We are IntechOpen, the world's leading publisher of Open Access books
Built by scientists, for scientists

6,900
Open access books available

186,000
International authors and editors

200M
Downloads

Our authors are among the

154
Countries delivered to

TOP 1%
most cited scientists

12.2%
Contributors from top 500 universities

CLARIVATE ANALYTICS
BOOK CITATION INDEX
INDEXED

WEB OF SCIENCE™

Selection of our books indexed in the Book Citation Index
in Web of Science™ Core Collection (BKCI)

Interested in publishing with us?
Contact book.department@intechopen.com

Globalization and economic growth in Sub Sahara Africa

Adams Samuel
Ghana Institute of Management and Public Administration
Ghana

Introduction

Globalization is not only one of the most important concepts of economic development but also its effects are one of the most hotly debated and contested. Intriligator (2003) describes it as representing one of the most influential forces in determining the future of the planet. Though globalization is not a new phenomenon, its dynamics have changed dramatically in the last thirty years. Akinboye (2007) portrays it as one of the most dominant forces in the present day world economy. Zhuang & Koo (2007) have noted that no nation can exist in isolation in today's world. With unprecedented global interdependence, increased international trade, foreign direct investment inflows and internet linking all countries and regions of the world, we literally live in global village.

In this paper, we define globalization as the increasing integration of economies around the world through trade and financial flows. The term also refers to the movement of people (labor) and knowledge, technology, and services across international borders. Empirically, globalization translates into greater mobility of the factors of production (capital and labor) and greater world integration through increased trade, foreign direct investment (FDI), and enforcement of intellectual property rights [IPR] (Milanovic, 2005; Wade, 2001). With respect to IPR, Maskus (2000) asserts that the protection of IPR has moved from an arcane area of legal analysis to the forefront of global economic policymaking. It is not surprising therefore that Hayes (2003) claimed that in the 21st century IPR provides a powerful engine for economic development of nations.

In light of the benefits and/or dramatic changes that have occurred in the global economy, many studies have been conducted to examine the impact of globalization on economic growth. However, the results of the studies have been ambiguous. While Ndikumana & Verick (2008), Sylwester (2005) and Lumbila (2005) show that FDI and trade have significant positive effect on economic growth, others give evidence to the contrary (Dutt, 1997; Hermes & Lensink, 2003). Romer (2006), for instance, has argued that trade only provides an opportunity and not a guarantee that there will be economic growth. Thorbecke &Nissanke (2008) claimed that the ambiguous results could be attributed to the significant regional specific differences in initial conditions. Accordingly, this study contributes to the literature by examining the impact of globalization (Trade, FDI, IPR, and financial depth) on economic growth in the context of Sub Saharan African (SSA) countries for the period 1970-2008. These indicators, however, measure only economic globalization and their effects are usually not the same across countries. Consequently, we also use a comprehensive measure

of globalization, the index by Dreher (2006) to examine the effects of globalization. The Dreher (2006) index of globalization uses the principal component method to combine several variables from the economic, political, and social sectors.

The study will employ three main estimation techniques, including Ordinary Least Squares (OLS), fixed Effects (FE), Random Effects (RE) and Seemingly Unrelated Regressions (SUR). This study is important because understanding the linkage between globalization and economic growth may be the key to uncovering channels through which integration into the world could stimulate economic performance. It will also help to identify the policy levers that may be activated not only to maximize the trend toward globalization but even more importantly how countries and especially SSA (the poorest region in the world) might maximize the benefits and reduce the costs associated with globalization, which is an inevitable process.

In the sections that follow we present a background of trend of globalization among SSA countries in terms trade and FDI. A review of the literature is given and the research methodology is described. The results of the study are then discussed and the policy implications and concluding remarks offered.

Globalization in the context of Sub Sahara Africa

The growth in the influx of FDI is remarkable. For example, while the total world FDI inflows stood at $59 billion in 1982, it grew dramatically to $648 billion in 2004 and reached its peak of $1,833 billion in 2007 (UNCTAD, 2008). In Africa, FDI inflows amounted to $36 billion in 2006, which was 20% higher than the previous record of $30 billion in 2005, and twice the 2004 value of $18 billion, and rose to a historic value of $53 billion in 2007 (UNCTAD, 2008) (See Figure 1). The surge was in a large part related to investments in extractive industries though it rose in various service sectors too. Despite the global financial crisis, developing and transition economies attracted record FDI flows in 2008 ($88 billion). It is important to note that Africa recorded the greatest increase in inward FDI (27%) in 2008 resulting in an increase of FDI stock in the region to $511 billion.
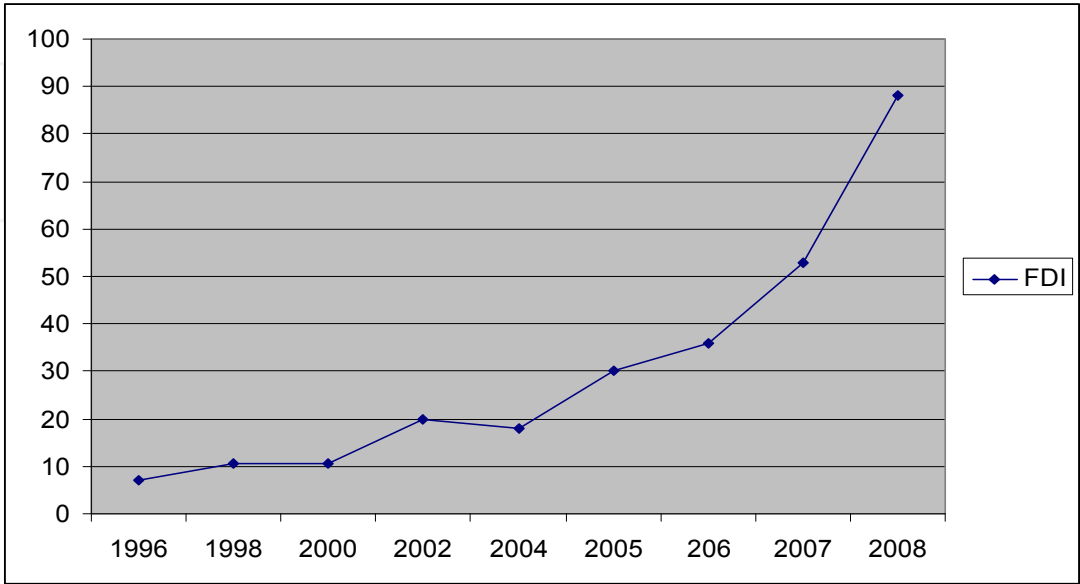

