Comparisons of the Contributions of Foreign Direct Investments (FDIs) and Domestic Investments to Nigeria's Economic Growth

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Abstract
The research focused on the importance of Foreign Direct Investments (FDIs) and local investments role in growing the Nigerian economy from 1993to 2017, a space of twenty five years. A body of empirical evidence suggests a strong positive relationship between foreign investment and domestic investment. But in the last decade following the world financial crisis there have been a gradual slow down in the growth expected of FDIs. Ajayi (2003) lamented that despite the increase in FDIs there has been constrained in achieving great economic growth heights thereby causing the country to operate below its economic potentials. The objectives of study were collapsed in testable hypotheses which utilized regression methods, unit root tests and granger causality tests in analyzing data. By so doing the findings indicated that local investments were still playing a dominant role in Nigeria's economic growth and that FDIs were still grossly inadequate for an economy with enormous commercial potentials such as Nigeria. This is largely consistent with the research done by Yartey (2008) that considered issues affecting fair trading practices, listing requirements, regulatory reform and how they affect foreign investments. Among the recommendations include reductions to restrictions on FDI to create flexible markets, more autonomy to the Nigerian Investment Promotion Council to release it from avoidable bureaucratic bottle necks, allowing foreign investors reasonable choices as to their investment and location decisions, provide needed infrastructure in line with competitive technological demands of a globally competitive market devoid of obsolescence, strengthen backward linkages with FDI and provision of access to credit through adequate reforms of the financial markets.

Keywords: *Foreign Direct Investment, Economic growth, Nigeria and long run impact stud*

1.0 Introduction

This study applies a very scholarly approach in studying the link between foreign investment and economic growth in Nigeria. Because of the near unanimous agreement by many scholars that there is link between foreign direct investments and economic growth many countries have laws protecting the investment of foreign capital. In Nigeria the Nigerian Investment Promotion Commission (NIPC) Act No. 16 of 1995 has principal stipulations on foreign direct investments. The foreign shareholding is a significant part of the equity structure so the Act allows for Investment Protection Assurance and technical agreements. There have various attempts to examine political risks and foreign investment as regards the business climate in many countries in the African continent and indeed in Asia and the South American countries. Given the past political risks associated with military governments and the concerns raised by providers of foreign capital in the past on corruption, nationalization of investments, civil wars and even human rights abuse, many African countries that have

reverted to democratic rule and consequently have attracted more foreign capital as a result. Nigeria has had nearly two decades of uninterrupted democratic rule, and has made a lot of financial and political reforms in the last thirty years to attract foreign investors in key sectors of the economy such as the telecommunication, petroleum and banking sectors. As a result of these reforms Nigeria has been a signatory to many agreements that have aligned its business practices in uniformed conformity with global financial reporting. Policy makers in the last two decades have also studied Nigeria's investment laws and compared it with the jurisprudence of courts in countries that have mutual treaties with Nigeria. Schumpeter (1911) in his study of economic growth concluded that capital plays a role in fostering real and sustainable economic development. The relationship between capital and the economic growth in emerging economies has been further analyzed to study foreign capital by empirically explaining the factors that affect growth of the economy. Because of the complementary effect of foreign capital on domestic capital, this is premised on the belief that larger and accessible capital increases productivity through optimal use of factors of production for higher efficiency and competitiveness of products and services. Given the importance the Nigerian government and the private sector attaches to foreign capital, it becomes imperative to study the link between the growths of FDI in the Nigerian capital market over the years.

A body of empirical evidence suggests a strong positive relationship between foreign investment and domestic investment. Ndikumana and Verick (2008) espoused that this relationship is bi-directional. They further assert that a high private domestic investment is a signal for high returns to capital, while adequate public infrastructure (through high public investment) reduces the cost of doing business, which raises the marginal return to FDI. Hence, high domestic investment helps in attracting FDI. Their study noted that world FDI flows have been lopsided, with developed bloc accumulating to themselves a significant share of it. Recalling *Anyanwu (2011)*, this massive flow of FDI to the first world do not occur by chance, rather, it occurs by them having the absorptive capacities to attract FDI. This is what the literature calls the determinants of FDI. A close inspection highlights the magnificent public utilities development ranging from state-of-the-art transportation, energy and communication facilities in developed countries, which is attributed to the massive public investment in those sectors. World evidence reveals that China is becoming the world best destination of FDI flows due to its investment-friendly clime, backed by huge domestic investment, low wage, and transition to a market economy ***(****Wei, 2008)*. Other developing countries that have benefited by attracting significant FDI flows through upgrading their public utilities are the Asian Tigers, such as Malaysia and Singapore.

