

## Effect of Stock Market Valuations on Foreign Direct Investment in Nigeria

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### **Abstract**

*This study examines the impact of stock market valuations on foreign direct investment in the Nigerian economy. This was aimed at ascertaining how the development of the Nigerian Stock Exchange has stimulate the inflow of foreign direct investment to Nigerian businesses. Historical data was collated and estimated employing the Ordinary Least Squares (OLS) technique. The empirical results indicate that market capitalization and value of deals in the exchange exert a positive impact on foreign direct investment inflows to Nigeria. Although, further observations indicate that only stock market capitalization exert a statistically significant impact on foreign direct investment inflows to Nigeria. Furthermore, it emerged that all share index is negative and has a statistically valid impact on foreign direct investment inflows in Nigeria. On the basis of the findings of this study, the following recommendations are made: Government should consider the maintenance of prudent macroeconomic policies and also continue to create conducive environment to stimulate the flow of foreign direct investment; Also, there is need to increase citizens' knowledge and awareness about participation in the stock market through conscious sensitization and education from schools to offices and places of worship.*

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### **1.0 INTRODUCTION**

#### **1.1 Background of the Study**

One of the functions of stock market is to provide platform for mobilizing long term funds from both within and outside the country in form of domestic investment capital and foreign investment capital. Thus, a well-managed stock market should facilitate inflow of foreign investments, either in the form of foreign portfolio investments (FPI) or foreign direct investment (FDI), to the country. FDI is essential in any economy in that it serves as a source of capital flows for capital formation, transfer of technology, expansion of trade (both local and international), creation of jobs, human capital development, complementing domestic private

investment and competitive environment, improvement in infrastructure and balance of payment which ultimately boosts overall economic growth in host countries (Jaiblai&Shenai, 2019; Keho, 2020).

The underdeveloped nature of the Nigerian economy has essentially hindered the pace of her economic growth and this has necessitated the demand for capital from overseas or foreign capital investment into the country, in order to supplement domestic capital. Nigeria as a developing country has adopted a number of measures aimed at accelerating growth and development in the domestic economy, one of which is to attract foreign direct investment. Irrespective of this, it is imperative to note that foreign direct investments and multinational investors are extremely sensitive to events in their host nations (more especially developing nations). The economic and political environments of developing nations are highly unstable (Waller-Hunter & Jones, 2002) due to lack of continuity in economic policies. This motivates investors to pull their investments and funds due to contrived economic policies (Yaqub, Adam, & Jimoh, 2013).

The intense instability of capital from developing countries lead to rising inflation, cost of capital and declining employment figures which invariably render the host nation in an awkward position (Obadan&Obioma, 1999). These unwanted economic indicators are altogether signalled by the stock exchange which is a reliable gauge of the performance of businesses and the macro economy as indicated by the market capitalization; all share indexes, market turnover and the values of trades in the exchange. The performance of a country's stock market is an important factor (amongst others) in measuring general economic and financial health of the country. Accordingly, the stock market performance provides an overall indicator of the value of shares over a given time period (Onyinyechi & Ekwe, 2017). This means that stock market plays a critical role in any country's financial development (Ali, 2014). But in contrast, in Nigeria, Omodero and Ekwe (2016) posit that FDI has an insignificant and negative impact on stock market performance. In the same vein, Abubakar and Danladi (2018) and Musa and Ibrahim (2014) show that FDI has positive but statistically non-significant impact on stock market development in Nigeria. These authors reveal that FDI does not constitute a cardinal vehicle for developing the Nigerian stock market. Despite burgeoning research on the importance of foreign direct investment (FDI) and stock market performance, there is a lack of consensus about their relationship in a country like Nigeria.

## **1.2 Research Objectives**

The general objective of this study is to determine the Effect of Stock Market Valuations on Foreign Direct Investment in Nigeria.

The specific objectives of the study are:

- i. To examine the relationship between all share index and Foreign Direct Investment in Nigeria.
- ii. To find out the nature of relationship between Market capitalization and Foreign Direct Investment in Nigeria.
- iii. To determine the relationship between value of stocks traded and Foreign Direct Investment in Nigeria.

