GLOBALIZATION: EMERGING TREND IN NIGERIAN CAPITAL MARKET OPERATION

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Abstract

Purpose: This paper aimed at examining the impact of globalization on Nigeria's capital market operations. Included in the purpose are to examine the trend at which securities traded in the market has increased over the years with the advent of globalization. To investigate the impact of capital market growth in Nigeria and also to analyze the extent at which reform measures aimed at transforming the market in a global economy yielded result.

Methodology/Approach: An empirical survey based on historical data and primary data procured from Lagos Stock Exchange, the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission. Eighty (80) structured interview questionnaires were disseminated, of which forty

(40) were administered at the Nigeria Stock Exchange (Lagos), Twenty-five (25) at securities and Exchange Commission (SEC) while the remaining fifteen (15) at the CBN.

Findings: The capital market has been repositioned tentatively to achieve its objectives as an engine of growth and economic development. From its inception (1960) to the call-over action based period (globalization), sophistication in telecommunication network, electronic or Automated Trading System (ATS), On – line – Trading has contributed immensely to the global growth of the capital market world over. The electronic system which is the parental hydride of globalization. Has challenged and enhanced the operation of capital market in Nigeria, as transactions are carried out electronically and more efficiently, paving way for voluminous transactions per day.

Research Limitations/Implications:

- Financial constraint has automatically re-defined the researchers' need to expand the scope of coverage, limiting the investigation to Lagos metropolis.
- The establishment of "Cashless economy which is assumed to be the By-Product of globalization may create financial bottle – neck in a mono-cultural capitalist society, where technology is still at its infantry phase.
- Globalization, the parental hydride of cashless concept, may not be able to eliminate the influence of fraud managers in the key areas of the economy, including Nigerian capital market operation.

Originality/Value: Globalization is a welcome idea in totality, its merits outweighed its limitations. It has influenced all aspects of human endeavour. This paper will energise further thinking in the area other than advantages of globalization.

Keywords: Globalization, Advent, Mono-Cultural economy, On-line-trading, constraint, capitalist economy, fraud managers, cashless economy, sophisticated telecommunication – network.

Introduction: Globalization is used to refer to the universalization of concepts, movements, technology, market operations etc in the context of a compressed world. A process by which the world becomes a single place (Scholte 1996, Monge 1998). It is a process characterized by increase in communication velocity, technological sophistication, economic integration and ideological universalism.

According to Rapport (2001), "globalization is a fact of life" because all are affected by it terms of its benefits or limitations, positively or negatively.

Globalization is one of the tendons of our time eliciting fundamental changes in the policy structure, management and growth direction of organizations and nations world over. In its broader terms, globalization refers to the fact that frontiers have ceased to be the barriers to economic growth.

Globalization is driven by advancement in sophisticated telecommunication and technology, with the consequent reduction in distance between economic agents making it possible for domestic markets to emerge into a global system. In this context, globalization has created variety of financial and investment opportunities, which many developing countries has taking advantage of, to secure substantial foreign (bank) debts during the early 70's. The pace of integration of world economy has quickened considerably (early 80's) as a result of significant shift in the global economy. With the collapse of communism and the apparent emergence of a unipolar world, the global integration, particularly in trade and capital flow has gained momentum. The world ideological partition which earlier prevented integration between the major blocks, has given way to more accommodating environment and opening up societies that were hitherto closed.

A country like China is today far more open than during the Cold-War period and is interacting with the rest of the globe with greater intensity than pre- globalization period. Globalization in its modern form properly set root in Nigeria with British Colonialization and empire building.

Literature Review: Globalization is an integral part of human history. In its more generic and broader sense, it is the part of the movement of history. All through the history of man, we have noticed a force which seems to push for greater integration of human activities. Emphasis today is however, more focused on the economic aspect of the process. Globalization, therefore, is the process of increased integration of domestic economy with the rest of the world to create a coherent global economy.

Emerging trend in Nigerian capital market operation, for the purpose of its literature review is considered under the following sub-headings.

- Capital market, historical origin and development.

- Globalization and its emerging market operation.
- Central security clearing system.
- Automated – Trading transactions.

Capital Market Operation – Historical Origin and Development: The capital market operation refers to the arrangement of financial investment, the buying and selling of shares and the procurement of loans and debentures in the transactional environment. The financial investment could be short, medium or long term in nature and the investments are basically carried out in the form of shares/stocks/bonds or other forms of instrument such as debentures.