The effect of domestic investment on FDI flows could be understood through what we call *Cost reducing and Heighten competition hypothesis.* Here, we postulate that domestic investment mitigates operation cost and strengthens competition. Juxtaposing two national economies with relative differences in domestic investments, it is plausibly reasonable to argue that the country with well-developed public utilities would experience reduced operational cost by firms operating in it relative to the other. These facilities in form of social infrastructures aid firms in the production and distribution processes. In the absence of these production aids, firms have the alternative to providing for themselves, thus increasing the cost of doing business and lack of entrepreneur incentives. Given the unavailability of business engagements in this economy, foreign investors and capital are less attracted, vice versa. This relationship is strongly correlated with public domestic investment.
However, the effect of private domestic investment on FDI flows is more intricate. Private

domestic investment could encourage or discourage FDI flows in an economy. It depends on the specific relationship between private and foreign firms as well as how developed the domestic private sector is. In a situation where most private firms in a sector are operating in utmost technical and economic efficiency and have high-rated international standing, the potentials of market competition is almost exhausted, foreign firms view such sector as unprofitable, thus driving them away.

In a different lens, foreign capital flows into a domestic economy where substantial private investment has been made in the downstream sector. This is referred to as the *Backward Linkage Effect* between FDI and private investment. Because foreign investments are long-term capital projects, foreign firms take into consideration local sourcing of materials before sitting their plants. If adequate investment is not been made in the downstream sector, and foreign firms are supposed to import almost every component of their production process, it would be worthwhile for them to set-up production plant in home economy and export the finished products to them. This scenario- absence of a developed downstream sector- is FDI-inhibiting.

1.2 Statement of research problem

Because of the high volatility of short-term capital flows, unpredictable aid flow and low savings the importance of Foreign Direct Investments cannot be overlooked. Nigeria has enjoyed a lot of attention in this area since the banking reforms and other economic reforms were put in place in the early to mid 2000s. But in the last decade following the world financial crisis there have been a gradual slow down in the growth expected of FDIs. Ajayi (2003) lamented that despite the increase in FDIs there has been constrained in achieving great economic growth heights thereby causing the country to operate below its economic potentials. Olokoyo Felicia Omowunmi (2012) mentions that foreign investment inflow, particularly foreign direct investment (FDI) is perceived to have a positive impact on economic growth of a host country through various direct and indirect channels. It augments domestic investment, which is crucial to the attainment of sustained growth and development. In Nigeria quite a few policies have afforded many generous incentives to attract FDI inflows and, in addition, undertaken macroeconomic reforms, often under pressure from Bretton Woods Institutions and have had its fair share of political instability. All these have led to varied interpretations as to the link between foreign investments and stock market development in Nigeria and by extension economic growth.

1.3 Research hypotheses

Ho_1 FDIs net inflow has no significant positive effect on Nigeria's economic growth
Ho_2 FDIs net outflow has no significant positive effect on Nigeria's economic growth
Ho_3 Market capitalization of domestic companies has no significant positive effect on Nigeria's economic growth

2.0 Literature review

According to Olokoyo (2012) Attempts at attracting FDI into Nigerian economy have been based on the need to maximize the potential benefits derived from them; and to minimize the negative effects their operations could impose on the country. As a result of the persistent global panic, unemployment has been on the rise, jobs are being lost, there is shortage of liquidity and acute scarcity of credit has remained visible in the financial institutions. For Nigeria to generate more foreign direct investment, efforts should be made at solving problems of government involvement in business; relative closed economy; corruption; weak

public institutions; and poor external image.
Nigeria is one of the economies with great demand for goods and services and has attracted some FDI over the years. According to CBN (2006), the amount of FDI inflow into Nigeria reached US$2.3 billion in 2003 and it rose to US$5.31 billion in 2004 (138% increase) this figure rose again to US$9.92 billion (87% increase) in 2005. The banking reform engendered the interest of foreign banks in the Nigerian market making foreign direct investment (FDI) into Nigeria grew by 134% to N1.123 trillion (US$9.6 billion) in 2007. Out of a total US$36 billion of FDI that went into Africa, Nigeria received 26.66% of the inflow.

Varied scholarly contributions made researchers demonstrates the importance attached to this field of study.
Garcia and Liu (1999) used macroeconomic elements (i.e. market capitalization) of stock market development on industrialized and developing countries. Singh (1997) found positive relationship between stock market development and the economic growth. Others such as Hidalgo (2000) concluded that there is a strong relationship of exchange rate variables with the Foreign Direct Investment. Krkoska (2001) justified the conjecture proposed of a relationship between Foreign Direct Investment and the capital formation by obtaining results using different countries data. Daniela (2002-03) established that local exchanges are significantly affected by the Stock market determinants around the world. Mihir and Fritz (2005) explained the relationship between FDI and the Capital formation using regression. Naceur (2007) in studying the North African market, found that financial intermediary, stock market liquidity, saving rate are important elements of stock market development, he involved macroeconomic factors that influence stock market.