### 1.3 Research Hypotheses

The following hypotheses have been formulated based on the objectives of study and the research questions;

**H0<sub>1</sub>:** The all share index does not have significant impact on Foreign Direct Investment in Nigeria.

**H0<sub>2</sub>:** Market capitalization does not have significant impact on Foreign Direct Investment in Nigeria.

**H0<sub>3</sub>:** value of stocks traded does not have significant impact on Foreign Direct Investment in Nigeria.

## 2.0 LITERATURE REVIEW

### 2.1. Conceptual framework

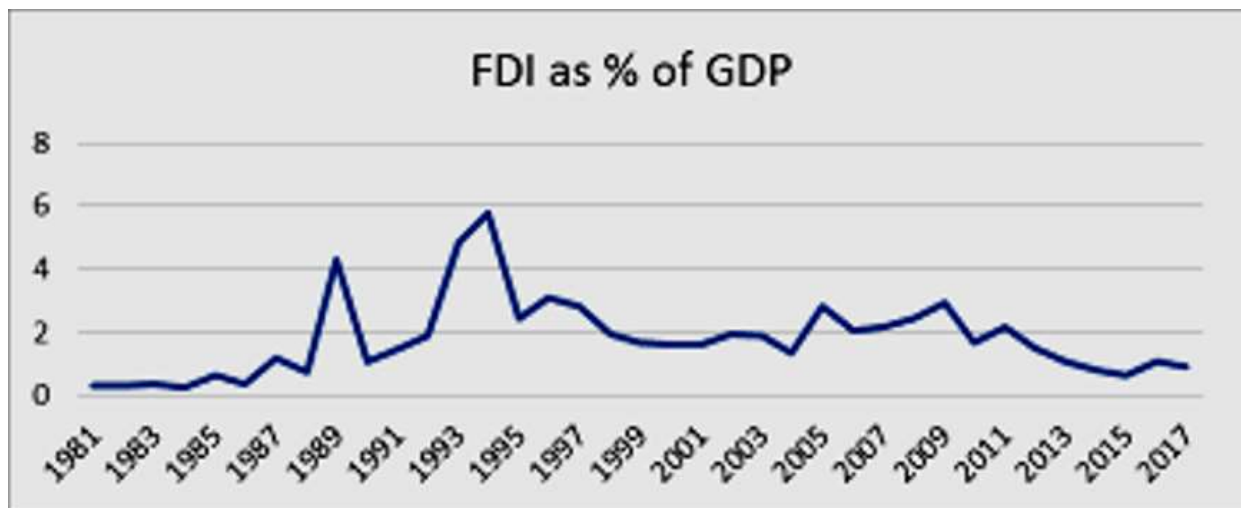
#### Foreign Direct Investment in Nigeria

Before the structural adjustment period of 1986, especially during the oil boom era, the Nigerian government theoretically encouraged FDI but in practice there were series of policies and pronouncements that served as disincentives to FDI. For example, the Indigenisation Decree of 1972 reserved exclusively certain ventures for Nigerians. More importantly, controlled interest rate and fixed exchange rate regimes as well as a restricted trade policy during the period provided wrong signals to potential investors. Nonetheless, government with revenue from oil, participated actively with foreign partners and domestic entrepreneurs in the establishment, ownership and control of industries.

The crisis in the global oil market of 1981 coupled with ad hoc and inconsistent macroeconomic policies plunged the Nigerian economy into a recession. By 1986, despite the various austerity and stabilization measures, the economy had entered a recessionary phase. The existing stop gap measures (tax exemptions, reduced tariffs, etc.) to lure FDI could not revamp the economy. The adjustment program of 1986, which deregulated the economy, was supposed to encourage FDI. The introduction of the New Industrial Policy in 1989 with a series of packages and incentives directed at wooing foreign investors is still in place. The present regime (1993 - 1996) established the Nigerian Investment Promotion Commission (NIPC) with a view to stimulating FDI.

