Nexus between Foreign Direct Investment inflows and Capital Market Development in Nigeria

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Abstract

The essence of this study was to assess the nexus between foreign direct investment inflows and Capital market development in Nigeriabetween 1989 and 2018, Ordinary least square (OLS) regression analysis (the simple linear regression method analysis) were used in the study. These analyses were used in order to find the linear relationship between the independent variables, which are: NPI and FDI; and the dependent variables which are MCP and SMV. The parameter estimated of the Net Portfolio Investment (NPI) showed that it relates positively with Market Capitalisation (MCP) but was found statistically insignificant. The Stock Market Value (SMV) variable was also found to be positively and significantly related to the Foreign Direct Investment FDI). The study therefore, recommends that the nation should explore and adopt all viable options of encouraging both local and international investors into the economy in order to increase foreign direct investment in Nigeria that will turn boost the capital market.

Keywords: Foreign Direct Investment, Foreign Portfolio Investment, Capital Market, Nigeria

1.   INTRODUCTION

Foreign direct investment (FDI) is a direct investment into production or business in a country by an individual or company of another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds. World Bank (2006), conceptualized Foreign Direct Investment (FDI) as investment that is made to acquire a lasting management interest (usually 10% of voting stock in an enterprise that operate in a country other than that of the investors) the investors purpose being an effective voice in the management of earning either long term capital or short term capital as shown in the nations balance of payments account statement (Macaulay, 2012). Broadly, foreign direct investment includes mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans. In a narrow sense, foreign direct investment refers just to building new facilities. Kabir, (2012) opined that FDI encourages the inflow of technology and skills and fills the gap between domestically available supplies of savings, foreign exchange and government revenue. It also encourages the inflow of technology and skills. Onu, (2012) asserted that the contributions of foreign investment to Japan after the World War II and in South Korea after the Korean War has tremendously assisted the economic growth of these countries by providing the local economy with a source of foreign skill, technology, management expertise and human resource development through international training and collaboration.

Capital market is a subset of financial market that deals with the mobilization and channeling of long term funds for investment purposes by bring together economic units requiring funds and economic units desirous of parting with funds for relatively long period of time. It is a framework of institutions that arrange for long term financial instruments entailing shares debentures stocks and mortgages (Adeusi, 2000). Osita, (1990) stressed the element of control in his definition of foreign private investment as "investment in a foreign country where the investing party that is, corporations, firms and so on retain control over the investment. The heart of any Foreign Private Investment is control". According to International Monetary Fund (IMF), Foreign Private Investment is defined as "investment that is made to acquire a lasting business in an enterprise's operation on economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprises". Essentially, the functions of capital market includes the promotion of liquidity and safety of financial assets in order to

encourage saving and investment; ensuring a more refund allocation of resources by equating the demand and supply of loanable funds; enabling the transfer of funds from one sector or country to another for economic or commercial growth and enhancing successful implementation or monetary and indigenization policy (Adeusi, 2000). Sustainable economic growth and development can be realized through lot local and foreign investment efforts which made it possible with presence of a well-functioning capital market (Ekundayo, 2002).

The double-whammy of revenue and FDI declines was expected to foster macroeconomic instability, which can be very significant in the absence of the cushion of reserve savings. This has been the case in Nigeria, where a political transition in the middle of the oil price slump has slowed policy responses. FDI often flows from multinational corporations in developed countries to less-developed, although investment flows between developed economies are usual, and flows from emerging markets have been increasing in recent years. However, political stability, positive growth outlook, low inflation, and buoyant government spending generally attract long-term investments. Owing to the slump in oil prices in the past 24 months, however, Nigeria has not been an ideal candidate for FDI flows. To be fair, the foregoing is a nightmare for monetary policymakers in the Nigerian market that lack adequate breadth and depth. The Central Bank of Nigeria has tried to respond to the headwinds, in part by imposing capital controls in order to maintain a safe reserve level that is needed to instill investor confidence. But the very same capital controls have been the most criticised policy of the CBN, as it has achieved the very opposite of stabilising the foreign exchange market. Inevitably, even investors willing to make long-term capital investment will nevertheless worry about the current policy which suggests they will face a hurdle when they need to repatriate their profit or capital or both in the future. Even the introduction of a putative floating exchange rate system by the CBN has failed to improve dollar inflow in any significant way.

