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Original Research Article

Economic Development and Foreign Capital Investment Inflow in Nigeria

Araoye, Felix Ebun

Management and Accounting Department, Ladoke Akintola University of Technology, Ogbomoso, Oyo State, Nigeria.

For correspondence, email: araoyefelix@yahoo.co.uk

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Abstract

The study investigates the influence of economic development on the foreign capital investment inflow in Nigeria. The time series secondary data covering the period 1990 to 2019 used for the study were obtained from the Central Bank of Nigeria Statistical Bulletin, Nigeria Stock Exchange fact sheet, Journals libraries and Internet. The study analyzed the data with the use of unit root test to determine the stationarity or otherwise of the time series data employing Augmented Dickey Fuller (ADF) and Phillip-Perron (PP) unit root test. Vector Error Correction Estimates was deployed in determining the influence of the independent variables on the dependent variable. Granger causality test was also applied in establishing the direction of causality among the variables of the study. The findings revealed that gross domestic product (GDP) and market capitalization (MCAP) has positive but insignificant influence on foreign capital investment inflow in Nigeria. The granger causality result confirms evidence of bi-directional causality movement between gross domestic product (GDP) and foreign capital investment inflow (FCII) in Nigeria. It is recommended that by deliberate effort, the Nigeria authority should improve capital expenditure spending on infrastructure of relevant sectors that will ensure enhancement of economic growth.

Keywords: Economic Development, Foreign Capital, Investment, Inflow, Nigeria

JEL Classification Code: B26, C01, C58, F63, O11

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1 INTRODUCTION

Some studies have investigated the role of foreign investment on economic growth in Nigeria**,** with diverse findings based on the nature of different variables used in the empirical analysis of the topic (Osazee, 2018; Baghebo & Apere, 2014). The growth in the economy could serve as a catalyst for more development especially through the foreign capital investment inflow that may be used to explore diverse opportunity in many segments of the economy.

The importance of infrastructural development in economic growth and its ability to attract foreign capital investment cannot be overemphasized. More foreign capital investment inflow is expected to be made available for countries that planned their physical infrastructure development through construction and provision of facilities such as good road network, bridges, ports, highways, hospitals, housing, banking etc. It is therefore**,** necessary for countries with poor infrastructure to invest in infrastructural development for foreign capital investment inflow attraction. In the same vein, foreign direct investment could be achieved with some strategic advantage that include potential market growth, human and natural resources development, stages in economic cycle, political and economic stability, development of financial markets and institutions, law and order, trade openness and restrictions on capital mobility as indices of economic development (Blonigen, 2005; Petri, 2012). According to Artige and Nicolini (2006), potential and market size measured by countries gross domestic product is regarded as the most influential and major determinant of foreign capital inflow into developed and developing economies. Economies with high GDP and enough purchasing power provide an opportunity for continuity of business with a good return on investment (Jordaan, 2006)

Infrastructural development is critical aspect of economic development that ensures attraction of foreign direct investment into an economy for further development. There have been confirmations that foreign direct investment is actually influenced by the level of development of certain elements of economic development such as highway construction, port provision, energy, telecommunication and transport facility (Sturn, Jacobs & Groote, 1999; Gholami, Tom Lee, & Heshmati, 2006; Loree & Gusinger, 1995).

In the last three decades in Nigeria, most of this infrastructural economic development such as telecommunication especially global mobile network, information and telecommunication technology and railway facilities is considered to enjoy moderate improvement while energy or power has not. Slight improvement in highway construction could be seen only in the major highway with poor intrastate and rural road network. All these could impede the attraction of foreign direct investment into the country as identified by various studies, with the consequence of impoverishing majority of citizens (Stone, Strutt & Hertel, 2010).

Some studies have examined the effect of individual variables such as gross domestic product, market capitalization, infrastructure, financial system development and human capital development used in this study on foreign capital inflow (Ramasamy & Yeung, 2010; Blomstrm & Kokko 2003; Umar, Ismail & Sulong, 2015). However, this study attempted the combination of these variables to determine the influence of economic development on foreign capital investment inflow in Nigeria.

