FOREIGN DIRECT INVESTMENT INFLOWS AND CAPITAL MARKET DEVELOPMENT IN NIGERIA: EVIDENCE FROM PRIMARY AND NON-PRIMARY FDI SECTORS

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Abstract

The traditional economic theories posit that foreign direct investment inflows and the Capital markets are expected to serve as a means of complementing a nation's domestic resources given a situation where savings are less than investment needs. Several economic, political and social policies have been deliberately initiated in Nigeria, aimed at attracting Foreign Direct Investment (FDI) inflows. However, the much anticipated surge of FDI into the Nigeria economy has not yet occurred. This is particularly worrisome, as Nigeria possesses quite a number of attributes of a good FDI destination, some of which includes; size of market, availability of natural resources, low labour cost amongst others, thus necessitating the need for a study to investigate the linkage and causality between foreign direct investment inflows and capital market development in Nigeria. The Time series expo factor research design encompassing the Autoregressive Distributed Lag (ARDL) bounds testing approach to co-integration and the Toda-Yamamoto (T-Y) Granger Causality test are employed in this study using data set for 36 years. The empirical results indicate a positive relationship between FDI inflows and market capitalization both in the short-run and long-run, while the Primary and non-primary analysis indicates that the manufacturing sector receives more FDI inflows, when compared to the services and agriculture sectors. The study concludes that FDI has a complementary role to capital market development in Nigeria. It is therefore recommended that government should attract FDI by taking various steps such as: maintaining macroeconomic stability in the country, minimizing the volatility of foreign exchange and interest rate through appropriate legislations and robust financial policies.

Keywords: Capital Market, Foreign Direct Investment, Primary Sector, Non Primary Sector.

1. INTRODUCTION

The traditional economic theory teaches that 'capital starved' but labour surplus developing countries should be the net importers of financial resources from developed countries. This pattern of movement will be informed by the returns on new investment opportunities, which are considered higher where capital is limited (Olusanya, 2002). Flow of funds in the opposite direction from individuals and business organizations are considered perverse and exceptional. Financial resources essentially flow into a country through a number of means, some of which include; official flows from bilateral sources such as Organization for Economic Co-operation and Development (OECD), multilateral sources such as the World Bank, International Development Association (IDA), International Monetary Fund (IMF), International Financial Corporation (IFC), Commercial Bank loans and Foreign Direct Investment (FDI), among several other sources.

Foreign direct investment (FDI) basically relates to investment which allows investors to enjoy a perpetual interest in an enterprise in a country other than their own country and it takes the form of

building a factory, purchase of equipment or establishment of plants. Foreign direct investment can also be defined as a situation in which the concern of the investing countries is to exercise control over the assets created in the capital importing countries by means of that investment (Adaramola & Obisesan, 2015). It is generally recognized that government in developing economies have not only directed efforts to creating enabling environment for business to grow but also tried to create attractive business environment for foreign investment inflows. Foreign direct investment can further be viewed as a major stimulus to economic growth, most especially in developing countries. Its ability to effectively deal with major obstacles to development such as, shortages of financial resources and technology, skills acquisition and training, as well as contribution to corporate tax revenue in the host countries has made it the centre of attention for policy-makers in low-income earning economies in particular. Given the foregoing, the importance of foreign investment either by private or public agencies in promoting growth and development in any countries cannot be overemphasized. Within the purview the Nigerian economy, foreign direct investment is expected to serve as a means of complementing the nation's domestic resources in order to ensure development and improve the overall standard of living. Thus, the core purpose of foreign investments is to complement indigenous efforts geared at even development in any given society.

Foreign direct investment essentially has a direct relationship and exerts some level of influence on capital market development, as most of the investible funds coming into any country are usually channelled through the financial market. Over the years, several economic, political and social policies have been deliberately initiated in Nigeria, which are aimed at attracting foreign direct investment. This is because Nigeria, like other African countries, recognizes the contribution of FDI to economic development and integration into the world economy. Nigeria as a nation has been making considerable efforts to improve its investment climate since the pre-independence era till date, most especially through liberation, deregulation, privatization and enabling laws and incentives. Some of these laudable policies put in place over the years among several others include; The Aid to Pioneer Industries Ordinance and the Income Tax (Amendment) Ordinance Act of 1952, Industrial Development (Income Tax Relief) Act of 1958, Companies Act of 1968, Banking Act of 1969, Petroleum Act of 1969, National Office of Industrial Property Act 90 of 1979, Nigerian Enterprises Promotion (Issues of Non-voting Shares) Act 1987, The Nigerian Enterprises Promotion Act No. 54 1989, and the Nigerian Investment Promotion Commission (NIPC). However, the much anticipated surge of FDI into the Nigeria economy has not yet occurred (Isiaq & Sunday; 2011). This is particularly worrisome, as Nigeria possesses quite a number of attributes of a good FDI destination, some of which includes; size of market, availability of natural resources, low labour cost and high productivity, incentives, high level of human capital development, major markets proximity, etc. Given the foregoing, it is essential that the Nation gives due consideration to the option of creating the requisite environment to attract the much needed FDI inflows. One way to achieve this is to make the capital market a focal point, given the role of the latter in ensuring effective financial intermediation.

Capital markets the world over; have been recognized as a body that contributes to the socio-economic growth and development of economies. This is made possible through some of the vital function played, such as channelling resources, promoting reforms to modernize the financial sectors, financial intermediation, ability to connect deficit to the surplus sector of the economy as actual means in the mobilization and distribution of savings among competitive uses which are critical to the growth and efficiency of the economy. It helps to direct capital or long- term resources to firms with relatively high and increasing productivity thus enhancing economic development and growth. Odita and Oghoghomeh (2013) put it succinctly when they posit that a nation requires a lot of local and foreign investments to attain sustainable economic growth and development. The capital market provides a means through which this is made possible. Given also that the dearth of long-

term capital has overtime posed one of the greatest dilemma to economic development in most African countries including Nigeria, the capital market is seen as the driver of any economy to growth and development. In addition, the effective functioning of the capital market is a prerequisite for the long term growth and capital formation (Okpe, 2012). It is crucial in the mobilization of savings and channelling of such savings to profitable self- liquidating investment. The capital market has been growing considerably in Nigeria overtime and this is as a result of rapid financial and political transformation. To increase its share of FDI inflows, Nigeria has been making considerable efforts at further easing restrictions on FDI, strengthening macro stability and privatization of state-owned enterprises. Also domestic financial reforms, capital account liberalization, tax incentives and subsidies have been instituted. During the 1990s, the composition of capital flows changed dramatically in Nigeria, with bank lending being replaced mostly by foreign direct investment and then by portfolio investment. Bank lending declined from 70% of net private capital flows in the 1970s to about 20% in the 1990s. While FDI constituted the largest share of capital flows (around 50%), portfolio investment (bonds and equity) has also increased substantially, accounting for about 30% of total capital flows in the 1990s (Bismarck, 2016).