However, it is very doubtful that government has done enough in the areas where it should really not be constrained to act. Reforms to improve the business climate have yet to gain traction, in spite of stated government commitment. Nigeria has remained rooted in the lower strata of the World Bank's annual Doing Business ranking. The country currently ranks 169th out of 190 countries in the year 2017, reflecting the level of difficulty in performing basic business tasks such as starting a business, getting electricity, enforcing contracts, getting credit, registering property, paying taxes, etc. This has added further pressure to businesses who continue to grapple with acutely inadequate infrastructure and rising security concerns. This research work finds reasons why economic growth is slow and how foreign direct investment can improve the level of inflows as well as increase net portfolio investment, stock market and stock market capitalization. Consequently, the objective of this study is to assess the nexus of foreign direct investment on the Nigeria capital market. Other specific objectives include. The following research hypothesis provides basis for the analysis;

Ho$_1$: There is no significant relationship between net portfolio investment and stock market capitalization in Nigeria

Ho$_2$: Foreign direct investment has not significantly enhanced stock market value in Nigeria

2.   LITERATURE REVIEW

2.1   Conceptual Framework

2.1.1   Concept of Foreign Direct Investment (FDI)

Foreign direct investment represents a veritable source of foreign exchange and technological transfer, especially to a developing economy like Nigeria. It can be analyzed in terms of inflow of new equity capital (increase in foreign share capital), re- invested earning (unremitted profit), trade and supplier's credit, net inflow of borrowing and other obligations from the parent company or its affiliates (Nwankwo, 2013). Otepola (2002) opined that foreign investment could be seen as an additional factor of production and as a supplement to the national savings effort of the capital importing country. This is meant to relax

both the foreign exchange and savings constraint on the rate of growth of output in the recipient country. Agada and Okpe (2012) saw FDI as an attempt by individuals, groups, companies and government of a nation to move resources for productive purpose across its country to another country with the anticipation of earning some surplus. Otepola (2002), asserted that FDI has emerged as the most important source of external resource flows to developing countries over the years and has become a significant part of capital formation in these countries, though their share in the global distribution of FDI continue to remain small or even declining. Dutse (2008) also observed that the rationale for increased efforts to attract more FDI stems from the belief that FDI has several positive effects. Among these are productivity gains, technology transfers, and the introduction of new processes, managerial skills and know-how in the domestic market, employee training, international production networks, and access to markets.

Nigeria as a country, given her natural resource base and large market size, qualifies to be a major recipient of FDI in Africa and indeed is one of the top three leading African countries that consistently received FDI in the past decade. However, the level of FDI attracted by Nigeria is mediocre compared with the resource base and potential need (Asiedu, 2003). Although some FDI promotion and efforts are probably motivated by temporary macroeconomic problems such as low growth rates and rising unemployment, there are also more fundamental explanations for the increasing emphasis on investment promotion in recent years. In particular, it appears that the globalization and regionalization of the international economy have made FDI incentives more interesting and important for national governments. Foreign direct investment has been proved in the literature to be an important promoter of growth in its own right. In effect, FDI is argued to increase the level of domestic capital formation. This also implies producing on large scale which in turn results in benefits of economies of scale and specialization and also increasing export and employment opportunities.

2.1.2   Concept of Nigeria Capital Market

Capital markets are markets for buying and selling equity and debt instruments. Capital markets channel savings and investment between suppliers of capital such as retail investors and institutional investors, and users of capital like businesses, government and individuals. Capital markets are vital to the functioning of an economy, since capital is a critical component for generating economic output. Capital markets include primary markets, where new stock and bond issues are sold to investors, and secondary markets, which trade existing securities. The primary aim of the Nigerian capital market is to mobilize long-term funds. The Nigerian Stock Exchange (NSE) is the centre point of the capital market while the Securities and Exchange Commission (SEC) serves as the apex regulatory body. It provides a mechanism for mobilizing private and public savings and makes such funds available for productive purposes.