Fig. 1. FDI inflows (1996-2008) to Africa

Similarly, trade volumes have increased considerably over the period, however, world trade growth slowed in both 2007 and 2008 but in some developed countries like the US and Japan import volume growth turned negative (World Trade Report, 2009). The report noted trade expansion was more resilient in developing and transition economies. The total exports volume of African countries which stood at $85 billion in 1982 nearly doubled to 150 billion in 2000 and by 2008 this figure had risen to over $570 billion (Figure 2).
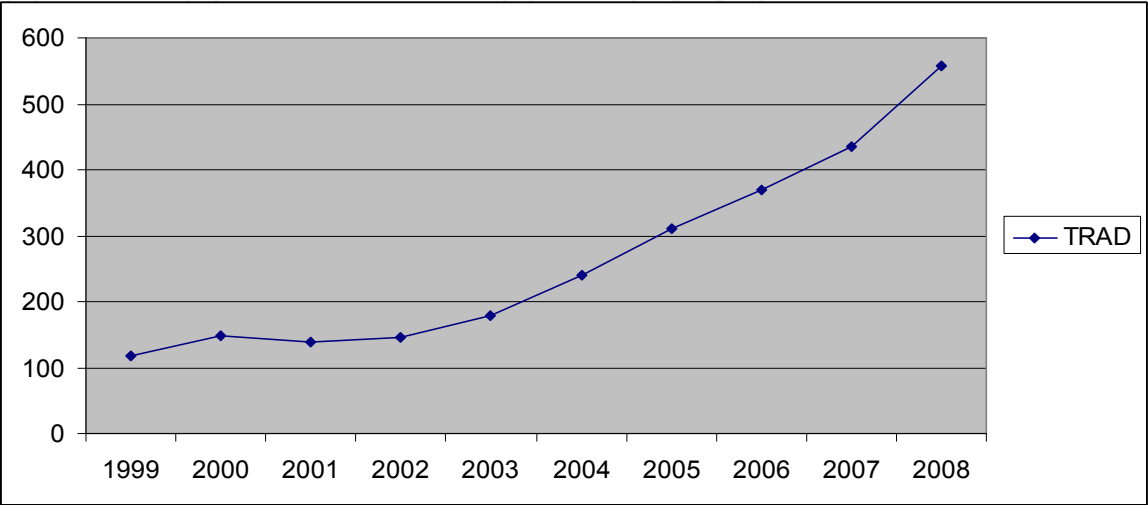

Fig. 2. Export Volume of African Countries (1999-2008)

Literature Review

The analysis of the relationship between globalization and macroeconomic performance represents a main interest of the growing empirical literature due to the intense debate between policymakers and academicians about the impact of financial liberalization, trade openness and the influx of FDI on economic growth. The neoclassical growth theory suggests that integration into the world economy is associated with improvement in economic performance. For example, Kumar & Pradhan (2002) claim that apart from technology and capital, FDI flows as a bundle of resources in terms of organizational and managerial skills, marketing know-how, and market access through the marketing network of multinational enterprises. FDI's effect on economic growth is thus based on its contribution to capital accumulation and total factor productivity improvements. This is attributed to the technology transfers, introduction of new processes in the domestic market, employee training, international production networks and access to market provided by FDI.

General economic theory also points to the fact that financial globalization, for example, can induce a more efficient allocation of resources, provide possibilities for risk diversification, strengthen macroeconomic policies and consequently promote economic development (Stoianov, 2007). Ajayi (2006) has noted that the global mobility of capital may limit the ability of governments to pursue bad policies. Brasoveanu, Dragota, Delia & Semenscu (2008) assert that financial development can affect growth in three main ways, including increasing the marginal productivity of capital, reducing resources absorbed by financial intermediaries, and raising the private savings rate. These ideas are consistent with the view that financial intermediation promotes growth because it allows a higher rate of return to be earned on capital, and growth in turn provides a means to implement costly financial measures.