Shabaz (2008) studied the relationship between stock market development and economic growth in Pakistan.
Yartey (2008) considered issues affecting fair trading practices, listing requirements, regulatory reform and how they affect foreign investments. Robert (2008) in his research did not find any close relationship between stock market development and the exchange rate fluctuations. Researchers Anokye and Adam (2009 using co-integration and Accounting Methods) studied the impact of Foreign Direct Investment on stock market in Ghana. Raemon (2009) studied the influence of foreign capital inflows on stock market development. Most emerging economies rely on foreign investment to finance the funding gap as well as improving the existing technological and administrative methods for increased efficiency in production, distribution of goods and services and increased economic growth. Umoh (2012) concluded that the savings and investment gap in Nigeria can be reduced by Foreign Direct Investment (FDI). Local businesses need FDI's just as much as technologically advanced nations need new markets in the face of global competition.

Anaesoronye (2012) stated that most investors across the world want to go to countries and economies where there is adequate insurance for life and property, especially now that issues of terrorism and kidnapping have grown in larger scale across the globe. Ujunwa and Modebe (2011) observed that in Nigeria the Insurance companies are in the hands of the private sector and the level of contribution of the insurance sector to the Gross Domestic Capital (GDP) of the country though higher than before the recapitalization era of the mid 2000s was still pale in comparison to other emerging economies. Okolo and Ani (2014) attributes this to the poor culture of institutionalized insurance in the country. The capacity to absorb risk in investments by the insurance companies is vital to foreign investments, this is one of the reasons for the recapitalization of insurance companies and the instituting some regulations to

protect investors. Akinwale (1998) observed that government intervention has been more or less limited to ensuring that insurance business is conducted in accordance with sound insurance principles, that the companies are managed by competent and qualified officials and that the insurance companies are run fairly and efficiently. He acknowledges that the Nigerian Insurance Industry is faced with the challenge of underwriting complete risks ranging from complex manufacturing risks to energy risk. For improved corporate governance and attendant transparency in businesses great care is taken to ensure that FDI should not be used as a device to transfer ownership and control of businesses from domestic to foreign.

One of the most extensive research areas in international finance and capital movement is FDI-related. Scholarly and empirical studies have focused majorly on FDI determinants and FDI-growth nexus. The later has been extensively studied narrowly, ranging from panel survey to country specifics studies, i.e., precisely tracing the plausible channels through which FDI impact on the host country. *Anyanwu (2011)* while reviewing the literature observed that mixed opinions exist among veteran researchers on the impact of FDI on growth; FDI could be growth-inducing (or growth-inhibiting) through crowding in (or crowding out) of domestic investment and domestic entrepreneurship. Also, there has not been a unanimous consensus among empirical studies on the precision of FDI determinants. However, researchers espoused that country or regional specifics influence FDI inflows. Our study is among the few in the literature on the effect of domestic investment on FDI. Its peculiarity is it ingenious practice of decomposing domestic investment into its parts. The purport of this method is overwhelming; it shows if these components of domestic investment are FDI-attracting. **Concept of Foreign Direct Investment** Foreign direct investment has been given different definitions by academic scholars and institutions, but the bottom line remains the same. The United States Department of Commerce defines FDI to include all 'foreign business organizations in which a U.S citizen, organization or affiliated group owns an interest of ten (10) percent or more'. The United Nations defines foreign direct investment as 'investment in enterprise located in one country and effectively being controlled by residents of another country'. This definition does not only consider FDI as being mere investment, it also stresses on the status of corporate control. World Bank (1996) sees FDI as 'investment made to acquire a lasting management interest (normally ten percent of the voting stock) in a business enterprise operating in a country other than that of the investor defined according to residency'. In line with this, the United Nations Conference on Trade Agreement and Development (UNCTAD) defines FDI as 'an investment involving management control of a resident entity in one economy by an enterprise resident in another country'. As further classified by Organization of Economic Cooperation and Development (OECD, 1992), FDI refers to a situation in which a single investor controls less than 10% percent or more of the ordinary or voting power with a view to having an effective voice in the management of the organization. Corollary, Todaro and Smith (2009) defines FDI simply as 'a corporation that conducts and controls productive activities in more than one country'. Buttressing this, Nobel laureate Paul Krugman defines FDI as 'international capital flows in which a firm in one country creates or expands a subsidiary in another'. Also, in his own words, Rutherford (1992) defines FDI as 'investment in businesses of another country which often takes the form of setting up a local production facilities or the purchase of existing businesses.