It has been affirmed that economic growth and development is the root of societal advancement, with enhancement of human wellbeing (Ignat, Pohoaţă, Clipa & Luţac, 1998). The economic development ensures the improvement in the standard of living, medical care, educational system and a fair redistribution of incomes in society. The internal economic development problems of developing countries like Nigeria are considered to be enormous. Solution to infrastructural development problems is now being given some attention with the recent establishment of infrastructure finance company with initial capital support of one trillion naira to be sourced from Central Bank of Nigeria, Nigeria Sovereign Investment Authority and Africa Finance Corporation. Infrac-co is saddled with the responsibility of tackling the nation's infrastructural deficit. It is believed that the fulfillment of the mandate of this infrastructure company being set up based on public private-partnership will further ensure more inflow of foreign investment into the country. Some studies have been carried out on the influence or impact of foreign direct investment on economic growth; effect of foreign portfolio investment on the capital market; stock market, and foreign investment inflow (Agu, Ogu & Ezeanyeji, 2019 ; Ezeanyeji & Ifeako, 2019). Few studies on this field also focused on capital market development and foreign portfolio investment in Nigeria (Akinmulegun, 2018; Adesola & Oka, 2017). However, from these studies, it was discovered that no authors have been able to identify the fact that further or additional foreign capital investment inflow could be attracted into nations that enjoy certain level of economic development. This is a novel venture that requires attention of researchers and the identified gap is needed to be considered for exploration by looking into the influence of economic development in attracting foreign capital investment inflow. Therefore, the general objective of this study is to examine the influence of economic development on the foreign capital investment inflow in Nigeria.

2 LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Conceptual Review

Many economists described economic development as a process that ensure the generation of both quantitative and qualitative changes in economic and social activities in such a way that the national economy overtime cumulatively and durably increase its real national product. Economic growth is very important in achieving economic development because that increases the national income per capita. The economic development refers to a broad scope of quantitative and qualitative changes in economic and societal endeavour, including changes that could be seen and measured for instance in the standard of living of the citizen in a country.

Ignat et al., (1998) described economic growth and development as pivotal to societal advancement that ensures continuous improvement in the quality of human development. In fact, the economic achievements create bases for the improvement of the standard of life including, improved medical care, access to a qualitative educational system and a better redistribution of incomes in society. According to the international monetary fund, foreign direct investment is an investment made by a company or individual in one country in business interests in another country, in the form of either establishing business operations or acquiring business assets in the other country such as ownership or controlling interest in a foreign company.

Theoretical Review

Some of the relevant theories propounded by different authors on this area of study include:

Classical Growth Models: This theory was developed in the 18th century by Adam Smith, David Ricardo, and Thomas Robert Malthus. The theory has become the basis of modern growth theory and it was developed from the question of philosophy of advancement, which was a vital ideology that ensures enlightenment of thought and ideas, scientific innovations, social norms and more essentially form the material bases of society.

Endogenous Growth Theory: Another theory relevant to economic growth is the endogenous Growth of Paul Romer and Robert Lucas, Jr. propounded in the late 1980s and early 1990s by giving a mathematical explanation of technological advancement with the incorporation of another concept of human capital development for an effective workforce.

Capital Market Theory of FDI: This is a theory on foreign direct investment propounded by Boddewyn (1985). The theory is based on the fact that foreign direct investment is determined by the rate of interest charged by the host country's financial institutions.

Dynamic macroeconomic FDI theory

This is a foreign direct investment theory established by Sanjaya (1976). The theory affirms that the timing of investments is dependent on the changes in the macroeconomic environment. The theory states that volatility in macroeconomic environment such as inflation, exchange rate, interest rate, money supply, openness and national productivity determines the rate of foreign investment inflow to developing countries.

