings of this study will add to the existing body of the extant literature, and will provide a valuable guide to policymakers in making appropriate recommendations on poverty reduction. This study covers five sections. Section one is the introductory section while section two presents the review of the previous literature. Section three deals with the research methods and section four presents the results and discussions. Section five brings the conclusion and policy recommendations based on the analysis.

2. Literature review

2.1. Conceptual review

The term globalization is derived from the word "globalize" which refers to the emergence of an international network of social and economic systems. It has different meanings to different people. While the term is defined as a process of international integration of economies and societies, it can also be defined as the loss of an important portion of the economic sovereignty (Majekodunmi & Adejuwon, 2012). Umo (2007) defines globalization as the intermingling of culture, politics, policies, economies, and technologies of the world. According to Stiglitz, (2006), globalization is defined as the closer integration of countries and peoples of the world which has brought about substantial reduction of costs of transportation and communication and the breakdown of artificial barriers to the flows of goods, services, capital, knowledge, and people across borders. Yusuf (2003) refers to globalization as a process of creating global market place, in which increasingly all nations are forced to participate. Mittelman (2002) describes globalization as a syndrome of political and material processes, including historical transformations in time and space and the social relations among them. Fafowora (1998) refers to globalization as the process of intensifying economic, political, social and cultural relations across international boundaries. According to Todaro and Smith (2003), globalization involves the increase in economic openness to international trade, foreign capital inflows, and rapid growth of knowledge and innovation, which seems more visible in the developed countries.

With respect to poverty, McCulloch, Winters and Cicera (2001) describe poverty as the lack of income or consumption. According to the World Bank (2016), poverty is a condition in which a person is deprived of or lacks the essentials for the minimum standard of living. In the words of Lister (2004), poverty is a condition in which a community or a person lacks the essential needs to enjoy the minimum standard of living in the society. The UN defines poverty as the inability of getting choices and opportunities.

2.2 Theoretical review

Different theories have been put forward on the relationship between globalization and poverty. The World System Theory was propounded to explain the inequality existing between developed and developing countries of the world. The theory states that the capitalist economic expansion has categorized the global community as a system consisting of the core, the semi-periphery, the periphery, and the periphery of the periphery or external arena (Wallerstein, 1979). The core countries are those that took the lead in developing modern economic Enterprises while the semi-periphery is made up of those who were linked with them in dependent trading relationship notwithstanding their fairly stagnant economy (Giddens, 1996). The periphery countries, on the other hand, are those countries which were integrated in the capitalist economy as sole suppliers of raw materials to the core while the external arena or periphery of the periphery are those countries outside the commercial links established by the core. African countries constituted the bulk of the external arena until colonialism and subsequently multi-national corporations got them integrated as the periphery. The World System Theory clearly depicts the problem of poverty among third world countries as a consequence of globalization. Having been pre-maturely integrated into the world capitalist economy, the third world countries will continue to serve developed nations with cheap raw materials which are later returned to them as manufactured goods at a much higher rate (Giddens, 1996; Wallerstein, 1979).

The two Basic Channel Theories refer to causal mechanisms or channels analyzing the relationship between globalization and poverty reduction. The two basic channels are - the social provision channel and the national income channel. The social provision channel emphasized that the resources generated from globalization are utilized by such an opened society to provide social amenities or services to the poor in order to enhance welfare and living standards. On the other hand, the national income channel emphasized that globalization tends to translate an economy into higher income nation, and when these incomes are properly utilized, it helps to promote economic development (Okungbowa & Eburajolo, 2014).