Given the foregoing, the impetus for this study is therefore predicated on a number of germane issues. First is the fact that a number of researches into foreign direct investment inflows in Nigeria have centred on aggregate data set for FDI. However, this study specifically undertakes a sectorial approach by disaggregating the FDI data set into the primary and non-primary sectors. The primary sectors focuses on the agricultural and extractive components of FDI, while the non-primary sectors can further be disaggregated into the secondary sectors (encompassing the manufacturing and construction components of FDI), and the tertiary sectors (encompassing the service component of FDI). Closely related to the above is the fact that there is a general outcry, most especially amongst public affairs analysts on the need to de-emphasize the mono-cultural approach to revenue generation in Nigeria, by creating a renewed focus on other equally viable sectors of the Nigerian economy, such as the agriculture and service sectors. This has equally created a basis for undertaken this study. More so, a number of research efforts such as those of Isiaq and Sunday (2011); Ugwuegbe, Okore and John (2013); as well as James and Jiangyan (2010); have all suggested a sectoral approach to FDI as key direction for further research. In essence, Nigerian can enjoy an increased level of development in its capital market activities, as a result of the multiplier effect of foreign direct investment inflows, specifically from the primary and non-primary sectors. It is against this backdrop that this study seeks to demonstrate how Nigeria as a nation can benefit from capital market development, as a result of the multiplier effect of foreign direct investment.

In recent times, policymakers in Nigeria have come to the conclusion that attracting foreign direct investment (FDI) inflows, is critical to the Nigerian capital development, and FDI itself is needed to boost the growth and development of the economy, especially given the prevailing economic condition. Experts posit that FDI can create employment, increase technological development in the host country and improve the socio-economic condition of the country in general (Sarumi, 2006). The reality however is that in spite of the recent improvements in the political orientation on economic management, investment policies and reforms; the business environment in Nigeria (as it relates to FDI inflows, as well as capital market development), is still a far cry in terms of competitiveness when compared to the economies that are contemporaries to the nation (Agwu, 2014). According to the World Bank ease of doing business index released in 2016, Nigeria is perceived as a difficult place to do business. The country was graded 169 out of 189 countries in 2016 overall ease of doing business; 139 out of 169 in ease of starting new business, 182 out of 189 in accessing electricity, 59 out of 189 in getting credit, 143 out of 189 in implementing contract agreements. Based on these realities, which are affecting growth of investment within the country, the need to review all policies of government restraining the flow of foreign capital into the country becomes crucial. More so, the needed attention must be given to capital market development, if the

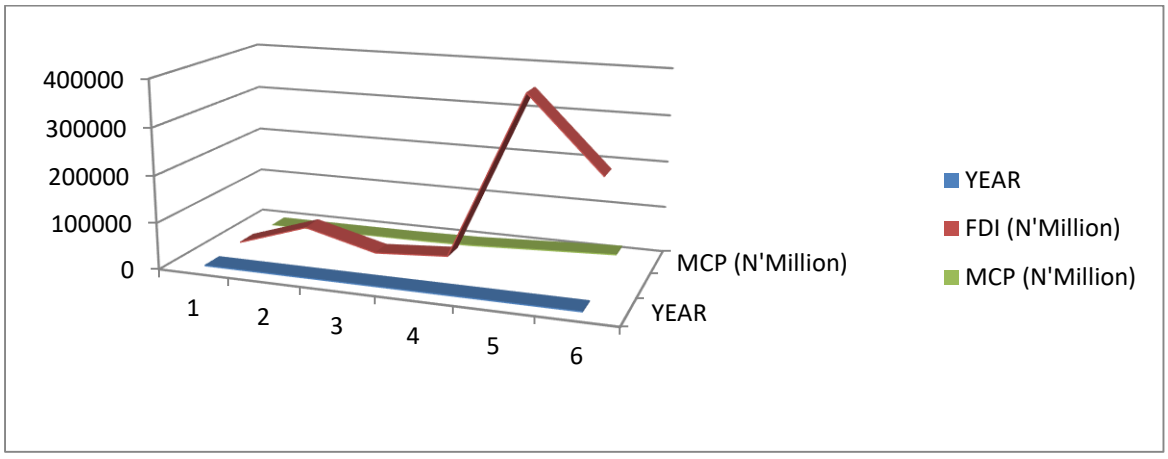
ease of doing business index in Nigeria must be improved upon. In spite of the foregoing however, it is important to note that there are recent positive government policies in Nigeria aimed at encouraging foreign capital inflows into the economy. Some of these include policies such as the abolition of import licensing system, review of import duties and tariffs, privatization of most state owned enterprises and the deregulation of the exchange rate regime. According to the Central Bank of Nigeria (2017), Nigeria ranks high in Africa along with South Africa and Egypt as major recipients of foreign direct investment. However, the influence of this receipt on the development of the Nigerian capital market, the Nigeria economy, and other economic indicators has remained a subject of intense discourse. Below is a 5 year interval trend of foreign direct investment and market capitalization (which is the measure of capital market development) in Nigeria, for 25 years from 1991 to 2015 as represented in the Table 1.1 and line graph (Figure1).

Table 1.1: Trend of foreign direct investment and capital market development

Year	Foreign Direct Investment (₦'Million)	Market Capitalization (₦'Million)
1991	5,610.2	23.1
1995	55,999.3	180.4
2000	16453.6	472.3
2005	26983.7	2,900.06
2010	381,022.20	9,918.21
2015	225,658.45	16,875.1

Source: CBN Statistical bulletin, 2016

Figure 1.1: Graphical trend of foreign direct investment and capital market development



Source: Researcher Computation (2018)

As seen from the table 1.1 and figure 1.1, the increase in foreign direct investment is not adequately reflected in the growth of the capital market as expected, considering that increase in the flow of foreign direct investment is expected to stimulate the activities in the capital market according to traditional economic theories. There is no doubt that the influence that foreign direct investment (FDI) exert on the capital markets is a critical aspect of the recent wave of globalization. The role of foreign direct investment specifically cannot be overemphasized and has been widely recognized as a growth-enhancing factor in developing countries. Given a well-developed capital market, FDI can promote economic growth in the host country through a variety of channels. FDI provides incentives to competition, innovation, and economic development. Furthermore, FDI often leads to a transfer of

technology to the affiliates of multinational firms in the host countries through the interaction between multinational firms and domestic suppliers, customers and worker mobility. In essence, Nigerian can enjoy an increased level of development in its capital market activities, as a result of the multiplier effect of foreign direct investment inflows, specifically from the primary and non-primary sectors. It is against this backdrop that this study seeks to demonstrate how Nigeria as a nation can benefit from capital market development, as a result of the multiplier effect of foreign direct investment, through an in-depth examination of the nexus between Capital Market Development and Foreign Direct Investment inflows in Nigeria using the primary and non-primary sectoral analysis.

2. LITERATURE REVIEW

2.1 Conceptual Framework

In contemporary times, the issues revolving around domestic and foreign policies are gravitating towards a common international economic order induced by globalisation, foreign direct investment and capital markets therefore represents a major form of cross-border resource flow among several countries of the world. More than ever before, more firms in numerous industries and across several countries are expanding abroad through foreign direct investment.