Empirical review

Several studies have been carried out from emerging economies, particularly in Asian and African on economic growth and foreign capital inflow. The general results obtained revealed that economic growth (GDP) has a significant long-run connection with foreign capital investment inflow (Bekhet and Mugableh, 2012; Chandran and Krishnan, 2008; Goh, Sam & McNown, 2017; Pondicherry and Tan, 2017). Artige and Nicolini (2006) affirm that market size measured by GDP is the main factor considered to have significant influence on the foreign investment inflow in many developing countries. Ramasamy and Yeung (2010) examine the relationship between the market size proxy by GDP and foreign direct investment in China and found a positive association between the market size and the inflow of foreign capital.

Some studies have been equally carried out on the capital market development and foreign direct investment similar findings. Vladimir, Tomislav and Irena (2015) examine the long run and short run affiliation between stock market development and foreign capital investment inflow in Croatia using a co-integration analysis and VAR regression model. The result revealed a short-run relationship between capital market development and foreign capital investment inflow with absence of association among the variables in the long-run.

The effect of infrastructure on foreign capital investment inflow has been found to be largely positive from various studies by different authors. Coughlin, Joseph & Vachira (1991) examine the relationship between transport infrastructure and foreign direct investment and found that more extensive transportation infrastructures has a positive link with increased foreign capital investment inflow. Cheng and Kwan (2000) examine the relationship between good road infrastructure and foreign capital inflow to twenty-nine Chinese regions for the period 1985 to 1995 with the use of a self-reinforcing model. The result revealed a positive association between good road infrastructure and foreign capital inflow.

Investigating the effect of financial system development on foreign capital inflow, Wei, (2017) findings revealed that there is a positive affiliation between financial development of host countries and foreign capital investment inflow. Liu, Islam, Khan, Hossain, Ismail and Khansa (2020) examine the impact of financial deepening on foreign direct investment using threshold technique. The findings revealed that financial deepening has a positive but significant impact on foreign direct investment

The assumptions that human capital development in host countries is a determinant of foreign investment have also been variously established by different empirical studies with diverse findings. Blomstrm and Kokko (2003) assess the linkage between foreign direct investment and human capital development and found that the technology-intensive foreign direct investment will move basically towards those economies with high educational levels. Checchi, De Simone and Faini (2007) investigate the influence of human capital development on foreign direct investment using gross enrolment rate of secondary and tertiary attainment for 67 developing countries. The result showed that the population share with secondary school attainment has positive but significant correlation with foreign direct investment.

Hypotheses Development

This study employed five explanatory variables to determine the influence of economic development on foreign capital investment inflow in Nigeria. These variables are therefore used in developing the following hypotheses of the study:

$H_{O1:}$ gross domestic product has no significant effect on foreign capital investment inflow

$H_{O2:}$ market capitalization has no significant influence on foreign capital investment inflow

$H_{O3:}$ financial system development has no significant impact on foreign capital investment inflow

$H_{O4:}$ infrastructural development has no significant effect on foreign capital investment inflow

$H_{O5:}$ there is no significant relationship between human capital development and foreign capital inflow

3 METHODOLOGY

Research Design

The study investigates the influence of economic development on the foreign capital investment inflow in Nigeria with annual time series data from 1990 to 2019. The study employs both the exploratory and ex-post facto research design. The exploratory design was utilized in obtaining relevant theories and literature while ex-post facto research design was used to collect the data for empirical analysis. The desk survey method was used by obtaining secondary data from CBN statistical bulletin, Nigeria stock exchange fact sheet and internet journal materials.