Nissanke & Stein (2003) have also argued that financial liberalization allows funds to flow from low marginal product of capital-rich countries to high marginal product of capital-poor countries as the capital market works to equalize risk adjustment. Like Nissanke & Stein (2003), Acharya et al. (2009) in a study of Indian states found that finance leads to growth. The presumption here is that as the efficiency of the global resource increases developing countries emerge as winners. Others contend that globalization enables peace and prosperity and thereby increase in economic activities that reinforce peace in a virtuous cycle (Friedman, 1997; Bhagwati, 2004). Similarly, trade allows local opportunity costs of resources to be reflected more accurately and decontrolling interest rates also raises rates and thereby encourages savings and the adoption of appropriate technology (Mengisteab, 2010). The capitalist economic theory holds that a completely liberalized global market is the most efficient way to foster growth because each country specializes in what it has a comparative advantage in. Finally, proponents of globalization claim that countries which are highly engaged in globalization process are likely to experience not only higher economic growth, but also greater affluence, more democracy, and increasingly peaceful conditions (Vadlamannati, 2009).

In contrast to the optimism of the globalization advocates, skeptics contend that high levels of globalization have adverse effects on the domestic economy leading to economic and social inequalities through the negative effects on economic growth (Rao, Tamazian, & Vadlamannati, 2008). In support of this view, Norberg & Cheru (2006) argue that the adverse effects of liberalization have been severe in many African countries. Citing UNDP report (2002), they argued that 22 countries in SSA had lower per capita incomes in 2000 than they did in the period between 1975 and 1985. From this perspective, Norberg & Cheru (2006) claim that the Washington Consensus was simply wrong in its belief that dismantling trade barriers and reducing or removing government interference was a panacea for poor countries. Rather, they suggested that effective state institutions are a prerequisite for a well functioning market. Further, they claim that those who have gained most from globalization are not those that opened up completely as happened to Latin America in the 1990s, but rather the Asian economies that only partially liberalized their economies. In other words, success was possible because the Asian governments had the freedom to control basic economic policy. This argument is consistent with Robinson's (2007) assertion that trade and financial openness are by themselves not enough to promote economic growth, and may occasionally backfire in the absence of a wider range of complementary institutional and governance reforms.

The skeptics also argue that lifting protectionist policies, for example, could lead to loss of revenue and the destruction of potentially competitive local infant industry by cheap imports. Deregulation of capital mobility may also destabilize monetary systems, as has occurred in many developing countries (Mengisteab, 2010). Saibu, Bowale & Akinlo (2009) showed that changes in the financial structure or the overall financial systems have a negative effect on economic growth in Nigeria.

When even benefits are present, Vadlamannati (2009) & Rincon (2007) suggest that it is possible for the costs to exceed the benefits through the concentration of capital flows in certain countries, misallocation of resources, loss of macroeconomic stability (inflation pressures, real exchange rate appreciation, external imbalances) contagion and risk of sharp reversal of capital flows. In addition, where there is positive effect of financial globalization, other authors claim that it is for middle –income countries and only a marginal effect for poor countries. For example, Zhuang & Koo (2007) examined the impact of globalization on economic growth and reported that

globalization has a significant positive effect on economic growth for all countries. The study however revealed that China and India benefited most followed by the developed countries while the other developing countries in the study sample benefited the least. Depending on which ideological perspective one views globalization, it could either be described as a force for advancing the world or as a serious danger to the world.

Data and Methodology

We examine the impact of globalization on economic growth for a panel of 29 SSA countries over the period 1970-2008. The empirical analysis is based on a panel data set consisting of eight separate periods; 1970-1974, 1975-1979, 1980-1984, 1985-1989, 1990-1994, 1995-1999, 2000-2004, and 2005-2008. List of countries for the study and the average globalization index for the period are presented in Table 1.

Countries	GIND
BNI	27.52037
BFA	31.72251
BWA	46.10198
CMR	32.71946
CAF	26.07846
TCD	25.62756
ZAR	22.42445
COG	36.94743
CIV	37.08081
GAM	44.71403
GHA	37.94424
KENYA	34.84971
MDG	24.92307
LMLI	30.99829
MOZ	32.2141
MRT	35.26482
MUS	43.0924
MWI	36.05408
NER	28.34859
NGA	40.09411
RWA	22.20786
SEN	37.76603
SLE	27.50133
SFA	45.32973
SUD	28.98513
TAZ	25.7389
TOG	39.34447
UGA	28.40523
ZMB	41.95664
ZBW	34.39642

Table 1. Dreher's Globalization Index for countries in study (Average 1970-2008)

