

# GLOBALIZATION: THE OPPORTUNITIES AND THREATS TO BANKING REFORMS IN NIGERIA

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## Abstract

*Globalization concept is one of the areas that has attracted researchers' attention in recent time. This probably may be due to the common knowledge that the world is a global village where every nation is a part of. Many authors advocate strong correlation between globalization and economic growth of nations. On this note, it became imperative for this paper to be designed to highlight possible ways in which globalization could constitute opportunities and/or threats to the Nigerian banking reform endeavor, aimed at strengthening the banks, making them dependable and reliable in order to enable them contribute to economic development and growth of the country. This paper therefore opines that government should monitor the operations of banks to ensure strict compliance with appropriate legal framework; there should be investment in manpower training and management development, to acquire the skills of modern banking systems; banks should be aided to procure and use relevant technology, that will make operations more efficient. The world economic/banking environment should constantly be monitored, to determine its behaviour, so as to take appropriate decisions and strategies for general development.*

**Keywords:** Globalization; opportunities; Threats; Banking; Reforms; Nigeria.

## Introduction

The trend in world economy depicts a substantial shift from domestic orientation to international orientation. Perhaps, this pattern of shift warrants the comments of Hill (2005) that "we are moving away from a world in which national economies were relatively self-contained entities, isolated from each other by barriers to cross-border trade and investment; by distance, time zones and language, and by national differences in government regulations, culture and business systems". The perspective of today's business is more internationalized especially, as the world business environment is characterized by a reducing cross-border trade and investment barriers; conducive political atmosphere of many nations; significant cultural similarities among nations; ebbing distance problem as a result of improvement in transportation and communication technology, increasing interdependence of domestic economies for a nation's growth and development. The pace at which the aforementioned developments occur leads to globalization.

The pace of globalization in turn generates myriads of national and international business implications which may be positive or negative in nature to investors or countries. It is on this note that this paper seeks to diagnose possible implications of globalization in Nigerian Banking sector reforms

### **Theoretical Foundation**

Isolation has become a thing of the past for managers in highly developed economies. This must be so for organizations to survive worldwide competition in a global marketplace. Based on this perception, Bateman and Snell (1999) affirm that U.S companies are no longer the universal stars of the business world. Embracing of Cross border businesses and investments, with attendant benefits, have led to multinational corporations setting up sales outlets and production plants in various parts of the world. This development perhaps is facilitated by the process of globalization.

### **What is Globalization?**

According to Forgha (2010), globalization is the increasing interaction of the integrated national economic systems through growth in international trade, technical changes, financial integration, international labour flow, investment and capital formation. Globalization describes the process by which regional economies, societies and cultures have become integrated through a global network of political ideas through communication, transportation and trade (Onwuka and Eguavoen, 2007). Globalization is most closely associated with the term "economic globalization, which Bhagwati (2004) describes as the integration of national economies into international economy through trade, foreign direct investment, capital flows, migration, the spread of technology and military presence. However, globalization is usually recognized as being driven by a combination of economic, technological, socio-cultural, political and biological factors (Croucher, 2004).

### **Major features of globalization**

According to Onwuka and Eguavoen (2007), globalization is characterized by the intensification of mobility of capital, resulting from advances in communications technology and liberalization of financial markets, as the world economy witnesses the unleashing of market forces. Deregulation of domestic markets, their opening to competitions, privatization and the retreat of the state from economic management are also features of global order.

### **Facets of Globalization**

Globalization has several different facets including the globalization of markets and the globalization of

production.

### **The Globalization of Markets**

The globalization of markets refers to the merging of historically distinct and separate national markets into one huge global marketplace (Hill, 2002). This is made easier through the falling barriers to cross-border trade; hence facilitating selling internationally. It has been argued for some time that the tastes and preferences of consumers in different nations are beginning to converge on some global norm, thereby helping to create a global market (Leritt, 1983).

Not only multinational giants facilitate, and benefit from the globalization of markets, but small companies also do.

The most global markets are not markets for consumer products – where national differences in tastes and preferences are still often important enough to act as a brake on globalization – but markets for industrial goods and materials that serve a universal need the world over (Hill, 2007).

### **The Globalization of Production**

The globalization of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (such as labour, energy, land and capital). By doing this, companies hope to lower their overall cost structure and/or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively (Hill, 2007).

The global dispersal of productive activities is not limited to giants but smaller firms are also getting into the act.

### **Reforms in the Nigerian Banking Sector**

In order to be able to determine possible effect of globalization on the workability of the banking sector reforms in Nigeria, it becomes imperative, to at this juncture explain government's reform endeavor in the banking sector.

### **The Rational Behind the Banking Sector Reforms**

The reform which was introduced in Nigeria in 2004 was broadly aimed at creating a dependable and efficient banking sector capable of assuring the safety of depositor's money.

Prior to this reform, most of the banks had weak capital base, less than 10 million dollars.

Government depended mostly on foreign banks than Nigerian banks due to their weakness.

Nigerian banks did not show effective corporate governance and usually insolvent.