Model Specification

The adopted model for this study is based on economic growth model of Demirgue-Kunt and Levine (1996) which was also adopted by Araoye, Ajayi and Aruwaji, (2018) and stated as:

$$g = f(L, K, T) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where: g = growth of GDP
L = labor
K = capital formation / investment
T = technology
The modified model for the purpose of this study is given as follows:

$$FCII = F(GDP, MCAP, FSD, INFRA, HCDI) \ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

$$FCII = a_0 + a_1GDP + a_2MCAP + a_3FSD + a_4INFRA + a_5HCDI + e_t \ldots\ldots\ldots\ldots (3)$$

We obtain a log-linear specification for the equation as follows:

$$logFCII = a_0 + a_1logGDP + a_2logMCAP + a_3logFSD + a_4logINFRA + a_5logHCDI + e_t \ldots\ldots\ldots. (4)$$

Where:
FCII = foreign capital investment inflow (inflow from foreign direct and portfolio investment)
GDP = gross domestic product (proxy for market size and economic development)
MCAP = market capitalization (stock market capitalization)
FSD = financial system development (amount of credit to private sector)
INFRA = infrastructure (expenditure on construction, transport and telecommunication)
HCDI = human capital development index (expenditure on education)
e_t = error term,
a_0 = Intercept,
$a_1 - a_5$ = coefficient of the independent variables.
The a priori expectation is such that: a_1--- a_5, > 0

4 ESTIMATION RESULTS AND DISCUSSION OF FINDINGS

Table 4.1 UNIT ROOT TEST

VARIABLES	AUGMENTED DICKEY FULLER TEST		PHILLIP-PERON TEST		Order of Integration
	Level	1st Difference	Level	1st Difference	
FCII	-2.854664	-7.136465	-1.781364	-5.116252	I(1)
FSD	1.344646	-3.893880	1.208486	-3.893880	I(1)
GDP	-1.225036	-4.818793	-0.162634	-4.789611	I(1)
HCDI	1.987819	-3.921703	1.415129	-3.894571	I(1)
INFRA	0.269760	-5.675318	1.022570	-3.944787	I(1)
MCAP	0.730463	-5.347333	2.633590	-5.382653	I(1)
CRITICAL VALUE					
1%	-3.769597	-3.788030	-3.679322	-3.689194	
5%	-3.004861	-3.012365	-2.967767	-2.971853	
10%	-2.642242	-2.646119	-2.622989	-2.622989	

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A pre-test condition of the unit root of the variables needed order (1) to ascertain their stationarity state. Using Augmented Dickey-Fuller (ADF) and Phillip Perron (PP) unit root to test for this purpose, the variables used including FCII, FSD,GDP, HCDI, INFRA and MCAP are non stationary at the level in both ADF and PP test because their values was less than the critical values at 1%, 5% and 10 % giving rise to acceptance of null hypothesis of unit root presence. However, the result revealed integration of these variables at first difference since all of their values were greater than the critical values in absolute term. The null hypothesis of the absence of stationarity is therefore rejected. With this, it is necessary to examine the long-run equilibrium relationship between these variables through Johansen co-integration test.

Table 4.2 Johansen co-integration

Date: 02/16/21 Time: 04:01
Sample (adjusted): 1992 2019
Included observations: 28 after adjustments
Trend assumption: Linear deterministic trend
Series: CFCII FSD GDP HCDI INFRA MCAP
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.952865	236.5391	95.75366	0.0000
At most 1 *	0.830001	151.0065	69.81889	0.0000
At most 2 *	0.788329	101.3916	47.85613	0.0000
At most 3 *	0.586630	57.91543	29.79707	0.0000
At most 4 *	0.460292	33.17990	15.49471	0.0000

At most 5 *	0.433495	15.91154	3.841466	0.0001

Trace test indicates 6 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.952865	85.53261	40.07757	0.0000
At most 1 *	0.830001	49.61489	33.87687	0.0003
At most 2 *	0.788329	43.47616	27.58434	0.0002
At most 3 *	0.586630	24.73553	21.13162	0.0149
At most 4 *	0.460292	17.26836	14.26460	0.0163
At most 5 *	0.433495	15.91154	3.841466	0.0001

Max-eigenvalue test indicates 6 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

The co-integration analysis is very vital in carrying out test for a long-run stable relationship among the variables of study and when a linear combination of variables are integrated at first difference i.e I(1). The result of both trace and max-eigen criteria confirm the presence of 6 co-integrating equations at the 5% significant level and suggesting rejection of null hypothesis. These results imply long-run movement between the variables of the study. The result, therefore, fulfills the necessary condition for the estimation of vector error correction model (VECM).