The variables used and empirical analysis for the study is based on prior growth determinants literature (Zhuang & Koo, 2007; Dreher, 2006; Griers, Kraft, & Meierriers, 2009; Odhaimbo, 2008; Falvey et al., 2006) and is specified as follows:

$$LY = \beta_0 + \beta_1 \, LOPEN_{it} + \beta_2 \, LDC_{it} + \beta_3 \, LFDI_{it} + \beta_4 \, LIPR_{it} + \beta_6 LGOV_{it} + \mu_i + \varepsilon_{it}$$

where Y is the level of output per capita for a country i in year t; β_0 is the constant term; $\beta_i S$ are the coefficients to be estimated; and the L indicates the log transformation; the degree of openness of the economy (OPEN) is measured as the share of trade (exports plus imports) in GDP; DC is domestic credit provided by the banks, which is used as a measure of financial liberalization; FDI is the foreign direct investment variable; IPR is the intellectual property right protection and GOV is government consumption. μ_i represents the country-specific effect which is assumed to be time invariant, and ε_{it} is the classical disturbance error component. The fixed effects specification allows us to control for unobserved country heterogeneity and the associated omitted variable bias, which seriously afflicts cross-country regressions (Basu & Guariglia, 2004; Prasad et al., 2006). We also employed ordinary least squares (OLS) and seemingly unrelated regression (SUR) to examine the robustness of our estimates. The SUR estimation allows for different error variances in each of the four equations and for correlation of these errors across equations (Makki & Somwaru, 2004).

The strength of intellectual property protection is measured by the Ginarte – Park index of patent rights, which is based on five categories of patent laws: (1) extent of coverage, (2) membership in international patent agreements, (3) provisions for loss of protection, (4) enforcement mechanism, and (5) duration of protection. Each of these categories (per country, per time period) is scored a value ranging from 0 to 1, and the unweighted sum of these five values constitutes the overall value of the patent rights index. The index therefore ranges from 0 to 5, with higher numbers indicating stronger protection (Park, 2008). Data on OPEN, FDI, DC, and GOV were obtained from the World development Indicators (2009). Further, we also use a comprehensive index of the globalization (The KOF Index), which is represented as GIND and the model is specified as follows:

$$LY = \beta_0 + \beta_1 \, GIND_{it} + \beta_4 \, LIPR_{it} + \beta_6 LGOV_{it} + \mu_i + \varepsilon_{it}$$

A key econometric issue addressed in the paper is the fact the independent variables and for that matter, the globalization variables might be endogenously determined. To overcome this problem, we used the initial values of the independent variables as against the end of period values for the dependent variable. The assumption is that there is a lag effect or that it takes time for the independent variables to have an effect on the dependent variable. The L refers to the log transformation of the variables.

Results and Discussion

The regression results are reported in Tables 2 and 3 which show that the different estimation techniques generally give similar results. Most of the variables are positive and significantly correlated with economic growth except the financial liberalization and the government consumption variables. The FDI variable is positively signed meaning that on average FDI contributed to economic growth of the group of countries studied (Columns 1-

6). It is important to note though that Adams (2009) reported a negative effect of FDI on economic growth for a sample of 42 SSA countries for the period 1990 and 2003. The study, however, indicated that while the contemporaneous effect was negative, the lag effect was positive, which is consistent with the findings of this study which employed a panel regression methodology.

	OLS 1	OLS 2	SUR 3	SUR 4	FE 5	FE 6
OPEN	0.266*	0.506***	0.463***	0.470***	0.524***	0.532***
	(0.154)	(0.123)	(0.157)	(0.160)	(0.129)	(0.135)
DC	0.122	0.117	0.127	0.117	0.158	0.153*
	(0.103)	(0.079)	(0.101)	(0.079)	0.078)	(0.085)
IPR	0.810***	0.878**	0.726**	0.805**	0.995***	1.120***
	(0.296)	(0.249)	(0.298)	(0.321)	(0.337)	(0.364)
GOV		0.132		0.152		0.013
		(0.171)		(0.235)		(0.177)
FDI	0.120***	0.117***	0.118***	0.119**	0.111***	0.113***
	(0.042)	(0.079)	(0.042)	(0.033)	0.036)	(0.036)
Constant	3.244***	2.82***	2.95***	2.95***	2.89***	2.76***
	().545)	(1.850)	(0.532)	(0.864)	(0.36)	(0.69)
DW	1.98	2.07	1.97	2.05	2.16	2.22
N	172	165	172	165	172	165
R^2 adjusted	.24	.24	.23	.24	.28	.33

Table 2. Determinants of Growth

t-statistics in parentheses: *Significant at the 10% level. **significant at the 5% level. ***Significant at the 1% level

Further, any differences could also be attributed to the period of study. This study examines a longer period and considers a more recent data, which shows dramatic inflows of FDI to the region in the last few years. Thus, it is possible that FDI might have exceeded the threshold needed to have a positive impact on economic growth through both augmentation of domestic investment and efficiency effects. Further, Zhang (2001) finds that FDI tends to promote economic growth when the host country adopts liberalized trade policies and maintain macroeconomic stability as is the case of many African countries. As far back as 1992, Firebaugh did not agree with the assertion that capital is capital and argued against the view that FDI is bad for growth and suggested that it would be more appropriate to say that FDI is not as good as domestic capital. The validity of this assertion should be the focus of future research.

Similarly, the trade openness variable is positive and significantly signed in all the model specifications. The trade openness results support the findings other studies that report that integration into the world economy promotes growth (Dollar and Kraay, 2002; Sarel, 1997). It is important to note though that other studies have a either a negligible or negative effect of trade on economic growth (Romer, 2006; Zagha et al., 2006). This is not surprising because

as Lindauer and Pritchet (2002) have noted the relationship between economic growth and outward orientation changes dramatically over time. More importantly, trade openness can be good sometimes and bad at other times. An interesting point to note, however, is the considerable increase in trade volume for the region as a whole over the period. While world trade growth slowed in both 2007 and 2008 and some developed countries like the US and Japan showed negative growth in import volume growth, it was more resilient in most African and transition economies (World Trade Report, 2009). The more robust growth in trade in most developing countries especially since the beginning of the new century is attributed to the rising commodity prices due primarily to the greater presence of financial investors in the markets for primary commodities.