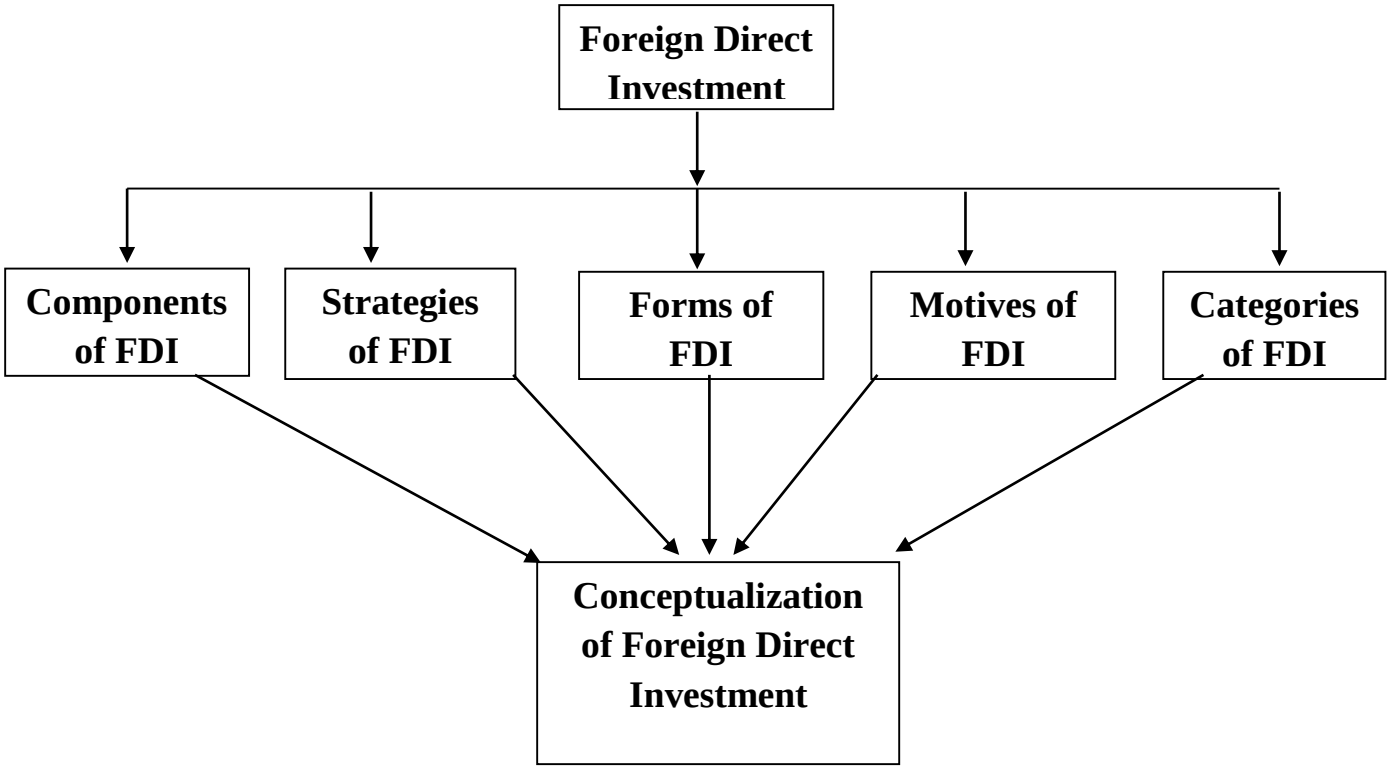
2.1.1 Concept of Foreign Direct Investment

According to Drahokoupil (2014), foreign direct investment (FDI) is an investment in the form of a controlling ownership in a business in one country by an entity based in another country. It is thus distinguished from foreign portfolio investment by a notion of direct control. This is because the origin of the investment does not impact the definition as an FDI, rather the investment may be made either 'inorganically' by buying a company in the target country or 'organically' by expanding operations of an existing business in that country. Divine (2016), defines foreign direct investment as those investment from one country into another, usually undertaken by firms rather than central governments, which involves establishing operations, acquiring tangible assets, acquiring stakes in other businesses, and purchase or establishment of income-generating assets in a foreign country, usually encompassing some level of control of operations or the entire organization. The objective of investors is to acquire lasting interest and effective control in the management of the enterprise in which direct investment takes place. They may not necessarily have major shareholding, but having an effective role in the management, suggesting that the foreign investor has the potential to influence or participate in the management of an enterprise. Thus, it is the element of influence and control that distinguishes direct investment from portfolio investment (OECD, 2005).

The World Bank (1996) conceptualized foreign direct investment as investment that is made to acquire a lasting management interest (usually 10% of voting stock) in an enterprise and operating in a country other than that of the investor. The Organization for Economic Corporation and Development (2005) puts it succinctly, when it posited that foreign direct investment is the result of the general activities of 'a direct investment enterprises'. A direct investment enterprise is an incorporated or unincorporated enterprise in which a single foreign investor either owns 10% or more of the ordinary shares or voting power of an enterprise (unless it can be proven that the 10% ownership does not allow the investor an effective voice in the management), or owns less than 10% of the ordinary shares or voting power of an enterprise, yet still maintains an effective voice in management. An effective voice in management only implies that direct investors are able to influence the management of an enterprise and does not imply that they have absolute control. The most important characteristic of FDI, which distinguishes it from foreign portfolio investment, is that it is undertaken with the intention of exercising control over an enterprise.

Foreign direct investment is essentially a direct investment into production or business activity 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 (Adeleke, Olowe & Fasesin; 2014). Olopoenia (1985) observes 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), view FDI as an attempt by individuals, groups, companies and government of a nation to move resources of productive purpose across its country to another country with the anticipation of earning some surplus. Otepola (2012) 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 remains small or even declining. Caves (1996), observes that the rationale for increased efforts to attract more FDI stems from the belief that FDI has several positive effects and 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. Consequently, foreign direct investment can be conceptualised within the context of a model and as such the conceptual model of FDI can be assessed from five (5) basic perspectives encompassing the components of FDI, strategies of FDI, the forms of FDI, the motives of the FDI and the categories of FDI as diagrammatically represented below.

Figure 2.1: Conceptual Model of Foreign Direct Investment



Source: Researcher, 2018.

Firms making the decisions on FDI sometimes accommodate the various components simultaneously in the normal course of their business operations. Though they do not have to occur in the sequence, but are interrelated with one another, and these components are more closely examined. Foreign direct investment basically has three components and these components include the following:

Equity capital; Reinvested earnings; other capital (Intra-company loans). Equity capital as a component of FDI is quite heterogeneous and can be distinguished by looking at whether; the activity in the host country is just an intermediate phase in a longer production chain or it gives rise to a finished good; the production phase performed in the host country (design, manufacture, distribution); and where the outcome of the process in the host country will be sold (there or abroad). Reinvested earnings on the other hand refer to the investor's share of earning not distributed as dividends by affiliates, in proportion to its share in the equity. It can be viewed as divestments or reverse investment (investment by a foreign affiliate in its parent firm). Reinvested earnings reflect the long term commitment of firms towards their operations in the capital importing countries (Akinlo, 2004). An intra-company loan is a given situation when the investor borrows funds to the affiliate, usually without the intention of asking the money back. It is a way of financing company activities from within the financial group (to which all the companies are affiliated), either through cash pooling schemes or grants by parent company. Intra-company loan is significantly different from 'debt transactions', which is a scenario of short-term or long-term borrowing and lending of funds between direct investors and affiliate enterprises, which are not considered as FDI. However, the intra-company loan as a component of FDI is usually more volatile and depends on a number of factors such as tax rates, interest rate differentials and exchange rate changes (Ali, 2015).

