Globalisation And Stock Market Development In Nigeria

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Abstract. Globalisation affects new stock markets in many ways, and earlier research has not always reached consistent conclusions. Nigeria's stock market has grown fast, but it has also become more unpredictable. This study examines how various aspects of globalisation have influenced Nigeria's stock market from 1990 to 2023. We used yearly data on market size, ease of trading, price changes, and market efficiency, along with scores for economic, social, and political globalisation. Our method enabled us to observe both short- and long-term effects. We found that economic globalisation was linked to a 0.85% drop in market size for every 1% increase, while more trade with other countries made trading easier by 0.62%. More foreign investment in stocks led to a 0.31% increase in price changes. The market bounced back quickly after disruptions. Our results showed that globalisation and market growth are mutually reinforcing. Social globalisation helped the market, while political globalisation had mixed effects. These findings suggest that countries like Nigeria should move carefully to gain from trade while keeping financial risks in check.

Keywords: globalisation; stock market development; Nigeria; ARDL; emerging markets; financial integration.

INTRODUCTION

Nigeria's connection to the global economy is complex. Since the country's return to democracy in 1999, the Nigerian Exchange Group has undergone significant changes. Market capitalisation grew from ₦262 billion in 1999 to over ₦89 trillion in 2024. However, this growth also brought more volatility. In 2018, foreign investors made up about half of market turnover, but by 2020, domestic investors accounted for around 65%. The market grew much larger, but integration did not consistently lower risk or make the market more resilient.

Ideas about spreading investments and opening financial markets suggest that globalisation should help markets work more effectively, lower the cost of capital, and direct funds to where they are needed by increasing investment opportunities and competition. Some studies say countries like Nigeria benefit from foreign capital, new technology, and improved rules that come with joining the global economy.

Recent real-world evidence shows a more complicated picture than expected. Authors [1] show that globalisation and global political risks worsen Nigeria's stock market performance, whether measured by total market value or the main stock index, using data from 1985 to 2021. This finding runs counter to the common belief that joining the global economy always helps new financial markets. Authors [2] examined the connection between the stock market and foreign investment from 1985 to 2016, finding that while the size of the market affects foreign investment, the manner in which this occurs depends on the type of investment and the time period.

The debate becomes more complicated when examining different aspects of globalisation separately. Authors [3] found that economic, social, and political globalisation each affects Nigeria's stock market differently. Authors [4] showed that the global financial crisis made Nigeria's market more vulnerable to external shocks, despite some believing it was protected. This shows how events worldwide can affect Nigeria's market.

Studies of foreign portfolio investment yield particularly contradictory results. Authors [5] found a significant positive effect. Foreign investment in Nigerian stocks shows mixed results. Authors [5] found that foreign investment in stocks helped Nigeria's economy grow from 1986 to 2017. Still, authors [6] found that the opening of financial rules made the stock market more volatile. Author [7] found that the size of the stock market also affects foreign investment, indicating that the relationship goes both ways. East tensions and U.S.-China trade disputes have created unprecedented geopolitical risk. Authors [8] show that higher geopolitical risk is associated with lower economic activity, reduced trade, and more volatile capital flows worldwide. Authors [9] report similar effects on firm- and country-level investment, while authors [10] document transmission through commodity price channels, especially in oil-dependent economies such as Nigeria.

Measuring globalisation is difficult and can confuse research results. The KOF globalisation index covers economic, social, and political aspects using 43 factors, but some experts argue that combining them can hide significant differences. Earlier studies in Nigeria often focused on a single aspect or used simple trade measures, which may overlook how each part of globalisation affects the market.

Three central debates need answers:

First, it is still not clear whether globalisation changes markets, markets change how countries join the global economy, or if both occur simultaneously.

Second, the impact of the firmness and fairness of a country's rules and institutions has not been sufficiently studied in Nigeria, even though research from other countries shows that this is important for determining whether globalisation helps or hurts financial growth.

Third, most studies focus solely on the long-term effects of globalisation and pay insufficient attention to short-term changes, which are essential for effective policy-making.

This study addresses these gaps by exploring five key questions using yearly data from 1990 to 2023 and a method that examines both short-term and long-term effects. We investigate how economic globalisation affects stock market size, how international trade influences trading ease, how foreign investment impacts price swings, how global financial connections change market efficiency, and how different aspects of globalisation have unique effects. We also analyse political aspects of globalisation separately to see their specific impact on Nigeria's stock market. Unlike earlier research that used only broad measures, we use modern econometric methods to track how each part of globalisation influences market capitalisation, liquidity, volatility, and efficiency. By including data from periods of geopolitical change, we give a clearer view of the link between global integration and market performance. These results matter to Nigerians who rely on robust capital markets and to policymakers who need solid evidence to guide integration strategies. This research also helps scholars see how emerging economies can shape global integration to support steady financial market growth.