Our banks mostly depended upon public sector deposits and this negatively affected their capital base.

Public sector deposits were not evenly distributed among Nigerian banks.

### **The Reform Process**

To enable the banks to meet up the minimum capital base requirement (twenty five billion naira) within 2005, the Central Bank of Nigeria (CBN) provided certain specific incentives to include:

- i. CBN allowed the banks to deal through foreign exchange.
- ii. The banks were permitted to take deposits from the public sector and the fiscal authorities were made responsible for the collection of revenue from the public sector.
- iii. Some tax incentives were provided for the banks in the area of stamps duty and capital allowance.
- iv. Transportation costs had been minimized.
- v. Technical supports were made available to banks through an expert panel formed by government.

Other steps to reform include the following:

- Government of the federation commenced merging the banking institutions and introduced a regulatory framework based on some rules.
- The government established a web portal for all the citizens so that they could share any confidential information with CBN regarding the banking system.
- Introduction of automated process to the bank returns.
- The federal government revised and updated the banking laws in a bid to creating a disciplined and effective banking system.

### **Objectives of Banking Sector Reforms**

The objectives of banking sector reforms, known to be the same in many respects with those tenable in most sub-sahara African countries, according to CBN (2004), cited in Balogun (2007), include the

following:

- Less intervention in the market with the view to promote a more efficient resource allocation.
- Expanding the savings mobilization base in support of investment and growth through market based interest rates.
- Improving the regulatory framework and procedures so as to forestall distress.
- Fostering competition in the provision of banking services.
- Laying the basis for minimal inflationary growth or conducive enabling environment.

### **Globalization and the Nigerian Banking Reforms**

In the context of this paper, globalization is considered as a significant variable within the universal competitive environment, constituting opportunities and/or threats to the success of Banking Reforms in Nigeria.

#### **Opportunities:**

Globalization through minimal cross-border investment restrictions can foster the success of Nigerian banking reforms, in making Nigerian banks globally competitive, opening the virtues of indigenous banks to the rest of the world for patronage.

Nigerian banks can now attract foreign earnings to the country due to international operations as a result of image and confidence generated through reforms in the sector.

The sincere adoption of reforms in line with International Monetary Funds (IMF) prescriptions can attract international support for the successful implementation of the reform policies and strategies. Globalization can attract foreign partners to the Nigerian banking system hence, boosting capacity building and strengthening capital base of the sector, leading to the success of the reform process.

Globalization can help put untapped sectors of the Nigerian economy in a global picture. Such sectors include agriculture, energy, mining, which may attract foreign investors, generate earnings, and diversify the economy. These developments can substantially impact on investors' deposits and foster profitable bank transactions, thereby reducing bank dependence on public sector funds and foreign exchange trading.

Through stabilization, the Nigerian banking institutions could be exposed to modern banking systems in terms of skills, technology and operations. The adoption of these systems enhances the competitive position of Nigerian banks beyond the national borders, a condition capable of boosting the sector profitability and economic development as desired through the reforms.

#### **Threats:**

The major threat to the success of banking reforms in Nigeria lies in the wider marketplace competition where the key players (banks) now find themselves.

Modern banking operations depend greatly on the application of modern technology to ensure fast and efficient transactions, for customer satisfaction. Such technology which most indigenous banks lack include Electronic Funds Transfer (EFT) system, Electronic Check Conversion (ECC), debit card etc. This deficiency may keep Nigerian banks at a competitive disadvantage position in the global environment, hence reducing foreign patronage and bank profitability.

The consolidation approach of the reforms through mergers and acquisitions strategies, to raise the minimum capital base to twenty five billion naira, to make the banks solvent and reliable within national and international context might pose unbearable difficulties to many banks. This condition may lead to loss of assets by operators, loss of deposits by customers, unemployment, and low economic development, hence the futility of the federal government effort through the reforms.

#### **Conclusion/recommendations**

Globalization, the process of integrating nations to obtain a universally free entity is as laudable as restructuring nation's orientations and institutions to cope with and benefit from the emerging global environment. Part of the effort of the federal government of Nigeria in transforming the economic fortunes of the nation, in order to enhance economic development and growth had been in the area of bank reforms. It is important to note that operational success of this sector reforms can be influenced by the two dimensional waves of globalization herein referred to as "opportunities and threats".

For banks to optimally exploit opportunities open to them through globalization, and in order for

government to achieve its reforms objectives, bank operations at national and international levels must be closely monitored to ensure adherence with legal framework of the country.

Government should assist in the area of providing infrastructure, to attract foreign investors and boost investment in Nigerian banks; to enhance higher profitability and economic growth.

Government incentives to banks should include making available modern banking technology to facilitate efficient operations and enhance competitive position of Nigerian banks. There should be reasonable investment in capacity building in order to obtain the skills needed for modern banking system.

The federal government of Nigeria through the central Bank of Nigeria should constantly monitor the global waves with regards to the global financial/banking operations as well the world economic behaviour in order to take decision for appropriate adjustment. With this, the government can promptly identify opportunities and threats and develop effective strategies to deal with them.

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