FDI comes in different strategies depending on the objectives of the investor, but from a broad perspective, there are two main strategies of foreign direct investment, namely: the Greenfield investment and; the brown field investment. The term Greenfield investment refers to a project where a company builds the entirety of its operations in a foreign market starting from scratch, or a so called 'green field' (Greenfield Investment Manual, 2016). The brown field investment on the other hand referred to a situation where a company or government entity purchases or leases existing production facilities to launch a new production activity. This is one strategy used in foreign-direct investment. The alternative to this is a green field investment, in which a new plant is constructed (Investopedia, 2016). There are essentially three form of FDI, namely; Horizontal form of FDI, Horizontal form of FDI, Vertical form of FDI and Conglomerate form of FDI. Horizontal FDI refers to the type of direct investment between industrialized countries as ways to avoid trade barriers, gain better access to the local economy, or draw on technical expertise in the area by locating near other established firms (Horizontal Foreign Digest, 2007). Vertical foreign direct investment, by contrast, occurs when a firm in an industrialized country lowers cost by relocating the production process to low-wage countries (Foreign Direct Investment Book Achieve, 2012).This suggests that, vertical FDI occurs if a company invests in a business that plays the role of a supplier or a distributor or when different stages of activities are added abroad. According to the financial times Lexicon (2016), conglomerate as a form of foreign direct investment is a given situation where an unrelated business is added abroad. This is the most unusual form of FDI as it involves attempting to overcome two barriers simultaneously - entering a foreign country and a new industry. This leads to the analytical solution that internationalisation and diversification are often alternative strategies, not complements.

Foreign direct investment can also be, categorized based on the motive behind the investments from the perspective of the investing firm. According to the Foreign Direct Investment Book Achieve (2012), this categorization take four forms which includes: Natural resource-seeking investment; Market-seeking investment; Efficiency-seeking investment; and Strategic asset-seeking investment. Consequently, Sachin (2015) categorized foreign direct investments into four distinct groups namely; Inward foreign direct investment; Outward foreign direct investment; Subsidies for local businesses (also known as Target Greenfield investment); as well as Mergers and Acquisitions. Inward foreign direct investment is a given situation in which foreign capital is invested in local resources. Inward FDI is usually encouraged by a number of factors including; tax breaks, subsidies, low interest loans, grants, and lifting of certain restrictions. The thought and principle that drives this form of investment is that, the long term gain is worth short term loss of income. Outward foreign direct

investment, on the other hand, sometimes called 'direct investment abroad', occurs when local capital is invested in foreign resources. Like the inward FDI, outward FDI is equally encouraged by a major factor which government-backed insurance to cover risk. Subsidies for local businesses by target Subsidies for local businesses (Target Greenfield investment), is a form of direct investment in new facilities or the expansion of existing facilities. Target Green field investments are the primary target of a host nation's promotional efforts because they create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to the global marketplace. Mergers and acquisitions essentially involves the situation where transfers of existing assets from local firms to foreign firms takes place and this is often regarded as the primary type of FDI (Sachin, 2015). Mergers and acquisitions also take the form of cross-border mergers as well as cross-border acquisitions. Cross-border mergers occur when the assets and operation of firms from different countries are combined to establish a new legal entity, while cross-border acquisitions occur when the control of assets and operations is transferred from a local to a foreign company, with the local company becoming an affiliate of the foreign company.

2.1.2 Concept of Capital Market

The capital market is a financial market in which long-term debt or equity-backed securities are bought and sold. It is perceived as a market in which money is provided for periods longer than a year. Capital markets channel the wealth of savers to those who can put it to long-term productive use, such as companies or governments making long-term investments (Laura, Victor, Delia & Andreea; 2008). Financial regulators, such as the Securities and Exchange Commission (SEC), oversee the capital markets in their jurisdictions to protect investors against fraud, among other duties. According to Ziorklui (2001), modern capital markets are almost invariably hosted on computer-based electronic trading systems; most can be accessed only by entities within the financial sector or the apex regulatory agencies of governments. In most developed economies however, trading systems can be accessed directly by the public. A capital market can be either a primary market or a secondary market. In primary markets, new stock or bond issues are sold to investors, often via a mechanism known as underwriting. The main entities seeking to raise long-term funds on the primary capital markets are governments (which may be municipal, local or national) and business enterprises (companies). Governments issue only bonds, whereas companies often issue either equity or bonds. The main entities purchasing the bonds or stock include pension funds, hedge funds, sovereign wealth funds, and less commonly wealthy individuals and investment banks trading on their own behalf. In the secondary markets, existing securities are sold and bought among investors or traders, usually on an exchange, over-the-counter, or elsewhere. The existence of secondary markets increases the willingness of investors in primary markets, as they know they are likely to be able to swiftly cash out their investments if the need arises (Uche, 2016). A second important division falls between the stock markets (for equity securities, also known as shares, where investors acquire ownership of companies) and the bond markets (where investors become creditors).

2.2 Empirical Literature

A number of researches and studies have been carried out on the contributions and effect of foreign direct investment on both the Nigerian capital market development and the Nigerian economy. Some of the notable empirical literatures which are considered relevant to this research effort are closely examined below. Adaramola and Obisesan (2015) examine the impact of foreign direct investment on the Nigerian capital market development. 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. They explored the instrumentality of the ordinary least squares regression analysis to analyse the data in the course of the research. The study showed that relationship between foreign direct investment and capital market development is positive and significant especially in the

short run. However given the low beta weight in their analysis, they suggested that emphasis on foreign direct investment as a way of stimulating long run growth in the developing country like Nigeria is not worth the while. It was recommended, based on research findings that the present democratic dispensation should be sustained so as to have more foreign inflows into Nigeria because the attraction of foreign investment, under any policy measure depends largely on the economic and political situation of the country.

Furthermore, Odo, Anoke, Nwachukwu, and Agbi (2016) equally undertook a study to examine the impact of foreign direct investment on the growth of the Nigeria stock market using co integration, vector error correction model (VECM) and pair wise granger causality econometric process in the estimation of the variables specified in the regression model. The results of the test revealed a long run equilibrium relationship between the dependent and explanatory variables as supported by the existence of four (4) co integration vectors. The findings from the VECM indicated that FDI and export has negative relationship with stock market growth both in the long and short run while import (IMP) and gross capital formation (GCF) was found to have a positive relationship with stock market growth both in the short and long run periods. The result of the pair wise granger causality indicated no causality between FDI and stock market growth. A unidirectional causality however was found running from market capitalization (MCAP) to GCF, IMP to MCAP and FDI to GCF. Based on the above results, the study concludes that foreign direct investment has no significant impact on stock market growth in Nigeria, and they recommend that government should by conscious policy ensure that foreign investors sourcing for investment funds in Nigeria are encouraged to go through the Nigeria stock market in raising their funds, in addition to the active participation of all multinational companies operating in Nigeria in the activities of the Nigeria stock market.

Isiaq and Sunday (2011), equally sought to investigates the impact of foreign direct investment and capital market development on growth in Nigeria, for the period 1980-2009. Their study employed the econometric techniques of unit root test, co-integration and error correction mechanism. The results showed that both foreign direct investment, its lagged and lagged stock market development have small, and a statistically significant effect on economic growth. The results seem to support the argument that extractive FDI and capital market development were growth enhancing. But the trends results show that both FDI and capital market development have cyclical movement and that lagged exchange rate has positive effect on growth. Their Co-integration analysis also reveals existence of long-run relationship among FDI, capital market development and economic growth. Contrary to previous researchers who found FDI and capital market development to be negatively affecting growth in Nigeria, their study found significant positive impact on growth in Nigeria.

2.3 Theoretical Review

Although, there have been substantial research efforts devoted by different scholars in determining what seems to be an optimal impact of foreign direct investment, yet there is no universally accepted theory throughout the literatures explaining the FDI and capital market relationship. But in the last decades, several theories have emerged explaining FDI structure and the resultant effects on market values.