4.3 Vector Error Correction Model Estimates

The vector error correction model presented in the table below was utilized because the time series variables are not stationary in their levels but in their differences and the variables are co-integrated.

Table 4.3

Vector Error Correction Estimates
Date: 02/16/21 Time: 09:21
Sample (adjusted): 1993 2019
Included observations: 27 after adjustments
Standard errors in ( ) & t-statistics in [ ]

Cointegrating Eq:	CointEq1
FSD(-1)	1.000000
GDP(-1)	0.430926 (0.02096) [20.5615]

HCDI(-1)	3.966603 (1.66167) [2.38711]				
INFRA(-1)	-4.458091 (0.23314) [-19.1223]				
MCAP(-1)	0.482959 (0.04571) [10.5665]				
C	-6312.634				
Error Correction:	D(FSD)	D(GDP)	D(HCDI)	D(INFRA)	D(MCAP)
CointEq1	-0.331559 (0.28553) [-1.16119]	-1.264799 (0.54793) [-2.30832]	-0.026730 (0.00828) [-3.22838]	0.185445 (0.11026) [1.68182]	1.709760 (0.86646) [1.97328]
D(FSD(-1))	-0.510394 (0.38320) [-1.33193]	2.704383 (0.73535) [3.67770]	0.013392 (0.01111) [1.20521]	-0.029558 (0.14798) [-0.19974]	-2.143100 (1.16282) [-1.84301]
D(FSD(-2))	-0.444814 (0.37080) [-1.19961]	1.485267 (0.71156) [2.08735]	0.016320 (0.01075) [1.51783]	0.023064 (0.14319) [0.16107]	-2.160575 (1.12520) [-1.92017]
D(GDP(-1))	-0.466860 (0.19869) [-2.34973]	1.485538 (0.38127) [3.89624]	0.010694 (0.00576) [1.85617]	0.176664 (0.07673) [2.30250]	-0.158744 (0.60292) [-0.26329]
D(GDP(-2))	0.256479 (0.24361) [1.05284]	0.343500 (0.46747) [0.73480]	0.003851 (0.00706) [0.54511]	-0.092018 (0.09407) [-0.97814]	-0.059807 (0.73923) [-0.08090]
D(HCDI(-1))	6.527175 (5.62247) [1.16091]	-7.557026 (10.7894) [-0.70041]	-0.567915 (0.16303) [-3.48342]	1.616107 (2.17124) [0.74433]	1.990788 (17.0615) [0.11668]
D(HCDI(-2))	6.162688 (4.51075) [1.36622]	-17.87856 (8.65600) [-2.06545]	0.192225 (0.13080) [1.46964]	1.453114 (1.74192) [0.83420]	17.12439 (13.6880) [1.25105]
D(INFRA(-1))	1.403219 (0.83689) [1.67670]	-4.628343 (1.60598) [-2.88195]	0.066946 (0.02427) [2.75868]	0.391436 (0.32318) [1.21119]	5.057412 (2.53958) [1.99144]
D(INFRA(-2))	-0.146086 (0.92044) [-0.15871]	-1.791164 (1.76630) [-1.01408]	-0.006113 (0.02669) [-0.22902]	-0.154030 (0.35545) [-0.43334]	1.411207 (2.79310) [0.50525]
D(MCAP(-1))	0.042033 (0.12086)	0.554920 (0.23192)	0.013508 (0.00350)	-0.032675 (0.04667)	-0.717002 (0.36674)