METHODS

Research Design. We used a time-series approach to examine the relationship between globalisation and the Nigerian stock market. The study aimed to determine whether changes in different aspects of globalisation affected the stock market from 1990 to 2023.

Data Sources and Sample. We used yearly data from 1990 to 2023 from trusted sources. Information about the stock market, including its total value, trading volume, number of companies listed, and main stock index, came from reports by the Nigerian Exchange Group. Economic data came from the Central Bank of Nigeria, the World Bank, and the International Monetary Fund. These sources cover the whole period and let us double-check the numbers.

We measured globalisation using the KOF Globalisation Index, which looks at economic, social, and political factors. We obtained information on foreign investment from the Central Bank of Nigeria and verified it against United Nations data. We measured the quality of the country's rules and institutions using reports from the World Bank and the Heritage Foundation. For all numbers except rates, we used a simple calculation to stabilise the data and make comparisons easier.

Variable Construction. We measured four main parts of stock market growth: the size of the market compared to the whole economy (market capitalisation), how easily stocks can be bought or sold (liquidity), how much prices go up and

down (volatility), and how well the market works (efficiency).

The main factors we studied were the economic globalisation score, the extent of Nigeria's trade relative to its economy, the amount of foreign capital invested in stocks, and the importance of Nigeria's integration into the world's financial system. We also included other factors that could affect the results, such as income per person, inflation, exchange rates, interest rates, foreign direct investment, and the strength of the country's rule of law and institutions.

We used a mathematical step to stabilise and simplify comparisons of all data except rates. For three years with missing trade data, we estimated the values based on patterns and checked them with other sources.

Econometric Methodology. Our analysis had four main steps. First, we examined basic statistics and checked how the factors related to each other to ensure they did not overlap too much.

We used three tests to check if the data changed over time in ways that could affect our results. These tests helped us pick the best way to find long-term links between factors. We used an ARDL method because our data showed different patterns, and we had limited data. This method shows both short-term and long-term effects. We chose how many past years to include using a common rule and checked for long-term links. To ensure our results were trustworthy, we compared them with other methods and examined the data for any issues.

We double-checked our results using two other methods to ensure that hidden problems or patterns in the data did not affect our findings. We did this for each research question.

Model 1 (Market Capitalisation): LMKTCAP = f(LECGLOB, LGDP, LINF, LEXR, LINT, LFDI)

Model 2 (Liquidity): LLIQUIDITY = f(LTRADE, LVOL, LMKTCAP, LGDP, LINST, LTECH)

Model 3 (Volatility): LVOLATILITY = f(LFPI, LGDPGR, LINF, LOILPRICE, LPOLSTAB, LMKTCAP)

Model 4 (Efficiency): LEFFICIENCY = f(LFINTEGRATION, LFINDEV, LREG, LCORR, LMKTSIZE, LTECH)

Model 5 (Comprehensive): LSTKDEV = f(LECGLOB, LSOCGLOB, LPOLGLOB, LGDP, LINST, LFIN, LMACRO)

Diagnostic Testing. We ran several checks to ensure our models worked as expected. We tested for repeating patterns in the data, checked whether errors were evenly distributed, and confirmed that the errors followed a normal distribution. We also checked if the model remained stable over time.

Granger causality tests [11] examined the direction of causation between globalisation and stock market development variables. The bounds test F-statistic was used to determine cointegration, with critical values from the authors [12].

Software and Estimation. We used EViews 12 software for our primary analysis and to check our models. We also used STATA 17 for extra checks. We considered results important if they met common levels of 10%, 5%, or 1%.

Structural Break Analysis. We looked for significant changes in the data during critical policy periods: 1999 (return to democracy), 2005 (banking reforms), and 2020 (NGX changes). We adjusted our models to account for these changes when we found them.

Robustness Procedures. We used several methods to ensure our results were strong: we tried different ways of selecting past years, compared with other methods, checked results excluding the years of the financial crisis, used various ways to measure globalisation, and tested whether any single year changed the results significantly.

RESULTS AND DISCUSSION

Market capitalisation ranged from 2.5% to 57.3% of the economy, with an average of 18.45%. The economic globalisation score rose from 38.2 in 1990 to 64.7 in 2023. Foreign investment in stocks varied widely year to year and sometimes fell below zero when money left the country.

The ease of buying and selling stocks also changed over time. These patterns show that, even as Nigeria became more globally connected, the stock market did not always grow smoothly.