2.3.1 The Eclectic Theory of FDI (OLI Paradigm)

The eclectic theory of FDI is simply a theory that suggests that a firm will only invest in an investment environment that would fulfil and satisfies the three FDI criteria of O (Ownership); L (Locational) and I (Internationalization) factors (Jones, 2006). The eclectic paradigm theory proposed by Dunning (1980), suggested that a firm will be motivated to invest in foreign countries,

under three basic conditions. The first condition suggests that there are relative ownership advantages in comparison to other firms. Owner advantages specific to firms such as skills, research and development, marketing, scientific and technical works optimally utilized can overcome the additional costs of establishing production facilities. These advantages must be excludable to compete in a foreign market (Dunning, 1980). The advantage of internalisation on the other hand, is more beneficial than transferring them to foreign firms through lease or selling. Prevalence of locational advantages by ownership can be in terms of a large market to benefit from large scale economies, cheaper cost of production, superior infrastructure. Similarly, presence of non-transferable advantages which can be used simultaneously by firms will also lead to flow of funds in foreign countries (Jones, 2006). This theory synthesizes other theories added with locational benefits and is also called the Ownership, Location, and Internalization (OLI) paradigm. When there are internationalization gains in absence of locational advantage by investing abroad, the obvious choice is increase in production at home and export of produce. However when firms having ownership experience and locational advantage, it is more profitable to produce abroad. Similarly if there are no internalisation gains then the firm is better off licensing its ownership advantage to foreign firms (Nayak & Choudhury 2014). Thus, to gain further appreciation of this theory, the main thrust of the OLI paradigm is represented below.

2.3.2 Foreign Exchange Rate Theory (FDI Theory Based on Strength of Currency)

Foreign exchange rate is the relative strength of various currencies across the world. Experts generally agree that high volatility of currency reflect economic instability and discourages inflow of foreign funds and portrays uncertainty in future. This theory as propounded by Aliber (1970) attributes the flow of foreign direct investment on the strength or weakness of a country's currency. Aliber (1970) posited that weaker currencies compared with stronger investing country currencies had a higher capacity to attract foreign direct investment so as to enjoy the differences in the market capitalization rate.

2.3.3 Industrial Organizational Theory

The Industrial organizational theory posits that the germane issue for investors in venturing into other countries is the competition from the local entities. The theory assumes that the locals have better understanding of the market in terms of ease of working, language, rules and regulations and attitude. This competition can only be dealt with favourably, if the investment origin countries bring in superior technology in the process of their investment incursions (Nayak & Choudhury, 2014). As such, when the large Multinational companies enter into a new economy, most especially those of developing countries, they not only bring funds but also other important modern technology, such as superior management sills, brand names, marketing and management skills and economies of scale. As a result it helps these companies to overcome disadvantages from the changing environment. According to industrial organisation theory therefore, investors choose the host country depending on the comparative advantage of transportation and local regulatory trade barriers (Wilhelms, Stanley & Witter; 1998).

2.3.4 Modern Portfolio Theory

The modern Portfolio theory is a mathematical framework for assembling a portfolio of assets, such that the expected return is maximised for a given level of risk, defined as variance. Its key insight is that an asset's risk and return should not be assessed by itself, but by how it contributes to a portfolio's overall risk and return (Markowitz, 1952). Modern Portfolio theory is essentially about finding the balance between maximizing returns and minimizing risk. The objective is to select investments in such a way as to diversify the risks and while at the same time not reducing expected return. While it does not replace the role of an informed investor, it can provide a powerful tool to

complement an actively managed portfolio. A portfolio consists of a number of stocks, bonds and mutual funds and the mix of these assets constitutes portfolio allocation. How a portfolio is allocated determines its performance. During the first quarter of every year, investors typically spend few hours reallocating their retirement accounts and most allocation decisions are based on past performance, feelings, or some arbitrary selection process (Merton, 1972).

2.3.5 Efficient Market Hypothesis

Traditionally, the dominant school of thought in finance is the Efficient Market Hypothesis (EMH). In its simplest form, the EMH asserts that market prices reflect all available information. Theoretically based in mathematics, the EMH is the foundation for much of the inquiry in the discipline, but empirical studies have shown results that are, at best, mixed. The EMH is based on several assumptions and it asserts that past information does not affect market activity (that is, the process is "memoryless"), once this information is generally known (Lucas, 2016). Another assumption is that capital market behaviour follows a 'random walk' and with a sufficiently large sample, the returns become well approximated by a normal distribution. A market is said to be 'efficient' where there are large numbers of rational, profit-maximizers actively competing, with each trying to predict future market values of individual securities, and where important current information is almost freely available to all participants (Merton, 1972). In an efficient market, competition among the many intelligent participants leads to a situation where, at any point in time, actual prices of individual securities already reflect the effects of information based both on events that have already occurred and on events which, as of now, the market expects to take place in the future. In other words, in an efficient market at any point in time the actual price of a security will be a good estimate of its intrinsic value, hence an efficient market is one where the market price is an unbiased estimate of the true value of the investment.

3. METHODOLOGY

Given that research design sets out the frame work for adequate test of relation among variables and essentially serves the blue print of activities or specification of procedures and strategies to follow so as to obtain the most valid answers to research questions (Hassan, 1995), this study adopts the time series expo factor research design encompassing a battery of econometrics techniques. The population consisted of the aggregate figures of macro-level foreign direct investment inflows disaggregated into three sectors namely; the extractive and agricultural sector, the manufacturing and services sectors. As against sampling, a total census of the aggregate data set was utilized for this study and the data used for this study is drawn from the three layers of foreign direct investment inflows, in addition to the data set for market capitalization, trade openness, inflation rate and exchange rate. A period of thirty six years (1981 – 2016) is selected in order to bring a clearer picture of the problem in a determinable period of time.

The technique for data analysis adopted for this study is the Autoregressive Distributed Lag (ARDL) bounds testing approach to co-integration. The model adopted for this study is in line with the theoretical framework following the work James and Jiangyan (2010), which investigates whether the determinants of FDI of a recipient country affects its foreign direct investments inflows. However, the effect of FDI inflow was tested from a sectoral approach and it is predicated on the three key sectors (encompassing manufacturing, services and agricultural sector) of the Nigerian economy with respect capital market development. The three models to be estimated are expressed in logarithms as follows:

$$InMCAP = \beta_0 + \beta_1 InFDIM + \beta_2 TOPEN + \beta_3 INFR + \beta_4 EXR + \mu \quad (3.1)$$

$$InTVST = \beta_0 + \beta_1 InFDIS + \beta_2 TOPEN + \beta_3 INFR + \beta_4 EXR + \mu \quad (3.2)$$

$$InMCAP = \beta_0 + \beta_1 InFDIA + \beta_2 TOPEN + \beta_3 INFR + \beta_4 EXR + \mu \quad (3.3)$$

Where:

MCAP= Represents market capitalization, and a measure of capital market development;
FDIM = Represents foreign direct investment inflows to manufacturing sector;
TOPEN=Represents trade openness;
INFR = Inflation rate;
EXR = Exchange rate (EXR) as relevant control variables;
TVST = Total value of shares traded;
FDIS = Foreign direct investment inflows to services sector;
FDIA = Foreign direct investment inflows to agricultural sector;

The model employed a number of variables, namely capital market development captured by market capitalization as percentage of GDP, foreign direct investment inflows to manufacturing sector (representing the mid-way between the extractive and service sectors), trade openness, inflation rate and exchange rate. The Toda-Yamamoto (T-Y) Granger Causality test was emploed to determine the causal relationship between the two focus variables; foreign direct investment inflow to manufacturing sector (FDIM) and market capitalization (MCAP). Such an exercise provided an understanding of the interactions among the variables in the system and shed light on the directions of the causality. Wald test was also used to test whether all the lagged values of *X* in the *Y* equation are simultaneously equal to zero. *X* Granger causes *Y* if $\sum \beta \neq 0$ and, if both $\sum \delta \neq 0$ and $\sum \beta \neq 0$ then there exists bidirectional causality between *Y* and *X*. However, the Augmented Granger Causality Test developed by Toda-Yamamoto (T-Y) was adopted in the present study.