The Exchange also provides a means for trading in existing securities. To enable small as well as large-scale enterprises gain access to public listing, the NSC operates the main Exchange for relatively large enterprises and the Second-Tier Security Market (SSM) where listing requirements are less stringent for small and medium-scale enterprises Akinlo (2004). The exchange which started with only 19 securities traded on its floors in 1961 now has 279 securities made up of 34 Federal Government Stocks, 62 Corporate/Bonds and 183 equities all with a total market capitalization of ₦170 billion. The major instruments used to raise funds in the market include equities, debentures, bonds and stocks. Capital markets according to Akinlo (2004) are classified into two segments, namely primary and secondary.
The primary market for new issues of securities, the mode of offer for the securities traded in this market includes offer for subscriptions, right issues, offer for sale, private placement etc. while the secondary market is a market for trading in existing securities. This consists of exchanges and over the counter deals where securities are bought and sold after their issuance in the primary market. Activities in the secondary market have increased substantially over the years. The number of stock brokers trading on the Exchange increased from 110 in 1991 to 140 in 1994. The debt of the capital market has increased with the introduction of the Unit Trust Scheme for mobilizing the financial resources of small and big savers and managing such funds to achieve relatively high returns with minimum risks through efficient portfolio

diversification. Efficiently managed unit fund schemes offer the advantages of low costs, liquidity and high returns. The promulgation of the companies and Allied Matters Decree of 1990 provided the legal framework for the establishment of unit trusts.According to UNCTAD (2013), the introduction of the Electronic Contributor System by the NSE is able to beam stock market operations to the outside world via the Reuters International Information Network.

2.1.3   Concept of Portfolio Investment

Portfolio investments are passive investments, which do not entail active management or control of the issuing company. Rather, the purpose of the investment is solely financial gain, in contrast to foreign direct investment (FDI), which allows an investor to exercise a certain degree of managerial control over a company. For international transactions, equity investments where the owner holds less than 10% of a company's shares are classified as portfolio investments (Akinlo, 2004). These transactions are also referred to as "portfolio flows" and are recorded in the financial account of a country's balance of payments. They are categorized into two major parts: foreign institutional investment and investments by non-residents. According to the Institute of International Finance, portfolio flows arise through the transfer of ownership of securities from one country to another.Portfolio investment covers a range of securities, such as stocks and bonds as well as other types of investment vehicles. A diversified portfolio helps spread the risk of possible loss because of below-expectations performance of one or a few of them.

2.1.4   Concept of Stock Market Capitalization

Market capitalization is the total Naira market value of all of a company's outstanding shares. Market capitalizations are calculated by multiplying a company's shares outstanding by the current market price of one share Onu (2012). The investing community uses this figure to determine a company's size, as opposed to sales or total assets figures. It could be deduced from the above, that the stock market capitalization is the total Naira market values of an economy's outstanding shares.

2.1.5   Concept of Stock Market Value

A market value is the price an asset would fetch in the market place. Stock market value is also
Commonly used to refer to the market capitalization of a publicly-traded company, and is obtained by multiplying the number of its outstanding shares by the current share price (World Bank, 2006). Market value is the easiest to determine for exchange-traded instruments such as stocks , since the market price is widely disseminated and easily available, but is a little more challenging to ascertain for over-the-counter instruments like fixed income securities. However, the greatest difficulty in determining market value lies in estimating the value of illiquid assets like real estates and businesses, which may necessitate the use of real estate appraiser and business valuation experts respectively.