Over the years, Nigeria has adopted various macroeconomic policies to boost her foreign direct investment (Funyina, 2015; UNDP 2011). However, the impact of these policies had been negligible in achieving sustainable growth in this part of capital flow. A survey report from the studies by the United Nations Conference on Trade and Development (UNCTAD) indicated that FDI inflows to Nigeria fell by 27 percent i.e. from \$4.7bn recorded in 2014 to \$3.4bn achieved in 2015. It was also recorded in their global investment trend's monitoring report that, Nigeria will be hit hard by the current slump in her oil prices. Besides, it has been projected that FDI inflows to Nigeria are expected to decline more in 2016 due to brittleness of the economies of the world, fluctuations in exchange rate, weak aggregate demand and acceleration in few prominent economies. More recently, (UNCTAD) reported that FDI to Nigeria fell by 21% in 2017 to \$3.5bn

in 2018. The global agency cited economic recession which had exposed the country to various macroeconomic instabilities as the cause of the dip in investment flow into the country. According to National Bureau of Statistics (NBS), Nigeria had experienced a steady decline in FDI since 2008 when the world experienced economic global meltdown. However, before the economic meltdown, the growth of foreign direct investment in the country has had a mix trend.



A look at the above graph in fig.1.1 shows that the FDI trend in Nigeria has portrays mixed features. The era of SAP ushered in tremendous increase and decrease in the rate of foreign direct investment inflow in the country with 1993 having the highest peak while 2014 had the lowest FDI inflows. This unsteady growth of FDI inflows in Nigeria has contributed to some worries on what the causes of such instability are and has given room for empirical study. However, the slack in the FDI had been attributed to its correlation to commodity cycle and exchange rate volatility in the country. Exchange rate volatility occurs when there is unsteadiness in the value of one country's currency in relation to others. It is a natural outcome of the floating exchange system that is common with most major economies of the world (Jose, 2015). The rate at which exchange rate is exposed to fluctuations in the country for some decades now explains why Nigerians have never gotten over the notion of a stable currency as a mark of a growing economy (Ukemenam, 2016).

### **Stock Market: Concept and Significance**

Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies.

## **Market Capitalization Indices**

Market capitalization or valuation is the market value at a point in time of the shares outstanding of a publicly traded company, being equal to the share price at that point of times the number of shares outstanding. As outstanding stock is bought and sold in public markets, capitalization could be used as an indicator of public opinion of a company's net worth and is a determining factor in some forms of stock valuation. Market capitalization represents the aggregate value of stock or other securities such as; equities, debts, bonds, etc. it serves as key or indicates the directions of the stock exchange or capital market performances. It is obtained by multiplying the number of shares outstanding by their current price per share.

Market valuation is used by the investment community in ranking the size of companies, as opposed to sales or total asset figures. It is also used in ranking the relative size of stock exchanges, being a measure of the sum of the market capitalizations of all companies listed on each stock exchange. In performing such rankings, the market capitalizations are calculated at some significant date, such as 30 June or 31 December. The stock market has helped government and corporate entities to raise long term capital for financing new projects, and expanding and modernizing industrial/commercial concerns (Nwankwo, 1991).

Empirical investigations on the possible relationship between stock market development and economic growth have been relatively limited, particularly regarding developing economies. Also, empirical research into this relationship for developing countries until recently has been dominated by cross country studies, owing to the insufficient length of the available time series data (Adjasi&Biekpe 2006; Yartey&Adjasi 2007). This presumed relationship has generated its fair share of controversy within economic literature and there is need for further investigation to improve understanding of this link, owing to the importance of the stock market to investors (Jidefo, 2007).

## **Role of Stock Market Valuation in Foreign Direct Investment Flows**

There are three theoretical rationales that explain the direct causality relationship between FDI and stock market development (Soumare and Tchana, 2011).

- i.** The first being that FDI net inflows boost stock market development by increasing the amount of funds in the host country' economy. The proponents of this category argue that there are high chances that multinational firms that bring FDI inflow end up listing their shares on the stock exchange of the host country.
- ii.** The second theoretical rationale referred to as the political economy argument suggests that FDI inflows forces the host country government to embrace market friendly policies, regulations and controls that end up boosting stock market development.
- iii.** The third theoretical rationale mentions that a well-developed and functioning stock markets attracts FDI as multinational firms perceive such a market as a friendly environment whose government is more open to the international community. Due to high competition, a well-functioning and developed stock market is more liquid and reduces the cost of capital thus making thecountry more attractive to FDI inflows.