	[0.34779]	[2.39271]	[3.85441]	[-0.70010]	[-1.95505]
D(MCAP(-2))	0.050256	0.100188	0.010086	-0.041404	-0.571451
	(0.12022)	(0.23069)	(0.00349)	(0.04642)	(0.36480)
	[0.41805]	[0.43429]	[2.89335]	[-0.89187]	[-1.56649]
C	142.5079	-681.9805	-22.53145	128.5116	1937.199
	(278.948)	(535.294)	(8.08862)	(107.722)	(846.476)
	[0.51088]	[-1.27403]	[-2.78557]	[1.19299]	[2.28855]
FCII	0.078154	-0.014085	-0.000230	-0.015147	-0.273860
	(0.03074)	(0.05899)	(0.00089)	(0.01187)	(0.09329)
	[2.54223]	[-0.23875]	[-0.25782]	[-1.27586]	[-2.93564]
R-squared	0.736215	0.756458	0.943481	0.789218	0.616519
Adj. R-squared	0.510113	0.547709	0.895036	0.608548	0.287821
Sum sq. resids	6662657.	24534954	5602.079	993590.8	61352090
S.E. equation	689.8580	1323.819	20.00371	266.4034	2093.392
F-statistic	3.256123	3.623756	19.47538	4.368282	1.875638
Log likelihood	-205.9299	-223.5283	-110.3346	-180.2401	-235.9014
Akaike AIC	16.21703	17.52061	9.135896	14.31408	18.43714
Schwarz SC	16.84095	18.14453	9.759818	14.93801	19.06106
Mean dependent	611.0548	1678.142	48.75333	433.7778	957.7415
S.D. dependent	985.6252	1968.428	61.74346	425.7949	2480.596
Determinant resid covariance (dof adj.)		2.24E+24			
Determinant resid covariance		8.38E+22			
Log likelihood		-904.1222			
Akaike information criterion		72.15720			
Schwarz criterion		75.51678			

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The Error Correction Model coefficients revealed the speed at which variables converge to equilibrium. Gujarati, (2004), state that a highly significant error correction term is a strong confirmation of the presence of a stable long run relationship. The result obtained from VECM estimates shows that the error correction term of -0.331559 is statistically insignificant with t-statistics of -1.16119. The speed of adjustment of -0.331559 indicates a low level of convergence that about 33% disequilibrium or divergence from long-run of foreign capital investment inflow (FCII) in the previous year is corrected in the current year.

The result revealed a coefficient of -0.510394 and t-statistics of -1.33193 for financial system development (FSD) at lag 1. This implies a negative but insignificant impact of financial system development on foreign capital investment inflow. It suggests that a unit increase in FSD will lead to 0.51 decreases in foreign capital investment inflow in Nigeria. Similar result was obtained at lag 2 thereby accepting H_{O3}.The a priori expectation disagreed with findings. However, the finding is in agreement with the work of Antras et al. (2009) but in conflict with the study of Liu et al. (2020).

The coefficient of market size proxy by GDP revealed -0.466860 with t-statistics of

-2.34973. This indicates that the (GDP) has a negative but significant effect on the FCII and a unit increase in GDP results in 0.46 reductions in FCII especially at lag 1. With the result, the Null Hypothesis (H_{O1}) is rejected accordingly. Moreover, lag 2 result shows positive coefficient of 0.256479 and t-statistics of 1.05284, indicating that GDP has no significant effect on FCII. A unit increases in GDP raise the FCII by 0.26 unit accordingly. The positive effect of GDP on FCII is in line with the study done by Ramasamy and Yeung (2010) and theoretical a priori expectation of the study.

The human capital development index (HCDI) with coefficient of 6.162688 and t-statistics of 1.36622 suggest a positive but insignificant association of HCDI on FCII at lag1. The lag 2 result confirms a positive coefficient with a value of 6.527175 and t-statistics of 1.16091. The result implies statistically that the variable HCDI has a positive but insignificant link with FCII in Nigeria and validating the stated Null Hypothesis (H_{O5}). Furthermore, the result is in line with the finding of Blomstrm and Kokko (2003) and a priori expectation.