2.2   Empirical Review

Adaramola & Obisesan (2015) undertook a research work is to assess the nexus of foreign direct investment on Nigerian capital market development given the role of the later in stimulating the development of the nation's economy. The study employed ADF unit root test and Johansen co-integration test to analyze the secondary data obtained from Central Bank of Nigeria statistical bulletin from 1970-2010. The absence of co-integration between foreign direct investment and market capitalization informed the resort to OLS regression result which shows that foreign direct investment impact positively and significantly on market capitalization. Since foreign direct investment is a significant determinant. Efforts should be made by government and monetary authority to encourage foreign direct investment into Nigeria. However given the lack of co-integration and low beta weight suggest that emphasis on foreign direct investment as a way of stimulating long run growth in the developing country like Nigeria does not worth the while. Oba, Unoiza and Chima (2013) looked at some factors that influence the foreign direct investment in Nigeria, and their impact on the economy. The data used in their study covered a period of ten years (2001 -2010) and considered variables such as real GDP, inflationary levels, openness of trade, electricity consumption, transport and communication. Econometric

model and regression analysis were employed to analyze the data. The results based on the value of high F-statistics and high co-efficient of determination (R2) which revealed that the model was well specified and that the explanatory variables were sufficient to explain the inflow of FDI to Nigeria. The negative impact of variables such as inflation, real GDP and electricity consumption called for policy suggestions. Based on their findings, the following recommendations were made, among others: that electricity supply should improve greatly; fiscal regulation should be followed strictly; should continue the war against corruption and transparency; government should straighten the institutional and regulatory systems in the country; and all the efforts should work towards reducing costs of establishing business in the country, which are among the highest in the world.

Ugochuckwu, Okore and Onoh (2013), investigating the impact of foreign direct investment on the Nigerian economy that from 1981 to 2009 employed Ordinary Least Square method in order to derive the relationship between them. The study found a positive but insignificant relationship between foreign direct investment and growth of Nigerian economy for the period studied and the same hold for interest rate while domestic investment is positive and significant. There exists a long run relationship between capital market and economic growth and bidirectional causation between gross domestic product and value of transactions while only market capitalization causes economic growth. In essence, capital market plays a significant positive role in economic development of less developed countries.   Asiedu (2003) in her paper explored whether factors that affect Foreign Direct Investment (FDI) in developing countries affect countries in Sub-Sarahan Africa differently. She selected 71 countries for this study of which 32 were Sub-Saharan African countries and 39 were non Sub-Saharan African countries. She used Cross sectional data for the period 1988 to 1997. OLS method was used to analyze the data. The variable Foreign Direct Investment was used as dependent variable and return on investment, infrastructure development, openness of the host country, political risk, financial depth, size of government, inflation rate, and GDP growth rate were used as independent variables. The study result discovered that openness to trade has positive impact on both non-Sub-Saharan and Sub-Saharan Africa. Though, Sub-Saharan Africa received less FDI than non Sub- Saharan African. She argued that this was so because Sub-Saharan Africa countries are less open than other regions. While the development of infrastructure has no significant effect on the FDI inflow in sub-Saharan Africa, it has a positive impact on non sub-Saharan Africa. She concluded by suggesting that policies that has been successful in other regions cannot be equally successful in Africa.

2.3   Theoretical Framework

2.3.1   Hymer FDI Theory

This theory was put forward by Hymer (1976). In his theory he explained by comparing and contrasting the differences and similarities between foreign direct investment and portfolio investment. According to him, the basis of the portfolio investment theory is the interest rate. Each investor will maximize his profits by investing where returns are the highest, under the assumption that there are no barriers in capital movement, no risks, uncertainties. Capital will move from countries where the interest rate is low to countries where the interest rate is high until interest rates are equal everywhere. Nevertheless, Hymer argued that theory of portfolio investment doesn't give details of control (Hymer 1976). In portfolio investment, investors who invest in foreign countries don't have a right to control enterprises in which they invest their capital. According to Hymer there are two reasons why investors seek control that is multinational companies control foreign enterprise to make sure their investment is protected and to get rid of competition in foreign countries. Hymer further stated that multinational companies are motivated to invest in foreign countries because of certain advantages that they get through control of the enterprises. He also explained the advantage of the foreign firms over host firms. These advantages are getting factors of production at a lower cost, capital and patent, know how etc. Where market imperfection exists (barrier of market entry, high transaction cost) multinational companies prefer to engage in direct investments. This study pitches its tents on this theory.