It is about the most important agent for developing and growing a vibrant economy. In whatever form it may take, capital market operation represents one of the most relatively risk-free investment orbits for wealth creation and wealth maximization. It is one of the investment environments with the least cost of entry in addition to having no entry barriers. This has been made most alluring with the emergence of globalization which has indeed loosened the entry barrier to markets that were hitherto closed to the telecommunication networks. Therefore, describing the effect of globalization on capital market operation in Nigeria, recourse to history is most pertinent.

Capital Market Development: Literature suggests that the practices of what has been gradually metamorphosed into the stock exchange as it is called today started in Eleventh (11^{th}) century in France. The "Coutiers de exchange at it was called was concerned with managing and regulating the debts of agricultural communities on behalf of the banks. As they trade in debts, they could be called the first brokers. It was the practice in this trade fair that traders gather at a place, in the house of Van de Burse, in Bruges, today called Belgium. In 1309, they institutionalized the meeting place and it became the "Bruges Burse", thereby the idea moved like a wild wind quickly to other neighboring European countries. The house of the Beuze family on Vlamingsreat Bruges in Bulgium was the sit of origin of World's first stock exchange. The pattern of development from trade in commodities to trade in securities was roughly the same in the most of the early stock exchange which sprang up in many European countries. For example, in 1602, the Dutch – East –Indian Company issued the first shares on the Amsterdam Stock Exchange. It was the first company to issue stocks and bonds.

In 1688, the trading of stocks began on a stock exchange in London. Exchanges also developed with time in other trading centres such as Copenhagen, Berlin, Zurich, Philadelphia and in New York. In New York, traders had been meeting regularly at 68, wall street to engage in commodity trade before a formal association of merchants took place in 1792, to form the nucleus of the New York Exchange. Beside the initial impetus provided by the prior existence of trade, two other important factors spurred the early development of the stock exchange. The first was the advent of banks and issuance companies, which arose to meet the growth demands of the expanding volume of trade and commerce.

The two financial institutions themselves needed capital with which to finance their operations and such finance was procured through the sale of securities assisted by the stock exchange. The second was the increasing demand of government which was in frequent need of funds with which to meet its expanded obligations. For instance, in the middle of the 13^{th} century, Venetian bankers began to trade in government securities. In 1351, the Venetian government outlawed spreading rumors intended to lower the prices of government bonds. There were also people in Pisa, Verona, Genoa and Florence now (Italy), who began trading in government securities in the 14^{th} (fourteenth century). This was possible because these were independent city states ruled by council of influential citizens, not by a duke. The emergence of the institution of the Stock Exchange as a spontaneous reaction of enterprising businessmen to the opportunities and challenges offered by the emerging free enterprise economies of the middle age and the industrial revolution, bequeath to the institution a character which remains typical of it today, that of a purely capitalist institution. It is pertinent to note that Stock Exchange did not operate in socialist economies, because the capital allocation function was performed by the central government authority

Capital Market Operation and Development in Nigeria: The advent of the securities market operation in Nigeria began in 1946 with the flotation of Three Hundred Thousand Pounds, which is about 3¼% Government Stock, was issued. With the establishment of the CBN (Central Bank of Nigeria) in 1959, more government securities were issued. The flotation of Two Million Pounds Federation of Nigeria Development Loan Stock was issued by the CBN in 1960. The stock was over subscribed but in the subsequent ones, there was under-subscription stocks, which the CBN took the unsubscribed portion of the stocks.

The first attempt at establishing securities market was when some notable Nigerians saw the need for stock exchange in Nigeria. The federal government then set up the Barbeck Committee in 1958 to examine the possibility of establishing a stock market in Nigeria. The committee at the conclusion of its meetings recommended the establishment of an organized secondary market as well as rules and regulations to guide its operations. The government accepted the committee's report which gave birth to the establishment of Lagos Stock Exchange on 5th September 1960. During this period institutions such as the Investment Company of Nigeria Limited (ICON), was incorporated to provide medium and long-term funds. The Nigerian Industrial Development Bank (NIDS), ICON, Securities Limited, Nigerian Stockbrokers Limited and C.T.B Limited (C.T. Borrowing Limited) came into existence as the forerunners of the stock broking firms in Nigeria. The Lagos Stock Exchange Act of 1961 gave a legal baking to the operations of the Stock Exchange to the extent that non-members were not allowed to deal in securities quoted on the Exchange. The Lagos Stock Exchange opened its "Shop" for trading on June 5th 1961, with six (6) securities quoted on it. The basic functions of the Exchange as per its incorporation was to provide trading facilities for dealing in securities listed. To oversee the activities of the securities market and to promote the inflow of long-term capital to industry and commerce and to ensure fairness of prices of quoted securities in the market.