A lead driver of foreign direct investments, especially in LDCs, is multinational corporations (MNCs). MNCs are enterprises with headquarters mostly in developed countries and also

operate in other countries, both *Domestic*
FDI is the distinctive feature of MNC; hence a theory of FDI is also a theory of multinational enterprise as an actor in the world economy. Based on this proposition, FDI is not simply an international transfer of capital but also the extension of an enterprise from its home country into a foreign-host country.

Todaro and Smith (2009:719) proffer a comprehensive rationale for FDI, which they tagged *traditional economic argument in support of foreign private investment.* To them, the main reasons for attracting FDI inflows are to fill the savings, foreign exchange, revenue, and management gaps. The first and most often cited rationale of FDI to national development (i.e., when development is defined in terms of GDP growth rate) is its role in filling the resource gap between targeted or desired investment and locally mobilized savings. When the domestic resources (savings) fall short relative to the potential investment, FDI is seen as an alternative to fill-up that gap; second, it contributes to filling the gap between targeted foreign exchange requirements and those derived from net export earnings plus net foreign aid. This is the so-called foreign exchange or trade gap. An inflow of foreign capital cannot only alleviate part or the entire deficit on the balance of payment current account but also function to remove that deficit over time if the foreign-owned enterprise can generate a net positive flow of export earnings. Furthermore, FDI augment the revenue of the host country. By taxing MNCs profit, the host nation is thought to be better able to mobilize public financial resources for development projects. Also, foreign investments bring with them advanced management, entrepreneurship, technology and skills that can be transferred to their local counterparts by means of training programs and the process of learning by doing. In addition, FDI is said be socially desirable in LDCs because it leads to a net increase in capital formulation, output, and employment. However, it is pertinent to know that this rationale differ from country to country. This explains why some countries are making concert effort to accelerate economic growth by encouraging inflows of foreign capital while others are indifferent. **Nigerian Domestic Investment Profile** Investment is the monetary outlay on real asset such as factory plants, inventories, real estate, also including the provision of socially desirable assets like education, transportation, communication, and health-related utilities, among others. Any asset that does not contribute towards the provision or production of goods and services is, however, not referred to as an investment. Total investment in an economy is cumulatively the sum of both domestic and foreign investible capital: ***It = Id + If***
Where ***It, Id,*** and ***If*** is total, domestic, and foreign investment, respectively. Domestic investment, which comprises of private and public investment, is a vital component of total investment. For most economies, especially developed countries, the share of domestic investment is significantly large, sometimes higher than foreign capital; this is, however, a visibly opposing feature for most developing economies, where internally sourced capital is insufficient and inhibits targeted investment. For these economies, Nigeria in particular, public and private investment as a percentage of the GDP is significantly small and her economy relies heavily on foreign capital. During the first decade following independence, public investment as a percentage of GDP in Nigeria was, on the average, below 5 percent. Most social capital projects were mainly concentrated in urban areas, while the rural areas were wholly disconnected from the investment web. Following the discovery of oil in huge reserves in the Niger Delta and backed with foreign preference for Nigerian sweet crude, government revenue generation received a boast, and the capital expenditure of the government soared. Empirically, public investment (as % of GDP) increased by 400 percent, from a staggering value of 3.6 in 1970 to 14.9 in 1975. This impressive score remained so, maintaining an average of 15 percent to the GDP until the oil market crashed in the late 70s,

which resulted to falling revenues and declining public investment by the government. Precisely, public investment plummeted from 13 percent to 9 percent in 1982 and 83, respectively. Though it recorded a value of 12.3 percent in1986, resulting from the augmentation of domestic revenue by the IMF and World Bank, public investment has stayed below 10 percent thereafter, except for an anticipated rise fuelled by the electoral process in 1998 and 1999. The shabbily rates of public investment in the mid-2000s' could be linked to the global financial crisis of the period that affected government revenue earnings from crude oil export. Gross capital formation which measures total investment undertaken by private individuals in the domestic economy complements public investment. Similarly, private investment in Nigeria has trended same pattern with public sector investment. In the late 70's and 80's, private investment as a percentage of GDP was averaging 25 percent annually, and during this period, higher than public investment. However, since 1995, private domestic investment has been on a decline, averaging below 10 percent annually. The figure below reveals the trend analysis of private and domestic investment as percentages of the GDP.

3.0 Research Methodology

The research adopts an ex-post facto research design. This investigates possible cause-and-effect relationship by observing an existing condition and trying to find out possible causes. Kim and Singal (1993) defined ex-pot facto research as a situation where the independent variable has already occurred and the researcher starts with the observation of s dependent variable. It posits a causal link between them. The data used for this research is secondary data got from the annual reports of four banks. The data is entirely appropriate and wholly adequate to draw conclusions and answer the question or solve the problem, it is cheaper to collect and is reliable as information needed to achieve the research objectives.