4. RESULT AND DISCUSSIONS

In order to establish an empirical relationship between capital market development and foreign direct investment in Nigeria, the results of the estimates are systematically presented with respect to the model specification. The estimation technique and procedure captures the objectives of the research as stated in. The estimation was carried out using Econometrics Views 9.5. The data set used in analyzing this research is shown in Appendix 1.

4.1 Unit root tests

Econometric studies have shown that most financial and macro-economic time series variables are non-stationary and using non-stationary variables leads to spurious regression (Engel & Granger, 1987). The first step to check for an indication of unit root is to use the graphical plots of variables. The graphs show a trend, suggesting the existence of unit root. The graphical method cannot be relied upon to check for unit root because of its limitations. Thus, the variables were investigated for their stochastic properties, using the augmented Dicky–Fuller (ADF) and Philips–Peron (PP) tests. The results of the augmented Dicky–Fuller and Philips–Peron tests are reported below in Table 4.1.

Table 4.1: Traditional Unit Root Test Results (Trend and Intercept)

Variable	ADF	PP
MCAP	-2.246793	-2.038619
TVST	2.246227**	0.293290
FDIM	-3.59761**	-2.245143

FDIS	-1.463454	1.345331
FDIA	-4.320014	2.642427
TOPEN	1.411244	-1.535309
INFR	-2.683544	-2.544030
EXR	-1.045967	-1.045967
ΔMCAP	-5.192698*	-8.108108*
ΔTVST	1.723959***	-6.189716*
ΔFDIM	-4.625775*	-3.951627**
ΔFDIS	-5.010771*	5.642493*
ΔFDIA	-5.572671*	-5.590422*
ΔTOPEN	-5.346643*	-9.661332*
ΔINFR	-6.658987*	-7.941262*
ΔEXR	3.060236*	3.060236*

Note: * Indicates stationary at the 1% level and ** Indicates stationary at 5% level.
Source: Researcher's Computations Using E-views 9.5.

Results from Table 4.1 showed that most variables were not stationary at level 5%. Therefore, cointegration can be performed to investigate the long-run relationship between variables.

4.2 Co-integration Test

4.2.1 Manufacturing Sector Co-integration Test

The next task of the study, having established the order of integration, is to establish long run relationship among the variables. Thereafter, the ADRL-bounds testing approach is used to determine whether a long-run cointegration relationship exists between the variables of interest. The result of the cointegration test is presented in Table 4.2.

Table 4.2: Manufacturing Sector Cointegration Results

Null Hypothesis: No Long-run Relationships Exist		
Test Statistic	Value	K
F-Statistic	3.185770	4
Critical Value Bounds		
Significance	Lower Bound	Upper Bound
5%	2.45	3.12

Source: Researcher's Computations (2018)

The cointegration test result showed that the F-statistic is greater than the lower and upper bound critical value at the 5% significance level. Thus the null hypothesis of no long-run relationship is rejected at the 5% significance level. It can therefore be inferred that the variables are cointegrated.

4.2.2 Manufacturing Sector Estimated Error Correction and Long-run Models

In view of the cointregration relationship between the dependent variable and the regressors, the study proceeded to estimate the error correction and long-run models. The results of the estimations are presented in Table 4.3 below:

Table 4.3: Results of Estimation of Error Correction and Long-run Models

Dependent Variable: LOG(MCAP)

Selected Model: ARDL(1, 0, 4, 1, 4)

Cointegrating Form (ECM)

Variable	Coefficient	t-Statistic	Prob
DLOG(FDIM)	0.381***	3.154	0.00
DLOG(TOPEN)	0.106	0.477	0.64
DLOG(TOPEN(-1))	0.877**	2.679	0.02
DLOG(TOPEN(-2))	0.445	1.624	0.12
DLOG(TOPEN(-3))	-0.372	-1.616	0.12
DLOG(INFR)	0.085	0.295	0.77
DLOG(EXR)	0.234	1.395	0.18
DLOG(EXR(-1))	0.153	0.794	0.44
DLOG(EXR(-2))	-0.234	-1.189	0.25
DLOG(EXR(-3))	-0.188	-1.103	0.28
ECM (-1)	-0.327***	-2.949	0.00
Long Run Coefficients			
LOG(FDIM)	1.165***	3.645	0.00
LOG(TOPEN)	-3.209**	-2.151	0.05
LOG(INFR)	3.173*	1.766	0.09
LOG(EXR)	0.694**	2.600	0.02
C	-4.784	-1.074	0.29

Note: *, **, *** indicate significance at 10, 5 and 1 percent respectively. p-values are reported in square brackets.

Source: Researcher's Computations (2018)

As expected, the lagged error correction term is negative and statistically significant at 1 percent level. Since, the coefficient of the lagged error correction term is negative and significant; the coefficient reveals the speed at which the entire system adjusts towards long-run equilibrium. The coefficient of ECM is (-0.33) which shows speed of adjustment from short run fluctuations to long

run equilibrium (33% discrepancy is corrected each year) approximately to 33.3 percent of disequilibrium from the previous year's shock convergence back to the long run equilibrium in the current year.

All the variables are correctly signed in the short-run except inflation rate that is positive and third period lagged trade openness that is negative. The study found that foreign direct investment in manufacturing sector (FDIM) had a positive significant effect on capital market development in the short-run meaning that foreign direct investment in manufacturing sector is contributing towards capital market development in Nigeria. Specifically, a percentage change in foreign direct investment in manufacturing sector will led to 0.381% increases in capital market development in the short run. Trade openness has a positive relationship with capital market development during the study period in the short-run. Further evidence suggested that one period lagged trade openness is directly and significantly related to capital market development. The inclusion of the trade openness variable, (TOPEN), is to measure the extent to which increased trade flow resulting from globalization could have an effect on capital market development in Nigeria. The coefficient of 0.877**suggested that increased openness has a significant and a larger effect on capital market development in Nigeria during the study period. Thus, a small variation in the factors influencing openness will provoke a large increase in capital market development in the short-run.

The effect of inflation on capital market development is positive but minimal. Specifically, a percentage change in inflation will led to 0.085 increases in capital market development. The positive association between inflation and capital market development suggest that Nigeria's capital markets are hedge against inflation. In other words, the capital market is an alternative place for investors to hedge their risk against inflation in Nigeria. Also, the coefficient of exchange rate (EXR) had a positive relationship with capital market development except second and third periods lagged exchange rate that are negatively related. This implies that a percentage increase in EXR will lead to an increase in capital market development by 0.153% in the short run. This implies that depreciation of the currency in Nigeria does stimulate capital market development.

From Table 4.3, the long term significant determinants of capital market development are largely from foreign direct investment in manufacturing sector, trade openness, inflation and exchange rate. As 1 percent change in foreign direct investment in manufacturing sector results in a 1.165% change in capital market development in the long run. This result is in agreement with theoretical prediction of the Eclectic Theory, Foreign exchange rate theory, as well as the OLI Paradigm. This further confirms that the relationship between FDI and capital market development is complementary both in the short-run and long-run. Also, the long run effect of the coefficient of trade of openness on capital market development is negative and statistically significant. This long-run result is in agreement with third period lagged trade openness in the short-run that is negatively signed. Inflation and exchange rate are observed to be positively related to capital market development in the long-run. This long-run result is in agreement with the short-run result and theoretical prediction.