The IPR variable is also positive and significantly correlated with economic growth (Columns 1-6) though it is significant when we used Globalization index (Columns 7-12). This result is consistent with Chu & Peng's (2009) finding that increase in patent protection in either the north or south leads to an increase in welfare; promoting economic growth by stimulating R and D and reducing income inequality by raising the returns on assets. A similar argument is made by Lai and Qiu (2003) and Grossman & Lai (2004) that global welfare is always higher under an enhanced IPR protection. Thompson & Rushing (1999), however, showed that strengthening patent protection has a positive effect only in countries that have a GDP per capita above $4000.00 meaning that strengthening patent protection should benefit only developed countries. The supposed negative effect is based on the fact that the enforcement of IPRs shifts financial benefits to those who have knowledge and inventive power, and to decrease the costs of access to those without (which indeed is the situation for most SSA countries).

On the other hand, it is possible that the use of more recent data may account for the differences in results. Further, a negative relationship does not necessarily mean that IPRs are not good for the region, but that it needs a more effective institutional environment to operate efficiently, which many of the countries have been able to do in the past decade (Adams, 2009). As noted by Braga & Fink (2000), developing countries could achieve substantial gains from IPR reforms by establishing an effective institutional infrastructure for knowledge acquisition and development of innovative capabilities in the new global economy.

The financial liberalization variable is, however, not significantly correlated with economic growth. The result could be related to the fact most countries in SSA have only marginally liberalized the financial system. Thus, the level of financial depth has not reached the necessary threshold to have an effect on economic growth. This is supported by UNCTAD's report (2009) that indicated that developing countries and particularly African countries were able to weather the recent financial crisis because their financial systems were less closely integrated to the global economy. On the other hand, Mengisteab (2010) claimed that the positive impact of financial liberalization has not been realized in developing countries because the poor countries may be more vulnerable due to their specialization in production, to the non-diversified sources of income, weak institutions and the generally unstable macroeconomic policies. The results should be viewed with some caution because the measure used is not comprehensive enough to capture fully the level of financial depth. It is important to note that we used the fixed estimation when we used the individual components because the Hausman test was significant

The results when the Dreher Globalization index was used are presented in Table 3. The overall globalization index is also significant and positive at the 1% level in all the regression models (Columns 7-12). This finding is consistent with the findings of Dreher (2006), Vadlamannati (2009) and Rao and Vadlamannati (2009). The random estimation is used rather than the fixed effects, because the Hausman test was not significant. The globalization indicators,

	OLS 7	OLS 8	SUR 9	SUR 10	RE 11	RE 12
GIND	2.19***	0.506***	2.196***	2.221***	2.28***	2.30***
	(0.161)	(0.123)	(0.157)	(0.419)	(0.169)	(0.204)
IPR		0.193		0.279		0.208
		(0.219)		(0.401)		(0.210)
GOV		0.042		0.049		0.036
		(0.141)		(0.227)		(0.134)
Constant	-1.45***	-1.76***	-1.45***	-1.61***	-1.73***	-1.78***
	().558)	(0.670)		(1.30)	(0.58)	(0.638)
DW	1.98	1.98	1.97	2.00	2.03	2.02
N	234	208	234	208	234	208
R^2 adjusted	.44	.44	.23	.44	.43	.33

Table 3. Globalization and Economic Growth (Using the Dreher Index)

***Significant at the 1% level

however, explain about 44% of the variance in economic growth of SSA countries. When the individual components are used, the total variance explained by the four variables is less than 30%. This might suggest that the Dreher measure of globalization is a better indicator of global integration and also that country specific conditions (including quality and quantity of human capital, the institutional framework, and the quality of governance, as well as internal dynamics of institutional and socio-political conditions could be more important determinants of economic growth. Thus, globalization's effect on the economy is critically dependent on how governments in the region are able to manage the process.

The government consumption variable is generally positively correlated with economic growth; however, it was not significant in any of the models. This might explain the fact that the size of government spending is not as critical as what government spends on. Thus, it cannot be said *apriori* whether government size affects the economic growth negatively or positively. There is the need for more country specific studies to determine what has been the effect of government spending on economic growth in the different countries in SSA. Good fiscal policy is not necessarily about spending less, but about spending more wisely, for example, public investment in education and health that is more important than ever for the economic success of a nation. Even more important is the idea that government intervention and hence government social spending has become more critical in the era of globalization in dealing with its adverse effects.

Policy Implications and Conclusions

The study examined the impact of globalization on economic growth using four main estimation techniques including OLS, FE, RE and SUR for the period 1970-2008. The results of the study suggest that on average the influx of FDI, opening up of markets and the strengthening of IPR have contributed to the economic growth of the countries in the study sample. However, financial development does not seem to have contributed to economic growth. The size of government is not significantly related to economic growth. These findings have four main implications for SSA countries.

