

GLOBALIZATION AND EXCHANGE RATES IN AFRICA: ISSUES AND CHALLENGES

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ABSTRACT

This paper seeks to find out how globalization and exchange rates have been affecting the development of African countries. The study focuses on direct and indirect relationships between the exchange rate and other macroeconomic indicators. As for Globalization, is the process of intensification of economic, political social and cultural relations across international boundaries aimed at the transcendental homogenization of political and socio-economic theory across the globe. This paper aims to examine both the negative and the positive impacts of globalization on African states and make some recommendations among which are to improve democratization process, make the task of poverty eradication more indigenous. The paper contributed in supplementing the existing (scarce) literature on dollarization/eurorization effects on international trade balance, particularly during crisis periods. The paper adopted historical and analytical approach based on existing literature. Hence, secondary source of data was adopted. The paper revealed that during the global economic crisis ,the real exchange rate impact on the current account was reduced, which consequently limited the applicability of devaluation as an appropriate instrument for the reduction of external imbalances.

Keywords: Globalization, Exchange rate, Development, Africa.

INTRODUCTION

In Africa today, exchange rates and globalization are of constant movement which is of great importance to the entire inhabitants of the continent because one way or the other, its fluctuation has an effect on the competence of the economy to attain optimal productive capacity due to a natural outcome of floating exchange rates, which may affect commerce, economic growth, capital flows, inflation, interest rates, and beyond (Troy, Robert & Michael 2024).

Globalization according to Akindele (1990) refers to the process of the intensification of economic, political, social and cultural relations across international boundaries which is principally aimed at the transcendental homogenization of political and socio-economic theory across the globe. It is equally aimed at “making global being present worldwide at the world stage or global arena” (Fafunwa, 1998)). In other words, globalization can be seen as an evolution which is systematically restructuring interactive phases among nations by breaking down barriers in the areas of culture, commerce, communication and several other fields of endeavor.(Oluabunwa,1999).

Exchange rate is the price of one country's currency expressed in terms of some other currency. It determines the relative prices of domestic and foreign goods as well as the strength of external sector participation in the international trade (Adeniran, 2014). According to Jhingan (2009), he sees foreign exchange rate or exchange rate as the rate at which one currency is exchanged for another. Exchange rate is among one of the macroeconomics indicator that has effect on the range of other macroeconomics aggregates, the most important being the GDP, inflation rate, money supply and interest rate.

Exchange rate, interest rate and other macroeconomics indicators remain an important focal point of discourse in international finance as well as in developing nations, which is prerequisite for economic development (Adeniran, 2014). Volatility of exchange rate leads to efforts by the economist focusing their attentions in monitoring exchange rate and how it affects the economies. As such, different policies of exchange are in use

depending on which of the regimes favoured the situation prevailing in an economy for monitoring the purchasing power parity (PPP) and indeed the total output. Rodrik admonished against overvaluation (Rodrik, 2008), Rapetti also quoted Rodrik, in his summaries that decrease in overvaluation of real exchange rate boosts economic growth, but all these facts are established on the developing countries only (Rapetti M. et al, 2012).

EXCHANGE RATE POLICY IN NIGERIA

Exchange rate policy in Nigeria has undergone substantial transformation during the post-independence, from the fixed exchange rate of 1960 to the pegged exchange regime early 1970s to mid 1980s. In 1985 the exchange rate was subjected to the market forces of demand and supply (floating exchange rate), by deregulating it and adoption of structural adjustment programme (SAP) in July 1986. The Dutch auction system was first introduced in July 1989 and reintroduced in December 1990. After several attempts and failures of the diverse flexible exchange rate mechanism ranging from the autonomous foreign exchange market (AFEM) introduced in 1995 and the Inter-bank Foreign Exchange Market (IFEM) in 1999, to ensure exchange rate stability, the Retail Dutch Auction System (RDAS) was re-introduced on July 22, 2002 (Dada, 2012) and (Obadan, 2006).

Although, RDAS is not without problems, range from capital flight, speculative and rent seeking behavior on the side of the authorized dealer, the Central Bank of Nigeria adopted the Wholesale Dutch Auction System (WDAS) (Akanji O. 2006). The basic idea for adoption of the (WDAS) was to consolidate the gains of the (RDAS), liberalization and development of the foreign exchange market, achieve convergence exchange rates between the official and other segments of the market, to facilitate foreign exchange auction offered/sales to Deposit Money Banks and Bureaux De Change Operators. (Central Bank of Nigeria (CBN), 2007).

IMPACT OF GLOBALIZATION ON AFRICAN ECONOMIES

Globalization means different things to different people. Some say it is the movement of people, language, ideas and products around the world. Others

see it as the dominance of multinational corporations and the destruction of cultural identities. Extracting from the “Globalization website”, globalization broadly refers to the expansion of global linkages, the organization of social life on a global scale, and the growth of a global consciousness, hence to the consolidation of world society. Such a definition captures much of what the term commonly means, but its meaning is disputed. It encompasses several large processes; definitions differ in what they emphasize. Globalization is historically complex; definitions vary in the particular driving force they identify. The meaning of the term is itself a topic in global discussion; it may refer to “real” processes, ideas that justify them, or to a way of thinking about them.