Hypothesis

Globalization has significantly affected the Nigerian capital market operation.

Data presentation and analysis

Chi – Square statistical method in testing the hypothesis was adopted. The X^2 test is an important extension of hypothesis testing and is used when it is to compare the actual (observed) distribution with a hypothesis or expected distribution. In order to determine whether to accept or reject a course for decision, the hypothesis is tested adopting chi-square (X^2) ie:

$$X^2 = \frac{\Sigma(O - E)^2}{E}$$

O = the observed frequency

E = the expected frequency

Σ = summation

X^2 = Chi-square

Also: $\Sigma = \frac{CT \times RT}{GT}$

CT = column total

RT = Row total

GT = Grand total

And: V = (R – 1) (C – 1)

Where: V = Degree of freedom

R = Total number of rows.

C = Total number of columns

The hypothesis is tested by 95% confidence interval at 5% level of significance.

Chi-square is considered as a measure of discrepancy between observed (0) and expected (E) frequencies. If there is no discrepancy, then $X^2 = 0$. As the discrepancy becomes larger the X^2 becomes larger. The frequencies that are obtainable from the samples are called the observed frequencies and the frequencies expected on the basis of null (Ho) hypothesis are called the expected frequencies.

Decision rule

If the chi-square (X^2) determined is greater than the table value of hypothesis, the alternative is accepted, while the null (Ho) is rejected. But if the chi-square calculated is less than the table value of hypothesis, the alternative (H_1) hypothesis is rejected, while the H_O is accepted.

Test of hypothesis

To test hypothesis, the impact of globalization on the capital market, this question was ask:

- (H_1) has globalization significantly affected the Nigerian capital market operations?

Observed Frequency Table I

Gender	SA	A	SD	D	Total
Male	14	30	1	2	47
Female	15	8	1	3	26
Total	29	37	2	5	73

SA (strongly Agree), A (Agree)

SD (strongly Disagreed), D (Disagree)

To determine expected frequency:

$$\Sigma = \frac{CT \times RT}{GT}$$

Male Gender:

$$SA = \frac{29 \times 47}{73} = 18.7$$

$$A = \frac{37 \times 47}{73} = 23.8$$

$$SD = \frac{2 \times 47}{73} = 1.3$$

$$D = \frac{5 \times 47}{73} = 3.2$$

Female Gender:

$$SA = \frac{29 \times 26}{73} = 10.3$$

$$A = \frac{37 \times 26}{73} = 13.2$$

$$SD = \frac{2 \times 26}{73} = 0.7$$

$$D = \frac{5 \times 26}{73} = 1.8$$

X^2 Table 1.1

		Observed	Expected	(O-E)	$(O-E)^2$	$\frac{(O-E)^2}{E}$
Male	SA	14	18.7	-4.7	22.09	1.181
	A	30	23.8	6.2	38.44	1.615
	SD	1	1.3	-0.3	0.09	0.069
	D	2	3.2	-1.2	1.44	0.45
Female	SA	15	10.3	4.7	22.09	2.145
	A	7	13.2	-6.2	38.44	2.912
	SD	1	0.7	0.3	0.09	0.129
	D	3	1.8	1.2	1.44	0.8
		-	-	0	-	9.297

There are two (2) rows and four (4) columns, the degree of freedom (DF) will be: (R – 1)(C – 1) = (2 – 1) (4 – 1) = (1) (3) = 3 DF.

The X^2 value of 5% level of significant and 3DF is 7.81. H_O is rejected because globalization has a positive impact on the capital market operation.

- (H_1) is the Automated Trading System (ATS) a positive impact of globalization on the capital market operation in Nigeria?