2.3.2   Product life cycle theory

The product life cycle theory was developed by Reymond Vernon (1966). This theory has contributed significantly in the analysis of foreign direct investment. Vernon analyzed four production stages commencing with invention of new product. Vernon‟s product life cycle theory gives insight why and how export is replaced by foreign direct investment. He based his work on US enterprises that were producing for domestic market and later on for international market. Vernon tried to comprehend the shift of international trade and international investment. At the first stage, the enterprises are more focused on the domestic market. And then in the next stage, when the product matures, enterprises start exporting to developed countries. At this stage the innovating enterprises enjoys the profit of the sales of newly invented product until rival enterprises copy and produce the same product. Later when the demand for the product increases the product will be standardized.

At advanced stage, when the product is standardized, the enterprises would think less developed countries could be good production place. Economies of scale, transportation and labor cost are the determinant factor for location choice. Since less developed countries are rich in labor, the products which will be produced are labour intensive products. This is made mentioned of in Hecksher-Ohlin theorem. Though, according to Vernon the low cost location hypothesis is not the only reason leading entrepreneurs to decide and invest in other countries. He further argues that any threat to the enterprises can be seen as motivating force for the action. Generally, a government which imports the product structure import substitution policy in order to increase employment and enhance growth. This could be a threat for the exporting enterprises. So the entrepreneurs prefer to go and invest in this country. Vernon put the threat as galvanizing force for international investment. He stated that an international investment by the exporter therefore becomes a prudent means of forestalling the loss of a market. In this case, the yield on the investment is seen largely as the avoidance of a loss of income to the system. In the fourth stage, the home countries will be an importer since the production decreases. Nevertheless, this theory is criticized as some enterprises skip export in the process and go directly to invest.

2.2.3   Eclectic FDI Theory

The British economist John Dunning is one of the famous scholars on the issue of foreign direct investment. He developed a framework in which he described three firms advantages of foreign direct investment, these are: Ownership advantages, Location-specific advantages and Internalization advantages. Ownership advantages comprise patents, trade-marks and goodwill. This will help the firms to compete easily in the host country. It would have been difficult to get this advantage in home country. Location-specific advantages contain all things which make the firm more profitable to produce and sell in the host country, instead of producing at home and export to other country. In view of the fact that the firms will be planted in host countries it saves the trouble of trade barriers like tariffs, quotas, transport cost. Accessing the market will be easy. Internalization advantage refers to the advantage of multinational enterprises (MNEs) caused by ownership advantage inside the host country. Dunning and Lundan (2008) disaggregated multinational enterprises activity in to Market seekers, Natural resource seekers, Efficiency seekers and Strategic asset or capability seekers to give a clear reason behind foreign production.

3.   METHODOLOGY

The research design adopted for this work is the non-experimental research design. The reason is that non-experimental research design combines the theoretical exposition with empirical observation. The study is based on secondary data, from the following authoritative publications: Central Bank of Nigeria Statistical Bulletin, Journals and Articles. Nigeria stock exchange fact books, the Nigeria Microfinance Newsletter, microfinance Policy, regulation and Supervisory framework, textbooks, on-line Google search, newspapers publications, and other publications relevant to the research. For the purpose of this research, the hypothesis were tested using the Ordinary least Square (OLS) method using the E-views software. Hence the multiple regressions technique is used to estimate the parameters the objective being

to minimize the error term with a view of finding the regression equation that explains the data. This method is preferred for being unbiased, consistent, efficient and simple.