Ezeoha and Cattaneo (2011) suggested that the impact of FMD on stock market development can be divided into three views which include the allocative channel view, economic efficiency view and the liquidity easing view. Proponents of the allocative channel view argue that well developed stock markets are better able to increase foreign capital productivity through allocating financial resources to projects with high rate of return. Apart from this allocative efficiency argument, well developed stock markets attract more FDI by providing better risk reduction and diversification mechanisms. According to Guiso et al(2004), well-functioning stock markets are well known not only for attracting FDI but for enabling individuals and companies easy access to external funds at a low cost.

Proponents of the economic efficiency view argue that well developed stock markets have got better capacity to ease information flow and reducing transaction costs thereby easily attracting FDI inflow. Bartels et al (2009) pointed out that stock markets provide cost-cutting information for the industries to potential foreign investors thereby contributing to the decline in the level of asymmetric information that normally curtail international capital mobility.

The liquidity easing view argue that well developed stock markets boost liquidity hence enabling faster trading of financial instruments and settlement (Levine (1997a). the position of the liquidity easing view argued that weak stock markets forces the scaling down of foreign firms activities as they will be over depending on capital flows from the parent company.

Stock market development as measured by stock market capitalization and total value traded and banking sector development as measured by central bank deposits and deposit money bank assets variables influenced FDI. Soumare and Tchana (2011) found out that FDI initially boost stock market growth due to FDI related spillover investment opportunities and then a well-developed stock market attract more FDI inflows in return.

Also, financial markets liberalization increased FDI inflows and private investment in developing countries. Stock market liberalization reduced operational risks and cost of capital of foreign companies hence boosting FDI inflows into developing countries. Liberalizing capital controls accelerate growth in the local activities of foreign companies thereby boosting FDI inflows. By not liberalizing capital controls, multinational firms incur high interest rates, organizational and regulatory costs. Liberalizing capital controls reduces these costs and attract more FDI inflow into the host country. According to Levine (1997b), removing the impediments to foreign investments boost the host country's stock market development index by facilitating its integration with other world stock markets.

## **2.2 Theoretical Framework**

### **The Internalization Theory**

This theory tries to explain the growth of transnational companies and their motivations for achieving foreign direct investment. The theory was developed by Buckley and Casson, in 1976 and then by Hennart, in 1982 and Casson, in 1983. Initially, the theory was launched by Coase in 1937 in a national context and Hymer in 1976 in an international context. In his doctoral dissertation, Hymer identified two major determinants of FDI. One was the removal of



competition. The other was the advantages which some firms possess in a particular activity (Hymer, 1976). Buckley and Casson, who founded the theory demonstrates that transnational companies are organizing their internal activities so as to develop specific advantages, which then to be exploited.

Internalization theory is considered very important also by Dunning (1973) who uses it in the eclectic theory, but also argues that this explains only part of FDI flows. Hennart (1982) develops the idea of internalization by developing models between the two types of integration: vertical and horizontal. Hymer is the author of the concept of firm-specific advantages and demonstrates that FDI take place only if the benefits of exploiting firm-specific advantages outweigh the relative costs of the operations abroad. According to Hymer (1976) the MNE appears due to the market imperfections that led to a divergence from perfect competition in the final product market. Hymer has discussed the problem of information costs for foreign firms respected to local firms, different treatment of governments, currency risk (Eden and Miller, 2004). The result meant the same conclusion: transnational companies face some adjustment costs when the investments are made abroad. Hymer recognized that FDI is a firm-level strategy decision rather than a capital-market financial decision.

### **2.3 Empirical Review**

In a classical study by Claessens et al. (2001), foreign direct investment and stock market development of 77 countries, was investigated with emphasis on assessing the complementarity or substitutability relationships in those countries. The authors show that FDI is positively correlated with stock market. By this, the authors support the complementary role of FDI in stock market development.

In a similar study, Karthik and Kannan (2011) investigate the complementary or substituting role of FDI in the stock market development of India. They also confirm the complementary role of FDI in Indian stock market development. Tsaurai (2014) investigates the causality relationship between stock market and foreign direct investment in Zimbabwe. The study found no causality between stock market and FDI net inflows in Zimbabwe.