First, the dramatic influx of FDI into the region seems to have an impact on the economies of the region. This suggests that much more effort needs to be concentrated on attracting more FDI to the region as the drive for FDI has become very competitive. The UNCTAD report (2009), for example, notes that most developing countries have been proactive in developing FDI friendly policies. For all regions of the world, the number of changes more favorable to FDI exceeded those that were less favorable in the past year. They accounted for 75 per cent of the 16 measures adopted in Africa, 79 per cent of the 28 measures adopted in South, East and South-East Asia and Oceania, 80 per cent of the 15 measures adopted in the Commonwealth of Independent States (CIS), and 91 per cent of the 22 measures in the developed countries. This means that though Africa is the region with the highest return on investment, they did the least in their efforts to attract FDI. The Asian countries not only did the most in promoting policies to attract FDI, but it was also the region that did the most in attracting FDI that had linkages or generated externalities to the other sectors of the economy. Therefore, it is not surprising that FDI has been more productive in Asia than in other regions of the developing world by actively implementing policies that discriminate in favor of foreign investment that have positive effects on total investment. The focus then should not be on just attracting FDI but more importantly FDI that would help to enhance the entrepreneurial capacity and innovation of the citizenry and stimulate domestic investment to promote growth. Accordingly, the process of global integration needs to go hand in hand with better and broader regulation and supervision.

Second, though African countries have made major progress in liberalizing trade over the past several years, intraregional trade is still less than 15%. Promoting intraregional trade will contribute not only to trade liberalization within the region but also to a considerable reduction and simplification of the region's external tariff structure. Given the nearly 20 overlapping regional blocs in Africa, rationalization of their structure would be desirable. In light of the small size of many African economies, the impulse to regional integration is extremely important - but regional integration will help increase long-term growth only where it is truly trade increasing and not an attempt to erect new protectionist blocs. Progress on trade liberalization in Africa should be matched by the opening of advanced country markets to the exports of African producers (Fischer, 2001; Aryeetey et al., 2004; Nayyar, 2006). In particular, the advanced economies should lower the effective protection on goods of interest to sub-Saharan African countries.

Third, is the need for diversification into higher valued activities. After decades of gaining independence, the high primary commodity-dependence remains one of most conspicuous characteristics of the trade pattern of countries in Africa with the rest of the world. The failure of these economies to diversify and undergo structural transformation, and hence, to benefit from the technology-driven, highly dynamic aspects of on-going globalization has entailed a high cost to the region not only in terms of low economic growth but also in

persistent poverty **(**Norberg & Cheru, 2006). The largest increase, for example, in FDI is in new oil exploration and mining activities, where spillovers are minimal because the technology employed is capital rather than labor intensive (UNCTAD, 2008). One important policy objective to reduce the barriers to FDI effectiveness is to build a diversified economy through investment in human capital and infrastructure and productive capacity. Clearly then, the challenge for Africa is how to attract FDI in more dynamic products and sectors with high income elasticity of demand. The argument here is not to neglect the agricultural sector or its overt exploitation because agriculture is the only potential engine of growth at an early development stage.

Finally, the weak institutions and poor macroeconomic environment suggest that premature opening of the domestic economy towards international markets will not allow for maximum benefits. As is the case for most Asian economies, the liberalization process has been gradual for learning effects to take place and then they can open more to maximize the benefits while minimizing the negative or adverse effects of globalization. As Stiglitz (2006) and Fischer (2001) have all noted that globalization has both benefits and costs, and the therefore developing countries need to develop the policy space and pace to maximize its effects. A key issue is the need for effective regulatory framework; however, since regulatory reforms cannot be implemented overnight, SSA countries should proceed with caution and avoid big-bang processes of global integration. Maneschi (2006) claims that moderating the pace liberalization allows for gradual reallocation of labor away from import –competing and toward more competitive sectors. Bergh (2007) and Stiglitz (2006) assert that by investing in education, research and strong social safety nets, governments can curb rising inequality and create more productive economies with higher living standards for all.

The results and implications provided above offer directions for future research. First, the many different results given by different studies over different periods suggest the way forward in research is for many more country specific studies to account for variations in the social, economic and political factors and how they impinge on the growth rate of an economy. Second, is the need for more rigorous studies on the finance-growth relationship for SSA countries; specifically, examine any nonlinearities or threshold effects of financial deepening on economic growth. Finally, more studies need to be done to ascertain the fact that globalization has been a major factor contributing to poverty and income inequality in developing countries.

In concluding, we would like to state that a one size fits all strategy of globalization might not be optimal for all countries especially those at the very low level of development. In other words, there is no choice between the market and government because neither markets nor governments are, or can ever be perfect. The state and the market are complements rather than substitutes. More importantly, the relationship between the state and the market cannot be defined once-and-for-all in any dogmatic manner but must change over time in an adaptive manner as circumstances change (Nayyar, 2006). So that in the end, though market access and therefore globalization matters, even more important is the fact policy and especially good policy matters. As Fischer has noted if the process is inevitable, the question then is not whether to globalize or not but rather how best to take advantage of the opportunities that globalization brings while minimizing its negative or adverse effects. Additionally, while the opportunities for growth provided by global integration could be substantial they are not guaranteed. The key issue then is how to subjugate the external

processes to internal development process to ensure the gains from globalization. This is where we argue for strong or effective states to take advantage of efficient markets. The way forward is for policy makers and academics to move from ideology to pragmatism, with the developed economies and international organizations helping in the process.