2.3 Empirical review

With respect to the empirical literature, Stephane, Zimy and Zhou (2018) examined the effect of globalization on poverty and inequality in selected developing countries. Using multiple regression estimation techniques, the study observed that globalization contributed to reducing poverty and inequalities in developing countries. Florian, Clemens and Niklas (2018) examined the link between globalization and income inequality for a group of 140 countries over the period 1970–2014. Employing an instrumental variable approach, the study observed that the link between globalization and income inequality differs across different groups of countries. The study observed a positive relationship between globalization and inequality for transition countries including China and most countries of Middle and Eastern Europe. With respect to the advanced countries, neither Ordinary Least Squares (OLS) nor Two Stage Least Squares (TSLS) results showed any significant positive relationship between globalization and inequality.

Afolabi, Akinola, Adegbola and Harley (2017) investigated the impact of globalization on economic development in a developing country. The study covered the period 1982 to 2016 and utilized the vector auto-regression method. The study observed that human capital development and government policy are most robust predictors aiding the impact globalization on economic development. Siyan, Adewale and Ademola (2016) examined the implication of unemployment and inflation on poverty level in Nigeria from 1980-2014. Using the vector auto regressive (VAR) model, the study observed that the proportion of variations in poverty, inflation and unemployment rate are attributed to their respective lag values. The causality estimate showed bi-directional causality between inflation and poverty. Also, bi-directional causality was observed between unemployment rate and poverty while uni-directional causality was observed from unemployment to inflation rate.

Okungbowa and Eburajolo (2014) investigated the relationship between globalization and poverty rate in Nigeria. The study covered the period 1981 – 2009 and the error correction modeling techniques were utilized. The result of the study showed that globalization contributes to poverty reduction. Amith (2014) examined the relationship between economic globalization and poverty in Bangladesh for the period 1990 to 2010. Using the fixed-effect and random-effect models, the study observed that trade and foreign direct investment (FDI) had an insignificant impact on poverty. Bharadwaj (2014) analyzed the relationship between globalization and poverty for a group of 35 developing countries over the period 1990 to 2004. The results of the study showed that FDI and trade openness are related to poverty.

Akinlo and Aremo (2013) examined the effect of trade liberalization on poverty indicators in Nigeria over the period 1980 to 2009. Using the generalized method of moments estimation technique, the study observed that trade liberalization had an insignificant impact on poverty reduction in Nigeria. Saibu, Omoju and Nwosa (2012) examined the nexus between trade openness and the dynamics of unemployment and poverty incidence in Nigeria for the period spanning 1986 to 2010. The study utilized a vector error correction method (VECM) and the results of the study showed that FDI had a negative and significant impact on economic growth and unemployment rate while it had a positive effect on poverty rate in the long run. In contrast, trade openness had a significant positive impact on economic growth and unemployment rate while it had a significant negative impact on poverty rate. Also, the short run causality estimate showed uni-directional causality from trade openness to unemployment rate. Nilsson and Andreas (2011) examined the link among economy, social globalization and absolute poverty for a group of more than 100 countries over the period 1988 to 2007. The study used the fixed-effect estimation technique, and its results showed a negative relationship between globalization and poverty.

Gold (2009) explored the relationship between globalization and poverty in Bangladesh and Nigeria for the period 1985 to 2006. Using descriptive statistics, the study concluded that the pace of poverty alleviation required policies that further integrate developing countries into the global economy which enables the poor to take advantage of the new opportunities offered by globalization. Akinbobola and Isike (2009) analyzed the relationship among globalization, poverty and economic growth in South Africa. The vector autoregressive modeling technique was used and the results showed that variation in economic growth in South Africa was explained by factors beyond foreign capital inflow and economic openness in the short run. More so, the study observed that globalization had a positive impact on poverty reduction in the long run.

3. Methodology

3.1 Theoretical and empirical framework

This study is premised on the two Basic Channel Theories – the social provision channel and the national income channel as its theoretical framework. While the social provision channel noted that gains from globalization can be properly utilized in providing basic amenities to the poor thereby contributing to reducing poverty, the national income channel opted that integrating into the global world increase nation's wealth or brings about higher income. The increased income can be utilized in enhancing human welfare through the provision of basic amenities and employment opportunities. Thus, the two Basic Channel Theories assert that globalization contributes to poverty reduction through provision of social facilities and increase in national income. In addition, empirical studies by Gold (2009) and Okungbowa and Eburajolo (2014) note that globalization is a prime determinant of poverty reduction.