In the process of developing of the model the first step is to identify the correlation model that allows the inclusion of the variables (both independent and dependent) and the coefficient weights. The two dimensions of the coefficients are direction and magnitude. The direction indicates whether variations in the dependent variable are caused by changes in the independent variable.

Model Specification

The model for this study was expressed in line with the hypotheses stated as follows
Ho_1 FDIs net inflow has no significant positive effect on Nigeria's economic growth
Ho_2 FDIs net outflow has no significant positive effect on Nigeria's economic growth
Ho_3 Market capitalization of domestic companies has no significant positive effect on Nigeria's economic growth
A second order linear differential equation is an equation which can be written in the form
$Y + p(x)y + q(x)y = f(x)$ …… (1)
where p, q, and f are continuous functions on some interval I and Y is the dependent variable and X is the independent variable.

In the E-view statistics the linear equation is re-stated as **Y=C (1) +C (2)*X**
Y =C(1)+C(2)*X

The variables used in the models are the dependent and independent variables, the former representing the effects while the latter represents the causes. Since the models are statistical the research looked at the dependent variable studied to find out variations as the independent variable varies. In the first hypothesis the dependent variable was FDI inflows as a

percentage of GDP while the independent variable is the FDI as a function of Balance of payment (BOP). In the second hypothesis the FDIs net outflow as a percentage of the GDP and the independent variable is the FDI outflow as a function of the BOP. In the third hypothesis the value of market capitalization by domestic sources as a function of GDP was regressed against the total value of domestic market capitalization. Guha Deb and Mukherjee (2008) posits that academic literature on the relationship between financial development and economic growth dates back to the early twentieth century. The techniques of data analysis used included the use of regression analysis and correlation coefficient of determination using the E- views statistical package. The Granger Causality could yield spurious tests if the variables are non-stationarity this why the granger causality test and unit root tests will be employed.

4.0 Data analysis and discussion of findings

Table 1

Test of hypothesis 1

Dependent Variable: FOREIGN_DIRECT_INVEST01
Method: Least Squares
Date: 09/18/18 Time: 16:43
Sample: 1 25
Included observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FOREIGN_DIRECT_INVEST MEN	-2.44E+08	2.27E+08	-1.074565	0.2937
C	4.54E+09	9.05E+08	5.015277	0.0000

R-squared	0.047804	Mean dependent var	3.74E+09
Adjusted R-squared	0.006404	S.D. dependent var	2.60E+09
S.E. of regression	2.59E+09	Akaike info criterion	46.26338
Sum squared resid	1.54E+20	Schwarz criterion	46.36089
Log likelihood	-576.2922	Hannan-Quinn criter.	46.29042
F-statistic	1.154690	Durbin-Watson stat	0.409862
Prob(F-statistic)	0.293714		

Table 2

Group unit root test: Summary
Series: FOREIGN_DIRECT_INVEST01, FOREIGN_DIRECT_INVESTMEN
Date: 09/18/18 Time: 16:44
Sample: 1 25
Exogenous variables: Individual effects, individual linear trends
Automatic selection of maximum lags
Automatic lag length selection based on SIC: 0 to 4
Newey-West automatic bandwidth selection and Bartlett kernel

Method	Statistic	Prob.**	Cross-sections	Obs
Null: Unit root (assumes common unit root process)				

Levin, Lin & Chu t*	-1.43209	0.0761	2	44
Breitung t-stat	-1.68690	0.0458	2	42
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-1.96731	0.0246	2	44
ADF - Fisher Chi-square	9.89953	0.0422	2	44
PP - Fisher Chi-square	5.52387	0.2376	2	48

** Probabilities for Fisher tests are computed using an asymptotic Chi -square distribution. All other tests assume asymptotic normality.

Table 3

Pairwise Granger Causality Tests
Date: 09/18/18 Time: 16:43
Sample: 1 25
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
FDI(inflow)_%_GDP does not Granger Cause FDI(Inflow)_%_BOP	23	0.88198	0.4311
FDI(Inflow)_%_BOP does not Granger Cause FDI(Inflow)_%_GDP		3.89790	0.0392

Table 4
Test of hypothesis 2
Dependent Variable: FOREIGN_DIRECT_INVEST01
Method: Least Squares
Date: 09/18/18 Time: 16:39
Sample: 1 25
Included observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FOREIGN_DIRECT_INVESTMEN	-43723874	1.60E+08	-0.273621	0.7868
C	7.01E+08	1.47E+08	4.776513	0.0001

R-squared	0.003245	Mean dependent var	6.75E+08
Adjusted R-squared	-0.040093	S.D. dependent var	5.53E+08
S.E. of regression	5.64E+08	Akaike info criterion	43.21502
Sum squared resid	7.31E+18	Schwarz criterion	43.31253
Log likelihood	-538.1878	Hannan-Quinn criter.	43.24207
F-statistic	0.074868	Durbin-Watson stat	0.358418
Prob(F-statistic)	0.786818		