Olugbenga and Obisesan (2015) examined the impact of foreign direct investment on Nigerian capital market development in Nigerian economy covering the period of forty years (1970-2010). The study adopted ADF unit root test and Johansen co-integration test to analyze the secondary data obtained from Central Bank of Nigeria statistical bulletin. The result shows that foreign direct investment impact positively and significantly on market capitalization and foreign direct investment is a significant determinant. However, the drawback in the study is the lack of cointegration and low beta weight suggest that emphasis on foreign direct investment as a way of stimulating long run growth in the developing country like Nigeria does not worthwhile. Another short fall of their study is that the statistical tools adopted was inappropriate and there is a lag of eight years in the period covered; variable used only focused on market capitalization not considering the individual difference of other components of Nigeria stock exchange market capitalisation.

In Ghana, Wang et al. (2019) submit that in the long-run, FDI has negative and insignificant impact on stock market development unlike in the short-run where there is positive significant relationship between the two. However, Adam and Tweneboah (2008) find that FDI significantly influences the development of stock market in Ghana. This result is completely in tandem with Pakistan's evidence established by the trio Ali (2014) when they found an evidence of a positive impact of FDI on stock markets of Pakistan. The three authors gave support to the complementary role of FDI in stock market development. This implies that in Pakistan, FDI is a catalyst to stock market development of the country. However, in Croatia, the complementary role of FDI in stock market is limited to the short run. Arcabic et al. (2013) establish an absence of a long-term relationship between FDI and stock market for the period 2001-2011.

Eniekezimene (2013) examined the impact of foreign portfolio investment on capital market growth: evidence from Nigeria. Ordinary Least Square method was used to analyze the data collected. It was revealed that foreign portfolio investment has a positive impact on capital market growth.

Ezeoha, Ebele, and Ndi-Okereke (2009) investigated the nature of the relationship that exists between stock market development and the level of investment (domestic private investment and foreign private investment) flows in Nigeria. The authors discovered that stock market development promotes domestic private investment flows, thus suggesting the enhancement of the economy's production capacity as well as promotion of the growth of national output. However, the results show that stock development has not been able to encourage the flow of foreign private investment in Nigeria.

The theoretical work shows both negative and positive impact of foreign direct investment on stock market performance and economic growth (Nieuwerburgh, Buelens&Cuyvers, 2005); the studies reviewed gives us very strong positive evidence that the stock market development produce economic growth in a country. All studies have a concession that FDI is attracted more to countries that are less risky for investment and countries with good institutions and fuels the development of the stock market through different channels.

In a contrary view, Fernandez-Arias (1996) emphasized that FDI tends to be larger in countries that are riskier, financially underdeveloped and institutionally weak. Although, research on the effects of FDI on stock market development and economic growth have been done extensively in most of the developing nations, it is of great privilege to state that no study has worked extensively on the effect of foreign direct investment on Nigerian Stock Exchange Market Capitalisation Index in Nigeria after the global financial crisis which is the aim of this study. The review of the above literature suggest us the role of FDI in developing stock markets of different countries in different areas of the world. Our study seeks to fill any gap in literature because in past ten to fifteen years major political and economic changes occurred in Nigeria so these changes have a very significant effect on its economy measures.

The majorities of the empirical studies reviewed covered stock market development and are with diverse conclusions. Again the methodologies applied in the analysis are also diverse. The time frames for most of the studies are not current. Also the period studied did not include the economic reform period of such countries. Even the extent of work done is without consensus, while the



methodologies adopted are not appropriate to cross-examine time series data and most of research studies do not have theoretical framework. Hence, this study tries to fill the gap in research by assessing the impact of FDI on Nigerian stock exchange market capitalisation. This research work also gives attention to relevant theory; methodology and extension of studied population to cover all the firms listed on Nigerian stock exchange market using aggregate data in order to have good generalisation.

### 3.0 RESEARCH METHODOLOGY

#### 3.1 Research Design

The paper relied on the ex post research design where the cause and effect of past events are ascertained. To this end, the Ordinary Least Squares (OLS) model which contains dependent and independent variables for Nigeria are analyzed.