3.2 Model specification

Drawing from the theoretical framework, the link between globalization and poverty is specified by the model below.

$$POV = f(GLO) \tag{1}$$

Where *POV* is poverty rate and *GLO* is globalization. Introducing other variables identified in the literature as determinant or factor influencing poverty rate (see Stephane, et al., 2018; Okungbowa & Eburajolo, 2014; Bharadwaj, 2014) - real interest rate (IR), economic growth (EG) and exchange rate (ER), equation (1) becomes:

$$POV = f\,(GLO, IR, EG, ER) \quad (2)$$

expressing the above equation in linear estimation form:

$$POV_t = \beta_0 + \beta_1 GLO_t + \beta_2 IR_t + \beta_3 EG_t + \beta_4 ER_t + \varepsilon_t \quad (3)$$

where β_0 is the intercept, β_1, β_2, β_3 and β_4 are the coefficients of the explanatory variables and ε is the stochastic error term.

Theoretically, it is expected that β_1 and β_3 are greater than zero while β_2 and β_4 are less than zero. This implies that poverty is expected to have a positive relationship with globalization and economic growth while it is expected to have a negative relationship with interest rate and exchange rate.

Poverty rate is measured by the incidence of poverty and globalization is proxy by trade openness which is measured by the addition of import and export divided by the gross domestic product (GDP). Exchange rate is measured by the official Naira/Dollars exchange rate; economic growth is measured by the real GDP and the interest rate is measured by the monetary policy rate. Data on globalization (proxy by trade openness), exchange rate, interest rate, and real GDP are obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin, 2018 edition while data on poverty rate are obtained from the National Bureau of Statistics (NBS).

4. Results and discussion

4.1 Trend analysis of globalization and poverty rate in Nigeria 1981 to 2018

Globalization is a key to economic growth of any nation because no nation can exist in isolation. Therefore, nations across the world interact with each other to optimize the benefits of international trade.

In this study globalization is proxy by trade openness which is measured as the ratio of import plus export to real GDP. From the figure below, it is observed that trade openness was 0.0016 in 1981 but declined to 0.0013 in 1985 and rose again to 0.0081 in 1990. In 1995, the value of trade openness was 0.0838 and rose further to 0.1237 to 2000. The value of trade openness declined to 0.1125 in 1992 and rose to 0.2681 and 0.4561 in 2005 and 2011 respectively. In spite of the increase in trade openness, it witnessed a decline in 2012 to 0.4156 and further to 0.2696 in 2016. The negative trend was reversed in 2017 when trade openness experienced an increase to 0.362 before reaching 0.4688 in 2018.

A glance at the trend of trade openness showed an unsteady upward movement during the study period of 1981 to 2018.

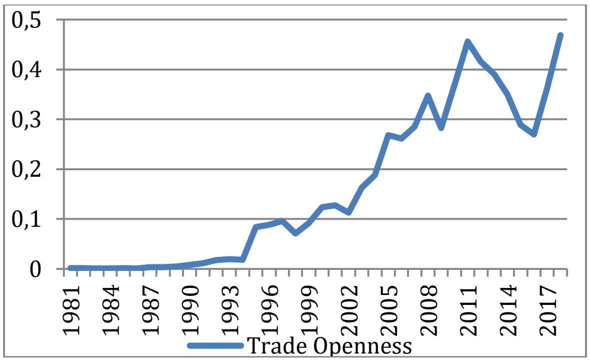

Figure 2. *Trade openness in Nigeria 1981 to 2018*
Source: www.cbn.gov.ng

In Nigeria, POV has been a re-occurring issue which has defiled all attempts of the government in addressing the problem. POV in Nigeria was 27.2 percent in 1980 and rose to 50.36 percent in 1984 but declined to 44.5 percent in 1986. Afterwards, it rose to 66.84 in 1991 but declined again to 42.7 percent in 1992. POV rose from 42.7 percent in 1992 to 67.02 in 1995 and further to 72.82 in 2000. POV declined to 66.66 percent in 2005 but rose again to 74.77 in 2006 before declining steadily to 72.6 percent in 2010 and further to 60.5 percent in 2015.