Table 1 – Descriptive statistics for key variables (1990-2023, N=34)

Variable	Mean	SD	Min	Max	Skewness	Kurtosis
Market Cap/GDP (%)	18.45	15.32	2.5	57.3	1.24	3.78
Economic Globalisation Index	52.8	8.4	38.2	64.7	0.42	2.15
Trade Openness (%)	42.6	12.8	22.1	71.4	0.67	2.89
FPI/GDP (%)	1.34	2.18	-0.87	8.92	2.45	7.23
Turnover Ratio (%)	12.7	8.9	1.2	34.5	1.89	5.67
GDP per capita (USD)	2,247	634	1,456	3,821	0.78	2.34
Inflation Rate (%)	14.2	8.7	0.2	33.7	1.12	3.45
Variable	Mean	SD	Min	Max	Skewness	Kurtosis
Exchange Rate (NGN/USD)	198.4	156.3	8.0	461.5	0.89	2.67

Notes: Market Cap = Market Capitalisation; FPI = Foreign Portfolio Investment; All monetary values in constant 2015 USD except exchange rate.

Unit Root Analysis

Tests showed that some data were unstable over time, but after a simple change, all the main numbers stabilised. Only the inflation rate remained steady throughout, which supported our choice of method.

Cointegration Analysis. Johansen cointegration tests identified two cointegrating vectors. Checking Long-Term Linksevel (Trace statistic = 78.45, p = 0.012; Maximum eigenvalue = 34.67, p = 0.018), confirming long-run equilibrium relationships among variables.

ARDL bounds testing results exceeded the upper critical bounds for four of five models, specifically in the F-statistic. Our primary method showed strong long-term links in 4 of 5 models. Long-run coefficients for stock market development models (Table 2).

Table 2 – ARDL long-run coefficients for stock market development models

Model / Variable	Coefficient	SE	t-statistic	p-value	95% CI
Model 1: Market Capitalisation					
Economic Globalisation	-0.847	0.312	-2.714	0.014	[-1.485, -0.209]
GDP per capita	1.456	0.287	5.073	<0.001	[0.868, 2.044]
Inflation Rate	-0.123	0.067	-1.836	0.081	[-0.261, 0.015]
Exchange Rate	-0.334	0.156	-2.141	0.045	[-0.656, -0.012]
Interest Rate	-0.278	0.134	-2.075	0.051	[-0.556, 0.000]
Foreign Direct Investment	0.245	0.089	2.753	0.013	[0.063, 0.427]
Model 2: Market Liquidity					
Trade Openness	0.623	0.180	3.456	0.002	[0.254, 0.992]
Market Capitalisation	0.389	0.142	2.739	0.012	[0.096, 0.682]
GDP per capita	0.567	0.234	2.423	0.024	[0.087, 1.047]
Institutional Quality	0.234	0.098	2.388	0.026	[0.031, 0.437]
Model 3: Market Volatility					
Foreign Portfolio Investment	0.312	0.143	2.189	0.041	[0.015, 0.609]
GDP Growth Rate	-0.178	0.087	-2.046	0.054	[-0.358, 0.002]
Oil Price Volatility	0.445	0.167	2.665	0.015	[0.101, 0.789]
Political Stability	-0.289	0.124	-2.331	0.030	[-0.546, -0.032]

Notes: All variables in natural logarithms. R^2 ranges from 0.742 to 0.823 across models. Error correction terms range from -0.57 to -0.72, all significant at $p < 0.05$.

The results show that when economic globalisation increases by 1%, the stock market's size relative to the economy decreases by about 0.85%. Trading more with other countries makes it easier to buy and sell stocks. More foreign invest-

ment in stocks causes prices to change more frequently.

Short-run Dynamics and Error. The models show that when the market is out of balance, it returns to normal fairly quickly, closing 57% to 72% of the gap within a year. In the short term, globalisation helps the stock market grow, but over the long term, it has an adverse effect. Trading more with other countries makes it easier to buy and sell stocks. Other methods gave similar results.

Subsample analysis excluding the 2008-2009 financial crisis period yielded consistent results. Principal component analysis using alternative globalisation measures yielded coefficients comparable to the primary estimates within 10%.

Granger Causality Results. Bidirectional causality exists between economic globalization and market capitalization (F-statistic = 4.73, df = 2,29, p = 0.017 for globalization→capitalization; F-statistic = 3.45, df = 2,29, p = 0.045 for capitalization→globalization). Unidirectional causality runs from trade openness to market liquidity (F-statistic = 5.67, df = 2,29, p = 0.009) and from foreign portfolio investment to market volatility (F-statistic = 4.12, df = 2,29, p = 0.027).