4.2.3 Services Sector Co-integration Test

The result of the cointegration test is presented in Table 4.5.

Table 4.5: Services Sector Cointegration Results

Null Hypothesis: No Long-run Relationships Exist		
Test Statistic	Value	K
F-Statistic	4.152209	4
Critical Value Bounds		
Significance	Lower Bound	Upper Bound

5%	2.86	4.01

Source: Researcher's Computations (2018)

The cointegration test result showed that the F-statistic is greater than the lower and upper bound critical value at the 5% significance level. Thus the null hypothesis of no long-run relationship is rejected at the 5% significance level. It can therefore be inferred that the variables are cointegrated.

4.2.4 Services Sector Estimated Error Correction and Long-run Models

In view of the cointregration relationship between the dependent variable and the regressors, the study proceeded to estimate the error correction and long-run models. The results of the estimations are presented in Table 4.6 below:

Table 4.6: Services Sector Estimation of Error Correction and Long-run Models

Dependent Variable: LOG(TVST)

Selected Model: ARDL(1, 4, 4, 4, 4)

Cointegrating Form (ECM)

Variable	Coefficient	t-Statistic	Prob
DLOG(FDIS)	-0.327	-0.641	0.54
DLOG(FDIS(-1))	-0.449	-0.940	0.37
DLOG(FDIS(-2))	0.657	1.348	0.21
DLOG(TOPEN)	-0.321	-0.361	0.73
DLOG(TOPEN(-1))	2.347**	3.171	0.01
DLOG(TOPEN(-2))	-0.313	-0.355	0.73
DLOG(INFR)	0.714	1.028	0.33
DLOG(INFR(-1))	-1.690	-1.491	0.17
DLOG(INFR(-2))	0.903	0.869	0.40
DLOG(EXR)	-0.876	-1.455	0.18
DLOG(EXR(-1))	0.743	1.362	0.20
DLOG(EXR(-2))	-0.631	-1.239	0.24
ECM (-1)	-0.924**	-2.459	0.02
Long Run Coefficients			
LOG(FDIS)	-79.901	-0.025	0.98
LOG(TOPEN)	25.730	0.025	0.98
LOG(INFR)	-89.852	-0.026	0.98
LOG(EXR)	70.666	0.026	0.97
C	19.994	0.027	0.97

***Note**: *, **, *** indicate significance at 10, 5 and 1 percent respectively. p-values are reported in square brackets.*

Source: Researcher's Computations (2018)

As expected, the lagged error correction term is negative and statistically significant at 1 percent level. Since, the coefficient of the lagged error correction term is negative and significant; the coefficient reveals the speed at which the entire system adjusts towards long-run equilibrium. The coefficient of ECM is (-0.92) which shows speed of adjustment from short run fluctuations to long run equilibrium (92% discrepancy is corrected each year) approximately to 92 percent of

disequilibrium from the previous year's shock convergence back to the long run equilibrium in the current year. Results for the services sector indicated that FDI had an insignificant short-run and long-run effect on capital market development. Results showed that a percentage change in foreign direct investment in services sector will led to -0.327% decrease in capital market development in the short run and -79.901% decrease in the long. This is a clear indication that services offered by the services sector do not play a significant role in capital market development. Therefore, the increase in FDI to the services sector does not necessarily translates to a simultaneous increase in the development of capital market in Nigeria.

4.2.5 Agricultural Sector Co-integration Test

The result of the cointegration test is presented in Table 4.7.

Table 4.7: Agricultural Sector Cointegration Results

Null Hypothesis: No Long-run Relationships Exist		
Test Statistic	Value	K
F-Statistic	4.179859	4
Critical Value Bounds		
Significance	Lower Bound	Upper Bound
5%	2.86	4.01

Source: Researcher's Computations (2018)

The cointegration test result showed that the F-statistic is greater than the lower and upper bound critical value at the 5% significance level. Thus the null hypothesis of no long-run relationship is rejected at the 5% significance level. It can therefore be inferred that the variables are cointegrated.

4.2.6 Agricultural Sector Estimated Error Correction and Long-run Models

In view of the cointregration relationship between the dependent variable and the regressors, the study proceeded to estimate the error correction and long-run models. The results of the estimations are presented in Table 4.8 below:

Table 4.8: Agricultural Sector Estimation of Error Correction and Long-run Models

Dependent Variable: LOG(MCAP)

Selected Model: ARDL(1, 3, 4, 2, 3)

Cointegrating Form (ECM)

Variable	Coefficient	t-Statistic	Prob
DLOG(FDIA)	-0.388*	-1.751	0.10
DLOG(FDIA(-1))	-0.305*	-1.876	0.08
DLOG(FDIA(-2))	0.512*	3.057	0.08
DLOG(TOPEN)	0.558**	2.076	0.05
DLOG(TOPEN(-1))	0.559	1.611	0.13
DLOG(TOPEN(-2))	0.179	0.392	0.70
DLOG(TOPEN(-3))	-1.183**	-3.782	0.02
DLOG(INFR)	-0.569*	-1.862	0.08
DLOG(INFR(-1))	0.845*	1.766	0.09
DLOG(EXR)	0.576*	1.840	0.08
DLOG(EXR(-1))	0.316	1.372	0.19
DLOG(EXR(-2))	-0.481*	-1.990	0.07
ECM (-1)	-0.781**	3.523	0.03

Long Run Coefficients			
LOG(FDIA)	-7.918	-0.950	0.36
LOG(TOPEN)	10.251	0.717	0.49
LOG(INFR)	-6.162	-0.766	0.46
LOG(EXR)	8.929	1.132	0.28
C	33.087	1.212	0.25

Note: *, **, *** indicate significance at 10, 5 and 1 percent respectively. p-values are reported in square brackets.

Source: Researcher's Computations (2018)

As expected, the lagged error correction term is negative and statistically significant at 1 percent level. Since, the coefficient of the lagged error correction term is negative and significant; the coefficient reveals the speed at which the entire system adjusts towards long-run equilibrium. The coefficient of ECM is (-0.78) which shows speed of adjustment from short run fluctuations to long run equilibrium (78% discrepancy is corrected each year) approximately to 78 percent of disequilibrium from the previous year's shock convergence back to the long run equilibrium in the current year.

Results for the agricultural sector indicated that FDI had a significant negative short-run effect on capital market development. Results showed that a percentage change in foreign direct investment in agricultural sector will led to -0.388% decrease in capital market development in the short run and -7.918% decrease in the long. Empirical studies found that FDI tended to be insignificant for the development of agriculture, essentially because FDI inflows had little spill over potential for the sector. Theories on the relationship between FDI and development are usually formulated for the manufacturing industry (Alfaro 2004). This position is in line with findings on foreign direct investment in manufacturing sector model, reported in Table 4.3. The study found that foreign direct investment in manufacturing sector (FDIM) had a positive significant effect on capital market development in the short-run suggesting that foreign direct investment in manufacturing sector is essentially the dominant sector contributing towards capital market development in Nigeria.

4.3 Augmented Granger Causality Test Results

To confirm and establish the existence of causal relationship between foreign direct investment inflow to manufacturing sector and capital market growth in Nigeria and to further confirm the existence of long-run cointegrating relations between the variables, the Augmented Granger Causality test developed by Toda-Yamamoto was conducted. Cointegration relationship also implies existence of causal relationships (unidirectional or bidirectional) between the variables (Gujarati & Porter, 2009). Table 4.9 reports the causality results for the model during the study period.