The declined trend was reversed in 2016 when POV rose to 61.3 percent and further to 67 percent and 73.4 percent in 2017 and 2018 respectively. An overview of POV depicted on

Figure 3 shows an unsteady increase over the period 1981 to 2018.

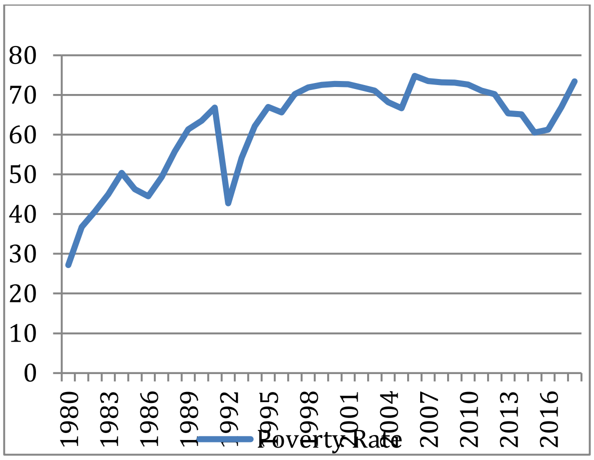

Figure 3: *Poverty rate in Nigeria 1981 to 2018*
Source: www.nigerianstat.gov.ng

4.2 Descriptive Statistics and Correlation Matrix

The descriptive statistics of the variables are presented in Table 1 below. It is observed that the mean values of POV, GLO and IR are 62.92, 164.98 and 12.97 respectively while the average values of EG and ER are 33725.22 and 88.66 respectively. The median values of POV, GLO and IR are 66.75, 9.665 and 13.25 respectively while the median values of EG and ER are 23068.85 and 97.399 respectively.

The skewness statistics show the POV is negatively skewed while GLO, IR, EG and ER are positively skewed. The kurtosis statistics show that GLO, and IR are leptokurtic, suggesting that the distribution of the variables are peak relative to normal distribution while POV and EG are platykurtic, suggesting that the distribution of the variables are flat relative to normal distribution. With respect to ER, the descriptive statistics show that the variable is mesokurtic which implies that the variable has normal distribution.

The Jarque-Bera test statistic rejects the null hypothesis of normal distribution for GLO and IR while the Jargue-Bera test statistic accepts the null hypothesis of normal distribution for POV, EG, and ER at five percent level of significance. The correlation matrix presented on Table 2 shows that POV has negative correlation with GLO while POV has positive correlation with IR, EG, and ER. Thus, the estimate from the correlation matrix suggests a negative relationship between POV and GLO which in line with theoretical expectation.

4.2 Unit root and co-integration tests

The unit root test is conducted using the Phillips-Perron test and the result is presented in Table 3. The result shows that POV, GLO, EG, and ER were integrated of order one, indicating that the variables are I(1) series while IR is integrated of order zero, indicating that the variable is I(0) series.

As a result of the mix-up in the unit root results, the Auto-Regressive Distributed Lag (ARDL) Bound Co-integration technique is employed. The result of the co-integration estimate shows that the F-statistics (6.325) is higher than the value of the upper bound value at five percent critical level (4.01), suggesting the presence of co-integration among the variables in estimated equation.