References

Acharya D, Amanulla S, Joy S. Financial Development and Economic Growth in Indian States. An Examination. International Research Journal of Finance and Economics 2009; 24;

Ajayi, S. (2006). Paper for presentation at the ADB/AERC International Conference on Accelerating Africa's Development Five years into the Twenty-First Century, Tunis, Tunisia November 22-24, 2006

Basu, P & Guariglia, A, (2004), "FDI, Inequality, and Growth," School of Economics, Finance, and Business Working Paper No. 04/01. University of Durham, Durham: United Kingdom.

Bergh, A. (2007). Government size and growth: Accounting for economic freedom and globalization. Paper Presented at the World Meeting of the Public Choice Society, Amsterdam.

Braga, P. & Fink, C. (1998), "The Relationship between Intellectual Property Rightsand Foreign Direct Investment", *Duke Journal of Comparative and International Law*, 19: 163-187

Braga, P. & Fink, C. (2000), "International Transactions in Intellectual Property and Developing Countries. *International Journal of Technology Management*, 19, 35-56

Brasoveanu, O., Dragota, V., Delia, C. and Semenscu, A. (2008). Correlations between Capital market Development and Economic Growth: The Case of Romania. *Journal of Applied Quantitative Methods*, 3(1): 64-75

Chen, Y. & Puttitanum, T. (2005), "Intellectual Property Rights and Innovation in Developing Countries," *Journal of Development Economics*, 78: 474-493.

Chu, A & Peng, S. (2009).Effects of TRIPS on Growth, Welfare and Income inequality in an R & D-Growth Model. MPRA Paper No. 14473.Munich.

Dollar, D. & Kraay, A. (2002). Growth is Good for the Poor. *Journal of Economic Growth*, 7(3), 195-225.

Dreher, A. (2006): "Does Globalization Affect Growth? Evidence from a new Index of Globalization," *Applied Economics*, 38(10), 1091-1110.

Dutt, A. K. (1997). The Pattern of Foreign Direct Investment and Economic Growth', *World Development*, 25(.11): 1925–1936.

Falvey, R. Foster, N., and Greenaway, D. (2006), "Intellectual Property Rights and Economic Growth," *Review of Development Economics,* 10(4): 700-719.

Fink, C and Maskus, K.E (2005), "Intellectual Property and Development: Lessons from Economic Research," Washington, D.C.: The World Bank

Fischer, S. (2001). The Challenge of Globalization in Africa.

Ginarte, J. C. & Park, W. (1997), "Determinants of Patent Rights: A Cross – National Study," *Research Policy*, 26: 283-301

Gries, T., Kraft, M. and Meierriers, D. (2009). Linkages between Financial Deepening, Trade Openness and Economic Development: Causality Evidence from Sub-Saharan Africa.

Grossman, G., and Lai, E., 2004. International protection of intellectual property. *American Economic Review* 94, 1635-1653.

Grossman, G., and Lai, E., 2004. International protection of intellectual property. *American EconomicReview* 94, 1635-1653.

Hermes, N. &Robert, L. (2003) 'Foreign Direct Investment, Financial Development and Economic Growth', *Journal of Development Studies*, 40(1): 142-153. http://www.imf.org (accessed 3-6-2010)

Intriligator, M. (2003). Globalization of the World Economy. Potential Benefits and Costs and an net Assessment. Milken Institute Policy Brief No.33. California

Kumar, N. & Pradhan, J. (2002), "FDI, Externalities and Economic Growth in Developing Countries: Some Empirical Explorations and Implications for WTO Negotiations on Investment," RIS Discussion Paper No. 27 / 2002. New Delhi-India

Lai, E., and Qiu, L., 2003. The North's intellectual property rights standard for the South? *Journal of International Economics* 59, 183-209.

Lai, E., and Qiu, L., 2003. The North's intellectual property rights standard for the South? *Journal of International Economics* 59, 183-209.

Lindauer, D. and Pritchet, L. (2002). What is the Big Idea? The Third Generation of Policies for Economic Growth, *Economia Fall,* 11-39.

Lumbila, K.N. (2005). What makes FDI Work? A Panel Analysis of the Growth Effect of FDI in Africa. Africa Region Working paper Series No. 80.

Makki, S. *Agricultural Economics*, 86(3): 795–801 Somwaru, A.(2004) Impact of Foreign Direct Investment and Trade on Economic Growth: Evidence from Developing Countries', *American Journal of Agricultural Economics*, 86(3): 795–801

Maskus, Keith. E. (2000), "Intellectual Property Rights and Economic Development. Case Western Journal of International Law, 32, 471-506.

Nayyar, D. (2006). Development through Globalization? Research Paper No. 2006/29

Ndebbio, J. E. (2004). Financial Deepening and Economic Growth and development:Evidence from Selected African Countries. African Economic Research Consortium Research paper 142, Nairobi

Ndikumana, L. *Agricultural Economics*, 86(3): 795–801 Verick, S. (2008). The Linkages between FDI and Domestic Investment: Unraveling the Developmental Impact of Foreign Direct Investment in Sub – Saharan Africa. IZA Working Paper No. 3296.