Table 5

Group unit root test: Summary
Series: FOREIGN_DIRECT_INVEST01, FOREIGN_DIRECT_INVESTMEN
Date: 09/18/18 Time: 16:41
Sample: 1 25
Exogenous variables: Individual effects, individual linear trends
Automatic selection of maximum lags
Automatic lag length selection based on SIC: 0
Newey-West automatic bandwidth selection and Bartlett kernel
Balanced observations for each test

Method	Statistic	Prob.**	Cross-sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-3.80669	0.0001	2	48
Breitung t-stat	-0.41928	0.3375	2	46
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-3.68936	0.0001	2	48
ADF - Fisher Chi-square	19.0917	0.0008	2	48
PP - Fisher Chi-square	24.2786	0.0001	2	48

** Probabilities for Fisher tests are computed using an asymptotic Chi -square distribution. All other tests assume asymptotic normality.

Table 6

Pairwise Granger Causality Tests
Date: 09/18/18 Time: 16:40
Sample: 1 25
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
FDI(Outflow)_%_GDP does not Granger Cause FDI(Outflow)_%_BOP	23	2.34680	0.1243
FDI(Outflow)_%_BOP does not Granger Cause FDI(Outflow)_%_GDP		0.87602	0.4335

Table 7
Test of hypothesis 3
Dependent Variable: MARKET_CAPITALIZATION01
Method: Least Squares
Date: 09/18/18 Time: 16:20
Sample: 1 7
Included observations: 7

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MARKET_CAPITALIZATIO N_OF	3.99E+08	46205604	8.638185	0.0003
C	-2.30E+09	1.22E+09	-1.886622	0.1179

R-squared	0.937200	Mean dependent var	7.35E+09
Adjusted R-squared	0.924640	S.D. dependent var	4.67E+09
S.E. of regression	1.28E+09	Akaike info criterion	45.01438
Sum squared resid	8.20E+18	Schwarz criterion	44.99893
Log likelihood	-155.5503	Hannan-Quinn criter.	44.82337
F-statistic	74.61824	Durbin-Watson stat	1.018465
Prob(F-statistic)	0.000343		

Table 8
Group unit root test: Summary
Series: MARKET_CAPITALIZATION01, MARKET_CAPITALIZATION_OF
Date: 09/18/18 Time: 16:37
Sample: 1 25
Exogenous variables: Individual effects, individual linear trends
Automatic selection of maximum lags
Automatic lag length selection based on SIC: 0
Newey-West automatic bandwidth selection and Bartlett kernel
Balanced observations for each test

Method	Statistic	Prob.**	Cross-sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-0.33582	0.3685	2	48
Breitung t-stat	-1.96523	0.0247	2	46
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-0.71790	0.2364	2	48
ADF - Fisher Chi-square	5.04546	0.2827	2	48
PP - Fisher Chi-square	5.40194	0.2485	2	48

** Probabilities for Fisher tests are computed using an asymptotic Chi -square distribution. All other tests assume asymptotic normality.

Table 9
Pairwise Granger Causality Tests
Date: 09/18/18 Time: 16:28
Sample: 1 25
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
MCP_%_GDP does not Granger Cause MCP_$	23	0.60584	0.5564
MCP_$ does not Granger Cause MCP_%_GDP		0.75512	0.4843

Findings on analyzing hypothesis one
On table 1 the findings indicate that the goodness of fit of the model can be seen in the coefficient of determination (R-square). The R2 and adjusted R2 is 5.8 % and 3.0% respectively, this means that the FDI's net inflow has a positive but not a significant effect in the economy for the period under study. The FDIs net inflow has not had a significant impact on the Nigerian economy and so can't account for much of the variations in the GDP at current prices and for the period under study (1993-2017). The adjusted R2 moderates the Rs indicating that there may be other variables other than our explanatory variables that might have an impact on the dependent variable but not represented in the equation. These two values (R2 & adjusted R2) indicates that the regression line approximates the real data points and so is a very good fit and also shows how well observed outcomes in the analyses are replicated in the model.

The Durbin Watson statistics shows a positive serial correlation at 0.04. The difference between AIC, or Schwarz criterion is negligible, an indicator of a near perfect model convergence near zero. The smaller they are the better the fit of your model is (from a statistical perspective) as they reflect a trade-off between the lack of fit and the number of parameters in the model.
Table 2 testes to detect the possible presence of unit root in the time series data set was done. This was necessary because we wanted to ensure that the parameters estimated are stationary time series data. We utilized the Augumented Dickey – Fuller (ADF). To reject the null hypothesis that the data are non – stationary, the ADF statistics must be negative than the critical values and significant. As revealed, there are no presence of stationarity since the ADF Statistics is less than the critical values at 1%, 5% and 10%.