4.3 Regression estimate

The long run regression estimate on the impact of GLO on POV with IR, EG and ER as explanatory variables is presented in Table 5. The estimate shows that GLO, IR and EG have a negative and significant impact on POV in Nigeria, while ER had a positive and significant impact on POV in the long run. Statistically, a unit increase in GLO, IR and EG is expected to reduce poverty rate by 0.065, 3.04 and 43.870 units respectively. The short run estimate showed that current globalization (Δ(GLO)) had negative and significant impact on poverty rate in Nigeria while the first lagged value of globalization (Δ(GLO(-1))) had a positive significant impact on POV. Also, the short run estimate shows that current interest rate Δ(IR) had a negative and significant impact on POV while the first Δ(IR), second Δ(IR(-2)) and the third Δ(I(-3)) lagged values of IR had a positive and significant effect on POV. It was also observed that current exchange rate (Δ(ER) had a positive and significant impact on POV while the first lagged value of exchange rate Δ(ER(-1) had a negative impact on POV in Nigeria. However, it was observed that the second lagged value of exchange rate Δ(ER(-2)) had an insignificant influence on POV in Nigeria.

Table 1. *Descriptive statistics*

Statistics/Variables	POV	GLO	IR	EG	ER
Mean	62.92293	164.982	12.97211	33725.22	88.66243
Median	66.74714	9.664789	13.25	23068.85	97.3993
Skewness	-0.945848	1.758684	0.741827	0.734406	0.799107
Kurtosis	2.619092	4.50491	4.511099	1.996529	2.964198
Jarque-Bera	5.895708	23.17467	7.100696	5.010239	4.04632
Probability	0.052452	0.000009	0.028715	0.081666	0.132237
Observations	38	38	38	38	38

Source: Authors' computation

Table 2. *Correlation matrix*

Variables	POV	GLO	IR	EG	ER
POV	1.0000				
GLO	-0.8083	1.0000			
IR	0.1643	-0.3974	1.0000		
EG	0.4875	-0.5208	-0.1749	1.0000	
ER	0.5604	-0.5423	-0.0527	0.9199	1.0000

Source: Authors' computation

Table 3. *Unit root test*

Philips Perron (PP) Test			
Variables	Level	1st Difference	Status
POV	-2.5119	-6.4313*	I(1)
GLO	-1.1432	-4.8631*	I(1)
IR	-3.1967**	-	I(0)
LEG	-0.0278	-3.3951**	I(1)
ER	1.7283	-4.2168*	I(1)

Source: Authors' computation

Table 4. *ARDL bound co-integration test*

Estimated Model	F-Statistics	
Estimated Model	6.325	
Critical Values	Lower Bound	Upper Bound
1%	3.74	5.06
5%	2.86	4.01
10%	2.45	3.52

Source: Authors' computation

The error correction term (ECM(-1)) from the short run regression estimate is negative and significant. The coefficient of the error correction term of -2.041, shows that the model corrects its short-run disequilibrium by 204.1 percent speed of adjustment towards the long-run equilibrium. Also, the coefficient of multiple determinations (R^2) shows that 93.57 per cent of variations in POV is explained by the explanatory variables while the remaining 6.43 per cent of variations in POV is explained by factors outside of the model. The Durbin-Watson Statistics of 1.7 shows that the regression estimate is relatively free from the problem of serial correlation and that estimate is appropriate for policy reference. The result of the Durbin-Watson statistics is also supported by the serial correlation LM test estimate in Table 6, which shows that the serial correlation is insignificant because the probability value is greater than 0.05.