The model to be used in testing the above hypothesis contains the dependent and independent variables. This model is specified as follows:

$MCP = f(NPI)$ ---------------------------------*(i)*
$SMV = f(FDI)$ --------------------------------*(ii)*
Presenting equation (1) and (2) in linear form:
$MPC = \beta_1 + \beta_2 NPI + \mu$ -----------------------*(iii)*
$SMV = \beta_1 + \beta_2 FDI + \mu$ -----------------------*(iv)*

Where:

MCAP = Market Capitalisation
SMV = Stock Market Value;
NPI = Net Portfolio Investment
FDI = Foreign Direct Investment;
μ = Error term or stochastic term of the estimates;
β_1, β_2 are beta weights or regression coefficients.

On apriori, the following relationships are expected:
This refers to the supposed relationship between and or among the dependent or independent variables of the model as determined by the postulations of economic theory. The result or parameter estimates of the models will be interpreted on the basis of the supposed signs of the parameters as established by economic theory put differently, the parameter estimates of the model will be checked to find out whether they conform to the postulations of economic theory.

β_1, and β_2 are expected to be > 0. On apriori, we expect that the relationship between market capitalization and net portfolio investment to be positive. The sign of the estimated coefficient is thus expected to be greater than zero since rise in foreign direct investment will lead to an increase in market capitalization.

4. RESULT AND DISCUSSION

Table 1: Net Portfolio Investment, Foreign Direct Investment, Market Capitalization and   Stock Market Value, 1989 – 2018

Year	NPI	FDI	MCP (₦'billion)	SMV (₦'billion)
1989	-411.79	14356.3	12.8	245.7
1990	-594.90	10450.2	16.3	225.4
1991	36891.80	5610.2	31.2	242.1
1992	-377.00	11730.7	47.5	491.7
1993	-203.50	42624.9	66.3	804.4
1994	-5785.00	7825.5	180.4	985.9
1995	-12055.20	55999.3	285.8	1838.9
1996	-4780.50	5672.9	281.9	6979.6
1997	-637.52	100004	262.6	10330.5
1998	-637.52	32434.5	300	13571.1
1999	1015.74	4035.5	472.3	14072
2000	51079.13	16453.6	662.5	28153.1
2001	92518.92	4937	764.9	57683.8
2002	24789.19	8988.5	1359.3	59406.7
2003	23555.51	13531.2	2112.5	120402.6
2004	23541.00	20064.4	2900.06	225820.8

2005	116035.00	26983.7	5120.9	262935.9
2006	311780.30	41734	54543.4	470253.4
2007	703677.60	54254.2	13181.69	1076020.4
2008	350919.4	37977.7	9562.79	1679138.7
2009	243499.0	441271.3	7030.84	6855717.29
2010	303264.6	441271.3	9918.21	799910.95
2011	474321.0	381022.2	10275.34	638925.7
2012	498113.5	370659.3	14800.94	808991.42
2013	-3566.1	361259.23	19077.42	2350875.7
2014	-60458.7	213423.87	16875.1	156788.64
2015	64388.2	225658.45	42167.4	133478.13
2016	45793.44	313043.15	467238.6	415736.3
2017	5730843.4	333445.38	4345623.4	788433.32
2018	547380.73	2345562.12	567980.21	6485863.3

Source: CBN Statistical bulletin, 2018

Model Estimation and Presentation of Results

As is the case with similar studies, the Augmented Dickey-Fuller (ADF) test was used to ascertain whether the four variables of the study exhibit unit root property. This is to find out if the relationship between economic variables is spurious or nonsensical.

Table 2: Summary of Unit Root Test Results

Variables	ADF Test Statistic (at first difference)	Order of integration
NPI	-4.423905 (-632896) **	1(1)
FDI	-5.469153 (-4.416345) *	1(1)
MCP	-4.831638 (-4.498307)*	1(1)
SMV	-6.957318 (-416345)*	1(1)

Source: Author computation, 2019(Eview-7)

From the table 1, it was discovered that all the variables used in the analysis were found stationary at first difference. FDI, MPV and SMV were found stationary at 5% level; while NPI was found stationary at 1% level. These first difference variables (stationary variables) shall be used for further analysis in computing and analyzing of our results. The next specification test that shall be computed is the co-integration test of these variables.