The granger causality test was conducted to test the causality of the impact of the independent variable on the dependent variable. As indicated in the table 3, it was revealed that the FDIs inflows as a percentage of the GDP does not granger cause the FDI inflows as a percentage of BOP and vice versa.

Findings on analyzing hypothesis two
For the second hypothesis analyzed, the R2 and adjusted R2 for table 4 for the years under study (1993-2017) is less than 1% respectively. This suggests evidence of a not so significant relationship between the nation's FDIs net outflow as a percentage of GDP and the FDIs net outflow as a percentage of the BOP. This means that the variations in the dependent variable are not sufficiently explained by the level of the FDIs inflows as a percentage of the GDP in

the years under study (1993 – 2017). The adjusted R2 moderates the Rs indicating that there may be other variables other than our explanatory variables that might have an impact on the dependent variable but not represented in the equation. These two values (R2 & adjusted R2) indicates that the regression line approximates the real data points and so is a very good fit and also shows how well observed outcomes in the analyses are replicated in the model.
The Durbin Watson statistics shows a positive serial correlation at 0.35. The difference between AIC, or Schwarz criterion is negligible, an indicator of a near perfect model convergence near zero. The smaller they are the better the fit of your model is (from a statistical perspective) as they reflect a trade-off between the lack of fit and the number of parameters in the model.
In table 5 the presence of unit root in the time series data set was tested . This was necessitated because we wanted to ensure that the parameters estimated are stationary time series data. We utilized the Augumented Dickey – Fuller (ADF). To reject the null hypothesis that the data are non – stationary, the ADF statistics must be negative than the critical values and significant. As revealed, there are no presence of stationarity since the ADF Statistics is less than the critical values at 1%, 5% and 10% for both tables respectively.

The granger causality test was conducted to test the causality of the impact of the independent variable on the dependent variable. As indicated in the table 6, it was revealed that the FDIs net outflow as a percentage of the GDP does not granger cause the FDIs net outflow as a percentage of the BOP and vice versa.

Findings on analyzing hypothesis three
For the third hypothesis analyzed, the R2 and adjusted R2 for table 7 for the years under study (1993-2017) is 93.7% and 92.4% respectively. This suggests evidence of a positive and very significant relationship between the nation's listed domestic capitalization as a percentage of GDP and the total capitalization (in dollars) of listed domestic companies. This means that the variations in the dependent variable were sufficiently explained by the level of the independent variable in hypothesis three for the years under study (1993 – 2017). The adjusted R2 moderates the Rs indicating that there may be other variables other than our explanatory variables that might have an impact on the dependent variable but not represented in the equation. These two values (R2 & adjusted R2) indicates that the regression line approximates the real data points and so is a very good fit and also shows how well observed outcomes in the analyses are replicated in the model.
The Durbin Watson statistics shows a positive serial correlation at 1.01. The difference between AIC, or Schwarz criterion is negligible, an indicator of a near perfect model convergence near zero. The smaller they are the better the fit of your model is (from a statistical perspective) as they reflect a trade-off between the lack of fit and the number of parameters in the model.

In table 8 the presence of unit root in the time series data set was tested . This was necessitated because we wanted to ensure that the parameters estimated are stationary time series data. We utilized the Augumented Dickey – Fuller (ADF). To reject the null hypothesis that the data are non – stationary, the ADF statistics must be negative than the critical values and significant. As revealed, there are no presence of stationarity since the ADF Statistics is less than the critical values at 1%, 5% and 10% for both tables respectively.

The granger causality test was conducted to test the causality of the impact of the independent variable on the dependent variable. As indicated in the table 9, it was revealed that the Market capitalization of listed domestic firms as a percentage of the GDP does not granger cause the dollar total capitalization of listed domestic firms and vice versa.

5.0 Conclusions

For the first hypothesis, it has become apparent that the supposition contained therein should be rejected. This supports the studies carried out by Olokoyo Felicia Omowunmi (2012) which mentions that substantial foreign investment inflow, particularly foreign direct investment (FDI) is perceived to have a positive impact on economic growth of a host country through various direct and indirect channels. It augments domestic investment, which is crucial to the attainment of sustained growth and development. She concluded that the level of Foreign Direct Investments (FDIs) inflows in Nigeria is still below the market potentials of an emerging economy like Nigeria despite a surge in the injections of foreign capital in the first decade of the new millennium before the world financial crisis of 2008.

In the second hypothesis, it was decided that the null hypothesis was to be rejected as well as the foreign direct investment net outflow as a percentage of GDP was regressed against the foreign direct investment net outflow as a function of the BOP. The result was the same as hypothesis one and is consistent with the research done by Yartey (2008) that considered issues affecting fair trading practices, listing requirements, regulatory reform and how they affect foreign investments.