Odhaimbo, N.M. (2008). Financial Depth, savings, and Economic Growth in Kenya: A Dynamic Causal Linkage. *Economic Modeling*, 25(4): 704-713.

Park, W. (2008). International patent protection: 1960-2005. *Research Policy* 37, 761-766.

Prasad, E., Raghuram, R., Subramanian, A. (2006), "Foreign Capital and Economic Growth. Western Hemisphere Department Conference. New York: IMF

Rao, B. & Vadllamannati, K. (2009). Growth Effects of Globalization in the Low Income African Countries: A Systems *GMM* Panel Data Approach. MPRA Paper No. 16595. Munich

Rao, B., Tamazian, A. and Vadllamannati, K. (2008). Growth Effects of a Comprehensive Measure of Globalization with Country Specific Time Series Data. MPRA Paper No. 7917. Munich, German

Rao, K, (2009). Testing The effects of Economic, Social, and Political Globalization on Human Rights in Africa. MPRA Paper No. 15290.Munich

Rincón, H. (2007) Financial Globalization, Economic Growth, and Macroeconomic Volatility. Economia No. 430

Rodrik, D. (2006). Goodbye Washington Consensus, Hello Washington Confusion. http://ksghome.harvard.edu/~drodrik/

Saibu M, Bowale K, Akinlo A. Financial Structure and Economic Growth: Empirical Evidence from Nigeria. International Journal of business and Emerging Markets 2009;1(3); 264-281

Saibu, M., Bowale, K. and Akinlo, A. (2009). Financial Structure and Economic Growth: Empirical Evidence from Nigeria. International Journal of business and Emerging Markets, 1(3): 264-281.

Sarel, M. (1997). *How Macroeconomic factors Affect Income Distribution: The Cross–Country Evidence*. New York: IMF Working Papers 152.

Stiglitz, J. (2000). Capital Market Liberalization, Economic Growth and Instability. *World Development*, 28(6): 1075-1086

Stiglitz, J. (2006). Making Globalization Work. http://www.opendemocracy.net Accessed 02/06/2010

Stoianov, M. (2007). The Impact of the Trade and Financial Openness on Economic Growth in the Countries of the Eastern Europe. PhD Thesis. Academy of Economic Studies, Doctoral School of Finance and Banking. Bucharest.

Sylwester, K. (2005.) Foreign Direct Investment, Growth, and Income Inequality in Less Developed Countries', *International Review of Applied Economics*, 19(3): 289–300.

Thompson, M. and Rushing, F. (1999). An Empirical Analysis of the Impact of Patent Protection of Economic Growth: An Extension, "*Journal of Economic Development,* 24(1): 67-76.

Thorbecke, E. and Nissanke, M. (2008).The Impact of Globalization on the Poor in Latin America. *Economia,* Fall, 153-199

United Nations Conference on Trade and Development (UNCTAD) .World Investment Report 2009: Transnational Corporations, Agricultural Production and Development**.** United Nations, New York

United Nations Conference on Trade and Development (UNCTAD) Trade and Development Report (2009). Responding to the Global Crisis. United Nations, New York.

United Nations Conference on Trade and Development (UNCTAD) *World Investment Report (2007),* TNCs and the Infrastructural Challenge. New York: United Nations

United Nations Conference on Trade and Development (UNCTAD): *World Investment Report (2008)* TNCs in Extractive Industries and Development New York: United Nations

World Bank. CD-ROM (2008) *World Development Indicators*. Washington, DC, United States: World Bank

WTO World Trade Report (2009) Trade Policy Commitments and Contingency Measures. WTO Publication, Geneva

Zagha, R., Nankani, G. & Gill, I. (2006). Rethinking Growth. Finance and Development, 43(1), 7-11

Zhang, K. H. (2001). Does Foreign Direct Investment Promote Economic Growth? Evidence from East Asia and Latin America. *Contemporary Economic Policy,* 19(2), 175–185.

Zhuang, R & Koo, W. (2007). Economic Growth Under Globalization. Evidence for Panel Data Analysis. *Paper prepared for presentation at the American Agricultural Economics Association Annual Meeting, Portland, Oregon***.**
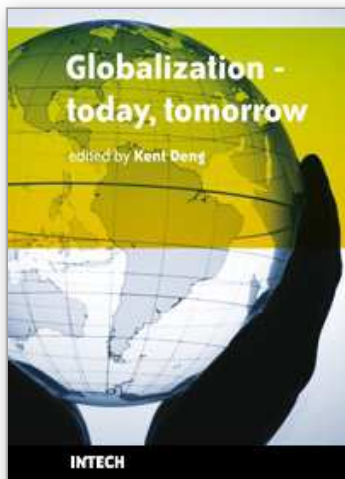
Globalization - Today, Tomorrow

Edited by Kent Deng

This is a collective volume on present-day globalisation with nine chapters from authors of several academic disciplines. It covers wide aspects, ranging from the nature, impact, challenges and implications of globalisation to responses from a country or community when facing globalisation today or tomorrow. Policy suggestions are also made. This book will hence help the reader to understand the currently debated issues.

How to reference

In order to correctly reference this scholarly work, feel free to copy and paste the following:

INTECH
open science | open minds