Co-integration Estimate

If two or more time series not stationary, it is important to test whether there is a linear combination of them that is stationary. Economically, variables are co-integrated if they have a long term, or equilibrium relationship between them. It is a pretest to avoid spurious regression situations. Since the variables were found to be stationary at first difference (that is at order 1(1), it was safe for us to employ and proceed with Johansen co-integration test. From the co-integration result below in table 3., the trace test indicates four co-integrating equation at 5% level. More so, the Max-eigenvalue test equally confirms that there are four co-integrating equation at 5% level. Thus, the model shows that there, exists a long-run equilibrium relationships among the four variables used in the analysis. It shows that the variables move together in the long run.

Table 2: Summary of Co-integration Estimates

Date: 20/02/20 Time: 11:07
Sample (adjusted): 1990 2018
Included observations: 28 after adjustments

Trend assumption: Linear deterministic trend
Series: FDI MCP NPI SMV
Lags interval (in first differences): 1 to 1

Unrestricted co-integration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None*	0.981524	188.7232	47.85613	0.0000
At most 1*	0.906891	96.92358	29.79707	0.0000
At most 2*	0.783406	42.32200	15.49471	0.0000
At most 3*	0.266813	7.138150	3.8414660	0.0075

Trace test indicates 4 co-integrating equation (s) at the 0.05 level
  * Denotes rejection of the hypothesie at the 0.05 level
  ** MacKinnon-Haug-Michelis (1999) P-values

Estimated Regression Model

In order to obtain the numerical estimates of the coefficients of the model, the estimation of the model requires the use of various econometric methods, their assumptions and the economic implications of the estimates of the parameters. In the earlier stated simple linear regression model, we have

$MCP = \beta_1 + \beta_2 NPI + \mu$
$SMV = \beta_1 + \beta_2 FDI + \mu$

Model Evaluation and Post-Estimation Diagnostics Tests

The F-statistic

The f-statistic examines the overall significance of a regression model including all the K variables. Therefore, by examining the overall fit and significance of the model, it could be observed that the models have better fit. That is, the probability F-statistic values are 0.00000 and 0.000381 are less than 0.05.

The R^2 (R-square)

The coefficient of determination (R-square), used to mean to measure the goodness of fit of the estimated model. The first indicates that the model is reasonably fit in prediction, that is, 87.04% change in MCP was due to NPI, while 12.96% unaccounted variations was captured by the white noise error term. It showed that NPI had strong significant impact on the growth of market capitalization in the Nigerian capital market. The second indicates that the model is not fit in prediction that is only 42.89percent change in SMV was due to FDI, while 57.11percent unaccounted variations was captured by the white noise error term. It shows that the FDI does not have a strong impact on the stock market value in the Nigeria n Capital market.

Statistical Test of Hypothesis

The two hypotheses in this study were tested using students t-statistics. The level of significance for the study is 5%, for a two tailed test. The decision rule is that we shall accept the null hypothesis if the critical/t-value (±1.96) is greater than the calculated value, otherwise reject the null hypothesis. That is, using the student *t-test* (t-statistic), we say that a variable is statistically significant if *t** (t-calculated) is greater than the tabulated value of ±1.96 under 95% (or 5%) confidence levels and it is statistically insignificant if the *t** is less than the tabulated value of ±1.96 under 95% (or 5%) confidence levels. Thus;

H$_0$: $\beta_0 = 0$(Null hypothesis)
H$_1$: $\beta_1 \neq 0$(Alternative hypothesis)

Hypothesis one

H0$_1$: There is no significant relationship between net portfolio investment and stock market capitalization.
From the regression result in table 4, the calculated t-value for MCP is 1.77 and the tabulated value is +1.96, it therefore falls in the acceptance region and hence, we accept the null hypothesis. The conclusion is that market capitalization has not significantly increased the growth of Net portfolio investment.

Hypothesis two
H0$_2$: Foreign direct investment has not significantly enhanced stock market value in Nigeria.
The regression result in table 4.4 also showed that the calculated t-value for FDI is 4.16 and its greater than the tabulated value of 1.96; and thus falls in the rejection region. Hence, we may reject the null hypothesis. The conclusion is that foreign direct investment has a significant relationship with stock market value.