In Africa, its position in the international system has been considerably weakened by the fact that it has been losing the race for economic development in general, and human development in particular, to other regions, these poor performances by African countries accounts in part for the political and social instability and rise of authoritarian regimes that have characterized much postcolonial Africa, further weakening that ability of African countries to deal effectively with globalization.

The negative impacts of globalization on Africa cuts across the political, economic and other spheres. Tendon (1998) states that the cold war which was born out of the process for globalization has had significant consequences on Africa. During its height in the 1960's and 1970's, the cold war witnessed the emergence of authoritarian regimes in the form of one- party state or military regimes. This was largely as a result of the support of two blocks to keep African countries in their respective camps. This has in turn, substantially reduced Africa's international negotiating power and its ability to maneuver in the international system. In sum then, the cold war and its demise has worked against democracy and economic development in Africa.

Oyejide (1998) identified the specific impact of globalization on Africa in the political sphere with the most important consequences being the erosion of sovereignty, especially on economic and financial matters, as a result of the imposition of models, strategies and policies of development on African countries by the International Monetary Fund, the World Bank, and

the World Trade Organization. More important is the fact that globalization for most part does not facilitate the establishment of the economic conditions necessary for genuine democracy and good governance to take solid roots and thrives.

Economically, globalization has on the whole reinforced the economic marginalisation of African economies and their dependence on a few primary goods for which demand and prices are externally determined. This has, in turn, accentuated poverty and economic inequality as well as the ability of the vast number of Africans to participate meaningfully in the social and political life of their countries.

The positive impact of globalisation on Africa is also multifaceted. Globalization has eased international trade and commerce, facilitated foreign investment and the flow of capital while calling for greater accountability and responsiveness of leaders to their people, globalization has often pressed African leaders to adopt policies and measures that are diametrically opposed to the feelings and sentiments of vast majority of their people.

By defining basic and generally accepted principles of democratic governance, such as good governance, transparency and accountability, in narrow terms, conditioned by particular historical, political, social and cultural factors, while leaving little or no room for adapting them to different societies and cultures.

There are international lobby and pressure groups in various fields. There are universities and institutions of higher learning with all their power to impact knowledge, skills and attitudes that shift behaviours of societies and state leadership as well as followership. All these combine to reinforce the phenomenon of globalization and force the state to shift its behavior and the way its relates with both its “subjects” and its internal and external partners.

CONCLUSION AND RECOMMENDATIONS:

Most African States are not prepared, especially in terms of having the requisite capacity. African countries themselves and those that hope to assist them must first and foremost recognize this fact and commit resources and

energies to harnessing the capacity of the African poor for their development. It is hoped that the global actors will realize that it is not beneficial to them or to anyone else to play globalization-game without the poor. For globalization to ultimately be beneficial to everyone-the rich and the poor-all must have certain levels of capacity that permit them to effectively participate in the game.

Our results demonstrate that during the global economic crisis the real exchange rate impact on the current account was reduced, which consequently limited the applicability of devaluation as an appropriate instrument for the reduction of external imbalances. Those countries applying a fixed exchange rate recorded faster adjustments in the aftermath of the economic crisis, while their trade balance was also considerably improved. The trade balance improvements were primarily achieved by increased exports and not by import restrictions. One conclusion that one can derive is that domestic currency depreciation/devaluation leads to improvements in the balance of trade. This consistent with economic theory, according to which domestic currency depreciation/devaluation makes export activity cheaper and thereby increases it, whereas, at the same time, it makes import activity more expensive and thereby decreases it, altogether leading to reduction in the trade imbalance.

The following recommendations are therefore pertinent to policy makers, investors, financial institutions regulators and other stakeholders in the international financial system:

- I. Interest rate needs to be maintained at its minimum in order that the purchasing power of the average African will increase.
- ii. Adequate and appropriate environment and infrastructural facility needed to be kept in place so as to attract foreign investors, thereby leading to foreign direct investment. This will thereby lead to job creation, employment opportunities and at the long run improve the people's standard of living.
- iii. The government should carry out strict domestic economic transformation monetary policy, trade liberalization and export promotion to strengthen the economic base, thereby attracting foreign

investors into the economy.

- iv. The careful efficiency of the process of production and capacity utilization should be adopted by industries to sustain competitive advantage over other competing firms
- v. There should be a policy shift towards infrastructural development and an increased productive base of the nation in order to improve the financial sector performance by stabilizing the macroeconomic instruments. This is hoped would not only help in enhancing the profitability of banks in the country but would improve the standard of living of the Nigerian people.

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