Table 4.9: Toda-Yamamoto Causality Test Results

	Dependent variable: D(MCAP)			Decision	Causality
Excluded	Chi-sq	Df	Prob.		Unidirectional
D(FDIM)	4.452493	2	0.1079	Accept	
	Dependent variable: D(FDIM)				
Excluded					

D(MCAP)	21.20519	2	0.0000	Reject

Source: Researcher's Computations (2018).

The essence of this test is to investigate the causal links amongst the variables. This test is important in the sense that it gives information about the direction of causality amongst the variables. There are basically three possible outcomes: unidirectional, bidirectional or neutral/independent relationships.

The result of the Toda-Yamamoto causality test as shown in Table 4.9 showed that causality between foreign direct investment inflows to manufacturing and capital market growth in Nigeria does exist during the study period. The probability value of market capitalization (MCAP) which is 0.0000 showed that market capitalization (MCAP) does granger cause foreign direct investment inflows to manufacturing by one percent level of significance when foreign direct investment inflows to manufacturing is the dependent variable. This result implies that only a unidirectional causality exists between the two focus variables. By implication, there is a causal link between foreign direct investment inflows to manufacturing and capital market growth. Next, the study presents graphically the estimated Toda Yamamoto model.

4.4 Discussion of Findings

The study examined and investigated the nexus between foreign direct investment inflows and capital market development in Nigeria using Autoregressive Distributed Lag (ARDL) framework. A summary of the cointegration results from the Table 4.2, 4.5 and 4.7 showed that cointegration was found among the variables in all sectors (Primary, Secondary and Tertiary), which suggests that there is a long-term relationship among them. The cointegration test results showed that the F-statistic is greater than the lower and upper bound critical value at the 5% significance level. Thus the null hypothesis of no long-run relationship is rejected at the 5% significance level. It can therefore be inferred that the variables are cointegrated. In view of the co-integration relationship between the dependent variable and the regressors, the study proceeded to estimate the Error Correction and long-run models. Examination of the short run dynamics of the model in Table 4.3, 4.6 and 4.8 showed that as expected, the lagged error correction term is negative and statistically significant at 1 percent level. Since, the coefficient of the lagged error correction term is negative and significant; the coefficient reveals the speed at which the entire system adjusts towards long-run equilibrium. The coefficient of ECM of (-0.33, -0.92 & -0.78) which shows speed of adjustment from short run fluctuations to long run equilibrium (33%, 92% and 78% discrepancy is corrected each year) approximately to 33, 92 and 78 percent of disequilibrium from the previous year's shock convergence back to the long run equilibrium in the current year. This is a further indication of the existence of long-run relationship between the dependent variable and the regressors. Bannerjee, Dolado and Mestre (1998) asserted that a highly significant lagged error correction terms further prove the existence of long-run relationship between the variables. Shahbaz, Lean and Kalim, (2013) corroborated this view when they opined that the existence of negative and significant ECM in the model connotes that a change in the dependent variable depends on changes in both the dependent variables and level of disequilibrium in the co-integration relationship.

Empirical evidence revealed that foreign direct investment inflows to manufacturing sector (FDIM) had a positive and significant effect on capital market development in the short-run meaning that foreign direct investment in manufacturing sector is contributing towards capital market development in Nigeria. Specifically, a percentage change in foreign direct investment in manufacturing sector will led to 0.381% increases in capital market development in the short run. This finding is in line with theoretical prediction and empirical findings the Foreign exchange rate

theory, as well as the OLI Paradigm. Similarly the result is also in consonance with empirical findings of Adaramola and Obisesan (2015); Isiaq and Sunday (2011); James and Jiangyan (2010), which suggests that FDI can complement the development of the capital market. This confirms that the relationship between FDI and capital market development is complementary. However, FDI inflows to services and agricultural sectors seemed not to have a positive effect on capital market development.

Similar to the short-run, the long term significant determinants of capital market development are largely from foreign direct investment in manufacturing sector, trade openness, inflation and exchange rate. As 1 percent change in foreign direct investment in manufacturing sector results in a 1.165% change in capital market development in the long run. Also, the long run effect of the coefficient of trade of openness on capital market development is negative and statistically significant. This long-run result is in agreement with third period lagged trade openness in the short-run that is negatively signed. Inflation and exchange rate are observed to be positively related to capital development in the long-run. This long-run result is in agreement with the short-run result and theoretical prediction. In addition, the ARDL model satisfies the conditions of normaility (JB), Breusch-Godfrey LM and heteroscedasticity (Breusch-Pagan-Godfrey). By implication, there was no evidence of serial correlation and heteroskedasticity in the model during the study period and the the null hypothesis of a normal distribution was not rejected (Table 4.4).

5. CONCLUSION AND RECOMMENDATIONS

This study was basically undertaken to examine the nexus between foreign direct investment and capital market development in Nigeria from 1981 to 2016 in Nigeria. The three key sectors included in the study were manufacturing, services and agriculture sector. A summary of the cointegration results showed that cointegration was found among the variables in all sectors, which means that there was a long-term relationship among them. Results from the econometric analysis showed that, foreign direct investment inflows to manufacturing sector (FDIM) had a positive and significant effect on capital market development in the short-run meaning that foreign direct investment in manufacturing sector is contributing towards capital market development in Nigeria. In addition, empirical evidence suggested that the long term significant determinants of capital market development are largely from foreign direct investment in manufacturing sector, trade openness, inflation and exchange rate. However, FDI inflows to services and agricultural sectors seemed not to have positive effect on capital market development. From the foregoing therefore, it is imperative that appropriate recommendations be put forward. Given that the empirical evidence revealed complementary role of FDI to capital market development in Nigeria, the following recommendations are germane to the issue in question.

i. The Security and Exchange Commission (SEC), as well as the Nigerian Stock Exchange should take all appropriate and necessary steps to improve the efficiency and transparency of the capital market in Nigeria.

ii. It is imperative that the current policy framework of the Nigerian Investment Promotion Commission needs to be calibrated in such a manner as to guarantee exports base diversification. This is needful and necessary, as the nation's export base is presently dominated by primary commodities, with crude oil export accounting for about 40% and natural resources exports as a whole accounting for over 60%.

iii. Similarly, without market knowledge, cogent expertise, or competitive products and services, trade openness cannot work for manufacturing output growth in Nigeria. Consequently, there is need for the promotion of developmental linkages or complementarities by the NIPC between growing export activities and the rest of the economy.

iv. Concerted efforts must be geared towards ensuring that the narratives around a sustainable interest rate and minimization of exchange rate volatility by the Nigerian apex regulatory authority, which is the CBN, are kept within appropriate circles and not domiciled within the domains of political considerations.

v. The positive association between inflation and capital market development suggest that Nigeria's capital markets are hedge against inflation, thus capital market is an alternative place for investors to hedge their risk against inflation in Nigeria. There is therefore a need to maintain political stability by the government and macroeconomic stability by the CBN within the country and to further ensure that the discourse and issues of economic stability goes beyond mere rhetorics, by all government institutions responsible for promoting FDI.

vi. There must be a deliberate and conscious effort at maintain both political and macroeconomic stability in the country, in other to guarantee investor confidence in the economy, while simultaneously ensuring effective provision and maintainace of requisite infrastructures that can drive the needed levels of investments in the country.

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