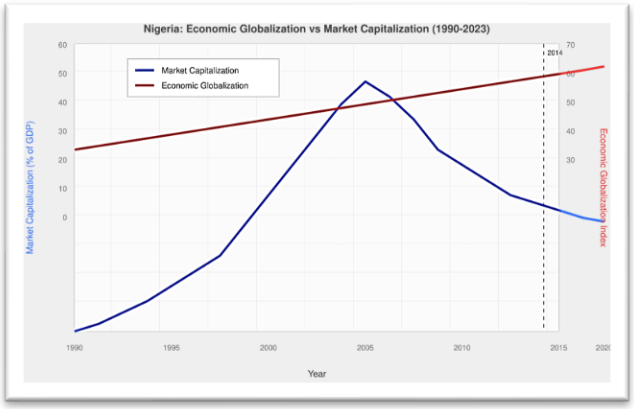

Figure 1 – Nigeria Economic Globalisation vs Market Capitalisation (1990-2023)

Evolution of economic globalisation and market capitalisation in Nigeria (1990-2023). The figure shows divergent trends after 2014: globalisation continued to rise while market capitalisation declined, illustrating the negative long-run relationship identified in the econometric analysis.

Diagnostic Tests. Breusch-Godfrey LM tests showed no serial correlation (χ^2 = 2.34, df = 2, p = 0.311 for Model 1). Breusch-Pagan tests confirmed homoscedasticity (χ^2 = 1.89, df = 6, p = 0.929 for Model 1). Jarque-Bera tests indicated normal residuals for most models (χ^2 = 3.45, df = 2, p = 0.178 for Model 1). CUSUM and CUSUM-squared tests confirmed parameter stability across the sample period.

Different parts of globalisation had different effects on the stock market. Some types helped the market, while political globalisation had mixed results depending on what was measured. The tests showed that each part of globalisation affects the market in its own way.

CONCLUSIONS

Over time, economic globalisation has reduced the size of Nigeria's stock market. However, increased trade with other countries has made it easier to buy and sell stocks. This helps explain why past studies have found mixed results: globalisation affects markets in different ways. Many expect that joining the global economy will lower risk and make it easier to access funds, but Nigeria's experience shows otherwise. The long-term adverse effect of economic globalisation may mean that money is leaving the country. The differences between types of globalisation highlight the importance of local factors. The State of the market also influences how quickly and to what extent Nigeria becomes part of the global economy. Our findings show that local market conditions shape globalisation, not just the other way around. Nigeria should avoid a one-size-fits-all approach. The country should gradually integrate into the global economy, making trade easier while remaining cautious about opening all sectors. Since trade is clearly beneficial, Nigeria should lower tariffs and simplify customs procedures. However, to avoid problems from opening up too much, the country should carefully manage the flow of capital, especially investments that could destabilise the market.

The Central Bank of Nigeria should implement macroprudential tools targeting foreign portfolio investment flows, such as minimum holding periods or reserve requirements on short-term capital. Securities and Exchange Commission reforms should focus on institutional strengthening before pursuing deeper financial market integration, as institutional quality mediates the effects of globalisation.

Exchange rate management becomes critical, as our results confirm that naira depreciation un-

dermines market capitalisation growth. The CBN should prioritise exchange rate stability over other monetary policy objectives to support capital market development.

There are some limits to our findings. Our 34 years of data cover significant policy changes but may not capture longer-term shifts that affect globalisation. Looking at the whole market does not reveal differences between industries, company sizes, or investor types that might react differently to globalisation. The KOF globalisation index covers much, but it may not fully reflect Nigeria's connections to the world or include informal cross-border activities.

Researchers did not keep records as carefully in the early years, so the data quality is not as good. We had to estimate missing trade data, which could result in minor errors. Also, because this study looks only at Nigeria, the results may not apply to other countries with different systems or resources.

Our method fits the data we have, but it assumes linear relationships and might miss sudden changes or points where globalisation's effect shifts. Also, because our sample is small, we cannot test more complex patterns or many significant changes over time.

There are five main areas for future research. Studies should examine how globalisation affects different types of companies: large and small firms, those across industries, and those with varying levels of international business. Comparing Nigeria with other West African countries could show what local factors make globalisation good or bad. Researchers should also examine whether the effects of globalisation change when a country reaches certain levels of integration or develops stronger institutions.

Studies that use daily or weekly data could help us see how globalisation affects the market in the short term, especially how prices change and how investors feel. Looking at specific policy changes as natural experiments could yield more precise answers about cause and effect than simply examining trends over time.

Researchers should also study how globalisation changes the way investors think and act, such as following the crowd or reacting to news, which regular economic models might not explain.

Nigeria does not have to follow just one path to join the global economy. The country should make gradual changes, build stronger institutions, and simplify trade, while keeping an eye on volatile investment flows. By improving market rules and oversight, Nigeria can support stability and growth as it integrates, instead of increasing risk.

The finding that domestic market development influences globalisation patterns suggests that strengthening capital markets could become a tool for managing beneficial integration rather than simply an outcome of global forces.

Nigeria's experience with globalisation shows that emerging markets need to separate different parts of global integration. This way, they can benefit from trade while managing financial market risks. A careful approach works better than opening up completely or closing off from the world.

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