In the third hypothesis, it was decided to accept the null hypothesis which suggested that listed domestic companies have a significant effect on the economic growth of Nigeria. This is consistent with the work of Ndikumana and Verick (2008) they espoused that a high private domestic investment is a signal for high returns to capital, while adequate public infrastructure (through high public investment) reduces the cost of doing business, which raises the marginal return to FDI and further lends support to the findings of the first two hypotheses which suggests FDI investments have not had a significant effect on the economy. By implication, this supports the acceptance of the third hypothesis which means domestic capital has a high impact on the Nigerian economy.

6.0 Policy Recommendations

The government should reduce restrictions on FDI through the provision of open, transparent and dependable conditions for all kinds of firms (foreign and local) including the ease of doing business, access to imports, protection of intellectual rights and flexible labour markets.

Given the step in the right direction by establishing the Nigerian Investment Promotion Council (NIPC), the bureaucratic bottle-necks associated with the Council should be reduced by granting some level of business autonomy to the council and appointing technocrats to the board not out political consideration but from vast experience in cross boarder investments.

The government should give sectoral prioritization to areas for investment in line with the overall economic policy laid down to achieve certain goals. Prime multinational investors in the host economy usually play a role in determining the investment and location decisions of the government if their confidence is to be restored, the government needs to engage them more not necessarily surrendering economic sovereignty but to assuage the fears of the

providers of FDIs that their funds will be used productively.

Foreign investors are all too aware that the fastest way to get broke is to keep getting an increasing share of a shrinking market. This is why the government because of changing technology and obsolescence in the face of global competition for funds should do all in their power to improve their market by providing the necessary infrastructure required by the investors.

The government should strengthen backward linkages from FDI into the indigenous economy by allowing competitive pressure of foreign entrants on their local suppliers to raise competitiveness for the latter. This will cause foreign assistance to benefit the local firms in the form of training, help with setting up production lines, management coaching regarding strategy and financial planning, financing, assistance with quality control and introduction to export markets.

The government can also encourage spillovers from FDI into the indigenous economy, encourage first –time foreign direct investors, provision of access to credit by reforming domestic financial markets

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APPENDIX

Year	Foreign direct investment, net inflows (% of GDP)	Foreign direct investment, net inflows (BoP, current US$)	Foreign direct investment, net outflows (% of GDP)	Foreign direct investment, net outflows (BoP, current US$)	Market capitalization of listed domestic companies (% of GDP)	Market capitalization of listed domestic companies (current US$)
1993	8.5209213	1345368587	3.3738671	532700000	13.56957053	2142500000
1994	10.832558	1959219858	1.8146231	328200000	16.46153968	2977300000
1995	3.7806884	1079271551	0.671712	191753359.7	27.24353266	7777200000
1996	4.5543084	1593459222	1.7068295	597184659.6	36.33965265	12714500000
1997	4.2974457	1539445718	0.2874542	102972821.1	35.05926492	12559050000
1998	3.2849208	1051326217	0.4961815	158800978.8	32.25056887	10321670000
1999	2.8014901	1004916719	0.4817781	172817608.8	8.194912226	2939580000
2000	2.4579987	1140167556	0.3642014	168938514.5	8.194912226	2939580000
2001	2.6974915	1190618644	0.2127046	93883556.75	8.194912226	2939580000
2002	3.1701128	1874070753	0.2912224	172161494.6	4.01567419	2373940000
2003	2.9640521	2005353563	0.2473126	167321366.7	4.01567419	2373940000
2004	2.1333621	1874060887	0.296834	260755093.6	18.06120331	15865940000
2005	4.4388481	4982533930	0.0130381	14635077.18	19.81677181	22244000000
2006	3.337937	4854353979	0.2197754	319618789.8	22.57482162	32830510000
2007	3.6263006	6036021405	0.5212823	867680640.4	51.00267416	84894570000
2008	3.9389176	8195499253	0.5053467	1051448364	23.09967408	48062280000
2009	5.047601	8554740717	0.899876	1525121754	19.01295108	32223400000
2010	1.6328488	6026232041	0.2470359	911716681.8	13.69589293	50546400000
2011	2.1472365	8841113287	0.1983672	816764595.7	9.478804499	39028390000
2012	1.5337619	7069934205	0.3319485	1530129291	12.19323836	56205200000
2013	1.0802403	5562873606	0.238353	1227437644	15.65343247	80609900000
2014	0.8182013	4651465948	0.2813386	1599406943	11.04070841	62766310000
2015	0.6521595	3137318700	0.3061125	1472603710	10.38815134	49973880000
2016	1.0984982	4445102771	0.3222293	1303909515	7.362469722	29792434000
2017	0.9306828	3497233435	0.3417145	1284063190	9.904342898	37217620000