The result also revealed that infrastructure has a positive coefficient of 1.403219 with t-statistics of 1.67670. The finding affirms a positive but insignificant effect of INFRA on FCII and that a unit increase in INFRA will raise the FCII by about 1.4 units at lag 1. The result at lag 2 indicates a negative but insignificant effect of INFRA on FCII with coefficient of -0.146086 and t-statistics of -0.15871. With the result, the Null Hypothesis (H_{O4}) is accepted. This also implies that any additional unit to INFRA results into decrease in FCII by about 0.15 unit.

The result relating to market capitalization (MCAP) revealed positive coefficients of 0.042633 and 0.34779 in lag 1 and lag 2 respectively. It indicates that a unit increase in MCAP will also raise FCII by 0.04 and 0.35 unit at lag 1 and 2 respectively. Furthermore, their respective t-statistics of 0.050256 and 0.41805 suggest that MCAP has a positive but insignificant influence on FCII in Nigeria. This finding is in congruence with the result of the study carried out by Umar et al., (2015) and theoretical a priori expectation. The result of R^2 with coefficient of 0.736215 implies that the goodness of fit is good. This indicates that about 74% of the total variations in foreign capital investment inflow (FCII) are explained by the explanatory variables of GDP, MCAP, FSD, INFRA and HCDI.

4.4 Granger causality test: This was conducted to investigate the transmission mechanism between variables of economic development and foreign capital investment inflow. The result is in table 4.4 below:

Table 4.4

Pairwise Granger Causality Tests
Date: 02/16/21 Time: 23:53
Sample: 1990 2019
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
FSD does not Granger Cause FCII	28	1.24772	0.3059
FCII does not Granger Cause FSD		0.78706	0.4671

GDP does not Granger Cause FCII	28	5.27463	0.0130*
FCII does not Granger Cause GDP		3.68950	0.0408*
HCDI does not Granger Cause FCII	28	1.33967	0.2816
FCII does not Granger Cause HCDI		0.57632	0.5699
INFRA does not Granger Cause FCII	28	10.2095	0.0007*
FCII does not Granger Cause INFRA		1.73608	0.1985
MCAP does not Granger Cause FCII	28	1.75365	0.1955
F CII does not Granger Cause MCAP		0.55894	0.5794

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The result of granger causality tests of the study confirm and established unidirectional causal relationship from FSD to foreign capital investment inflow (FCII). The result further confirm evidence of bi-directional causality movement between GDP and FCII at 5% level of significance, indicating that gross domestic product influence the flow of foreign capital investment inflow in Nigeria and vice-versa. However, the null hypothesis is accepted for all other pairs of variables because there is no evidence to support the presence of causality between them.

5. CONCLUSION AND RECOMMENDATION

The study examined the influence of economic development on the foreign capital investment inflow in Nigeria. The economic development variables of GDP, MCAP, FSD, INFRA and HCDI was employed in evaluating the influence of economic development on foreign capital investment inflow. The vector error correction estimates result revealed positive coefficient for the economy size (GDP) and market capitalization (MCAP) indicating that these variables has positive influence on foreign capital investment inflow in Nigeria. The granger causality test also shows bi-directional movement between economic growth and foreign capital investment inflow in Nigeria. It implies that economic growth induce attraction of foreign capital inflow in Nigeria and vice-versa. The study therefore concluded that economic development influences the attraction of foreign capital investment inflow into the Nigeria economy. The conclusion of the study therefore agreed with some studies that confirm the influence of economic growth on foreign capital investment inflow (Artige & Nicolini, 2006; Ramasamy & Yeung, 2010). It is therefore recommended that effort should be made by the authority to improve capital expenditure spending on infrastructure of relevant sectors that will in turn ensure enhancement of economic growth.

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