4.1   Discussion of Findings

The parameter estimates of the Net portfolio investment (NPI) showed that it relates positively with the stock market capitalization (MCP) but was found statistically insignificant. The obtained result is similar to the work of Anfofum, Joshua &Tauhid (2013) which showed positive impact of foreign direct investment on investment, exchange rate, gross domestic product while a negative outcome was found between foreign direct investment and infrastructures, on the average, increased the GDP of Nigeria by 247.91million between 1989 and 2018. The stock market value (SMV) variable was also found to be positively and significantly related to the FDI of Nigeria between the periods under study. This is in contrast to the findings of Musa & Mohammed (2014) who observed that foreign direct investment has an insignificant impact on stock market development. Exchange rate was also found to have a significant negative impact while the effect of inflation on stock market is insignificant and negative. The function thus showed that a unit change in stock market value (SMV), on the average, had reduced the gross domestic product (GDP) of Nigeria by 5.2million between 1989 and 2018.

5.   CONCLUSION AND RECOMMENDATIONS

The essence of this study was to assess the nexus between foreign direct investment on the Nig Capital market development between 1989 and 2018, conceptual and theoretical literatures were reviewed in the area of overview of the Nigeria's net Portfolio investment and stock market capitalization, overview of Foreign direct investment and stock market value in Nigeria and, Profile of Nigeria's capital market, empirical review on the impact of foreign direct investment on Nigeria capital market was carried out.
Ordinary least square (OLS) regression analysis (the simple linear regression method analysis) was used in the study. This analysis was used in order to find the liear relationship between the independent variables, which are: NPI and FDI; and the dependent variables which are MCP and SMV. The parameter estimated of the Net Portfolio Investment (NPI) showed that it relates positively with Market Capitalisation (MCP) but was found statistically insignificant. The Stock Market Value (SMV) variable was also found to be positively and significantly related to the Foreign Direct Investment FDI). The nation should explore and adopt all viable options of encouraging both local and international investors into the economy in order to increase foreign direct investment in Nigeria that will turn boost the capital market.

Foreign direct investment has played a significant role in the development of capital market, in particular the provision of revenue to finance socio-development projects of all the tiers of government. Net portfolio investment has been found to improve market capitalization and stock market value also influenced foreign direct investment. However, while the sector has tried to largely fulfill its objectives, there are still some loop holes to fill. Based on the issues raised above and in line with the findings of this work, the following recommendations are therefore necessary:

    i.   Understanding the Composition of Foreign Capital Flows - Understanding the composition of capital flows and what drives the flows is very important in assessing the macroeconomic impact of foreign capital flows in a capital market. to this end, it is therefore, necessary to monitor the composition of the foreign capital flows, including the currency composition and the distribution between NDI and NPI as well as the short-term borrowing of banks and government that usually distorts stock market capitalization.

    ii.   Strong Political dispensation - it is further recommended based on the research findings that the present democratic dispensation should be sustained so as to have more foreign inflows into Nigeria's capital market because the attraction of foreign investment, no matter under any policy measure depends largely on the economic and political situation of the country. As a corollary to this, a sustained democratic dispensation will boost foreign investor's confidence in Nigeria's capital market and this will lead to more inflow of foreign investment in the stock market.

    iii.   Building a Stable Macroeconomic Environment - government should put in place appropriate prudential supervision and regulatory policies that will boost continuous inflow of foreign portfolio investment in Nigeria's capital Market. Building large external reserves may not be a very wrong policy direction in so far as it is aimed at protecting against interest and exchange rate fluctuations as well as short-term funding disruptions. However, it is not a sufficient solution to financial crisis that affects the capital market due to short falls in foreign capital inflows. Developing comprehensive strategies that would forestall macroeconomic volatility, and strengthen an economy's ability to absorb both internal and external shocks is fundamental in managing financial crisis that could occur in the capital market.

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