Observed Frequency Table II

Gender	SA	A	SD	D	Total
Male	13	32	1	1	47
Female	14	9	2	1	26
Total	27	41	3	2	73

Expected frequency:

$\Sigma \quad = \quad \underline{CT \times RT}$

GT

Male Gender:

$$SA = \frac{27 \times 47}{73} = 17.4$$

$$A = \frac{41 \times 47}{73} = 26.4$$

$$SD = \frac{3 \times 47}{73} = 1.9$$

$$D = \frac{2 \times 47}{73} = 1.3$$

Female Gender:

$$SA = \frac{27 \times 26}{73} = 9.6$$

$$A = \frac{41 \times 26}{73} = 14.6$$

$$SD = \frac{3 \times 26}{73} = 1.1$$

$$D = \frac{2 \times 26}{73} = 0.7$$

X^2 (Chi-square) Table II

		Observed	Expected	(O-E)	$(O-E)^2$	$\frac{(O-E)^2}{E}$
Male	SA	13	17.4	-4.4	19.36	1.113
	A	32	26.4	5.6	31.36	1.188
	SD	1	1.9	-0.9	0.81	0.426
	D	1	1.3	-0.3	0.09	0.069
Female	SA	14	9.6	4.4	19.36	2.017
	A	9	14.6	-5.6	31.36	2.148
	SD	2	1.1	0.9	0.81	0.736
	D	1	0.7	0.3	0.09	0.129
		-	-	0	-	7.826

The degree of freedom (DF) at the two rows and four columns is:
(R – 1)(C – 1) = (2 – 1) (4 – 1) = (1) (3) = 3 DF.

Therefore, X^2 value of 5% level of significant and 3DF is 7.81. Based on computation above, H_1 (alternative) is accepted, which means globalization has impact (positive impact) on the capital market operation, supporting the First tested (H_1).

- (H_1) has the automated trading system revolutionalized the operations of the capital market in Nigeria?

Table III

Basis	Respondents	%
SA	27	33.75
A	41	51.25
SD	3	2.5
D	2	3.75
No Response	7	8.75
Total	80	100

The table shows that of the 80 questionnaires 68 or 85% of respondents agreed that the Automated Trading System (ATS) has revolutionalized the operations of the capital market, five (5) or 6.25% were of the view that the automated trading system has not revolutionalized capital market. This data was in support of the fact that globalization has influenced positively the stock market operations in Nigeria.

- (H_1) has the globalization of the capital market attracted direct foreign investment in Nigeria?

Table IV

Basis	Respondents	%
SA	23	28.75
A	43	53.75
SD	3	3.75
D	3	3.75
No Response	8	10.00
Total	80	100

The table shows that of the 80 questionnaires, 23 or 28.75% respondents are of the view that globalization has attracted direct foreign investment with the aid of internationalization of capital market operations. 43 or 53.75% agreed that globalization of the capital market has attracted foreign investment into Nigeria. 3 or 3.75% strongly disagree. Based on this data, a total of 82.5% believed that globalization of capital market has a corresponding positive output in capital market trend in Nigeria.

- (H_1) Is global financial crises any impact on capital market operation in Nigeria?

Table V

Basis	Respondents	%
SA	22	27.50

A	31	38.75
SD	8	10.00
D	11	13.75
No Response	8	10.00
Total	80	100

Of the 80 questionnaires disseminated, 71 were returned with useful information. 22 or 27.5% strongly agreed that the global financial crises has affected capital market adversely 31 or 38.75% agreed that the global financial melt down affected negatively in the financial trend of the market. 11 r 13.75% disagreed that the impact of global financial crises on capital market. The overall result shows that a total of 53 or 66.25% of the view that global financial trend in Nigerian Stock Market Operations.

Conclusion

The study examined the impact of globalization on the capital market operation in Nigeria, using the Lagos Stock Exchange as a case study. In the course of examination, it was discovered that there are much influence of globalization on the capital market operations in Nigeria. The data gathered reveals that the internationalization of capital market, coupled with the liberalization of economic system brought about changes in the capital market operations in Nigeria. The use sophisticated telecommunication and technological equipment such as the Automated Trading System (ATS), e- dividend payment, remote trading system, which enables stockbrokers to trade from their offices, on-line trading, that allow all branches of the stock exchange that have daily transactions to be linked to the central server, are all impacts of globalization on the capital market operations. This has helped to integrate all the branches of the stock exchange in Nigeria into the mainstream of trading platform. The progress made towards installing these devices has turnout to be oil in the wheel of growth and achievement of the capital market operations in Nigeria.

Another significant observation is that most respondents believe that Nigeria's over dependent (mono-culture economy) on oil, closely linked to the global which is market operations poses problems to the growth and development of the capital market operations in Nigeria.

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