Table 5. *ARDL regression estimate*

Dependent variable	Regressors	Estimated Co-efficient	Standard Error	t-Statistics	Prob.
POV	GLO	-0.0651	0.0068	-9.5917	0.0000
	IR	-3.0354	0.4253	-7.1377	0.0000
	LEG	-43.8696	7.4932	-5.8546	0.0001
	ER	0.2335	0.0459	5.0850	0.0003
	C	547.7351	80.9257	6.7684	0.0000
	Short Run Regression Estimate				
	Δ(GLO)	-0.0465	0.0099	-4.6806	0.0005
	Δ(GLO(-1))	0.0307	0.0133	2.3088	0.0396
	Δ(IR)	-2.3547	0.8001	-2.9432	0.0123
	Δ(IR(-1))	1.2998	0.4561	2.8498	0.0146
	Δ(IR(-2))	1.1605	0.3262	3.5577	0.0039
	Δ(IR(-3))	1.1084	0.4962	2.2336	0.0453
	Δ(ER)	0.1206	0.0539	2.2375	0.0450
	Δ(ER(-1)	-0.1282	0.1129	-1.1354	0.02784
	Δ(ER(-2)	-0.2651	0.0974	-2.7210	0.0186
	ECM(-1)	-2.0405	0.4204	-4.8533	0.0004
R^2 = 0.8257 Adjusted R^2 = 0.8072		F-Stat. (Prob.) = 1826.8 ($p < 0.05$) Durbin-Watson Stat. = 1.8479			

Source: Authors' computation

Table 6. *Breusch-Godfrey Serial Correlation LM Test*

F-Statistics 0.8003	Prob. F(2, 21) 0.4760
Obs*R-squared 4.6913	Prob. Chi-Square(2) 0.0958

Source: Authors' computation

The regression from the ARDL method showed that GLO, IR, and EG had a negative and significant impact on poverty rate in Nigeria while ER had a positive and significant impact on POV in the long run. The negative impact of GLO on POV is in line with a priori expectations. More so, the significant relationship between GLO and POV can be attributable to the fact that economic openness provides opportunities (such as job employment) to the citizens of the host country, which provides income opportunities, thereby empowering the people to purchase more commodities that can reduce POV.

The negative and significant relationship between IR and POV is also in line with theoretical expectations. The decline in IR enables the poor in having greater access to credit from financial institutions, which empowers the poor in engaging in more productive activities. Such productive activities provide employment and income to the poor, which contributes in reducing POV in the country. The relationship between real GDP and POV is also in line with theoretical expectations. The increase in real GDP indicates increase in production, income and employment opportunities, which contributes significantly in reducing poverty in a country. The positive relationship between ER and POV shows that the depreciation of the naira contributes to reducing POV in Nigeria.

The depreciation of the naira (₦) makes export easier and import expensive. The increase in export provides opportunities for production, which is supposed to influence employment and income of the workers. This in turn is expected to reduce the poverty rate in the country. The finding of this study is in line with the studies by Stephane, *et al.* (2018), Okungbowa and Eburajolo (2014) and Ewere *et al.* (2014). However, the outcome of this study is in contrast with Florian *et al*. (2018) and Amith (2014).

5. Conclusion and policy recommendations

The study focused on the impact of globalization on poverty rate in Nigeria for the period spanning the period from 1981 to 2018. The study employed the ARDL estimation technique, and the results showed that globalization, interest rate and economic growth had a negative and significant impact on poverty rate in Nigeria. Also, the study observed that exchange rate had a positive and significant impact on poverty rate in the long run. In addition, the short run estimate showed that globalization, interest rate, and exchange rate had a significant impact on poverty rate in Nigeria**.** Therefore, the study concludes that globalization had significant influence on poverty rate in Nigeria. The study recommends the need for the government to maintain strong economic and political global ties with the rest of the world. This would encourage more foreign investors and business opportunities in the country, which would help reducing poverty rate in Nigeria. Also, there is the need to ensure that the dividend of economic growth resulting from globalization is properly share among the poor as this would reduce the number of the poor below the poverty line. Importantly, there is a need for the monetary authority to reduce the interest rate on commercial loan in order to encourage the poor to obtain loans and advances. These loans, if properly monitored, will empower the poor in producing goods and services. Finally, the exchange rate should be moderated to empower the poor and move them from the poverty trap.

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