#### 3.2 Data Collection Methods

Secondary data will be used in this study. Secondary data refers to information gathered from existing, available resources. Specifically, the data will be collected from the published CBN Statistical Bulletin which is a composite of annual reports of the economic activities in Nigeria. To establish the relationship among exchange rate and stock markets, this study uses annual data for Exchange Rate, All Share Index and money market over the period 1990 to 2021, making it a total of 31 observations.

#### 3.3 Analytical Framework and Model Derivation

The model is based on the modification of the empirical models of Abu (2009) and Adenuga (2010) but with modification, in the sense that the dependent variable for this study is foreign direct investment (FDI) instead of real gross domestic product as used by Abu (2009) and Adenuga (2010). The focus of the model is to examine to what extent foreign direct investment is affected by stock market valuations in Nigeria. Foreign direct investments is used as the dependent variable in this model. The independent variables for the model are the stock market valuations such as market capitalization, share price index and volume of transaction.

The models are expressed as:

It then means that,

$$FDI = f(MKP, ASI, VOT)$$

$$FDI_t = \alpha_0 + \alpha_{1i}MKP_t + \alpha_{2i}ASI_t + \alpha_{3i}VOT_t + u_t \quad . \quad . \quad . \quad . \quad (3.1)$$

Where:

FDI = Foreign Direct Investment;

MKP = Market Capitalization;

ASI	=	Share Price Index;
VOT	=	Volume of Transaction;
t	=	represent the time dimension
$\alpha_0$	=	Intercept;
$\alpha_{1t}, \alpha_{2t}, \alpha_{3t}$	=	model coefficient.
$u_t$	=	model error terms

### 3.4 Hypothesis Testing and Decision Rule Criteria

The decision rule was employed to test the hypothesis of the study and to make comparison between the probability value and the critical value. The study adopted 5% as its level of significance. The following decision rules were adopted for rejecting or accepting the null hypotheses: If,

- i. Probability value (p-value) > 0.05 critical value; do not reject the null hypothesis ( $H_{0i}$ ).
- ii. Probability value (p-value) < 0.05 critical value; reject the null hypothesis ( $H_{0i}$ ).

## 4.0 DATA PRESENTATION AND ANALYSIS

### 4.1 Descriptive Statistics

The study conducted the descriptive statistics of the relevant variables involved. Table 4.1 vividly shows these statistics. It shows total number of observations, mean, median, maximum, minimum, standard deviation and the sum of mean deviation. This study's dependent variable is foreign direct investment while the independent variables are stock market capitalization, all share index and volume of transaction. However, foreign direct investment has a minimum of 0.195 and a maximum value of 5.790 of Nigeria's GDP. In the same measure, the maximum and minimum values for all share index are 513.8 and 57,990.2 indices; for stock market capitalization are N4.495 billion and N29.35 billion; for value of transaction, N0.041 billion and N4.202 billion, respectively.

**Table 4.1: Descriptive Statistics**

	FDI	ASI	MKP	VOT
Mean	1.663705	20006.94	10.03287	0.946256
Median	1.552115	20827.17	9.079711	0.704160
<b>Maximum</b>	<b>5.790847</b>	<b>57990.20</b>	<b>29.35837</b>	<b>4.202670</b>
<b>Minimum</b>	<b>0.195183</b>	<b>513.8000</b>	<b>4.495084</b>	<b>0.041030</b>
Std. Dev.	1.207286	14863.46	5.012043	0.969534
Skewness	1.817685	0.403212	1.920342	1.738303
Kurtosis	6.679214	2.505514	8.142291	6.010331

Jarque-Bera	34.55536	1.155830	53.20894	27.31731
Probability	0.000000	0.561067	0.000000	0.000001
Sum	51.57484	620215.2	311.0188	29.33393
Sum Sq. Dev.	43.72622	6.63E+09	753.6173	28.19988
Observations	31	31	31	31

### Source: Researcher

For the degree of volatility, the standard deviation in table 4.1 showed that all share index in Nigeria was more volatile having a standard deviation value of 14,863.46. This is clearly so because the standard deviation value is the highest among all the data included in the model.

### 4.2 Model Estimation and Hypotheses Testing

In this phase, the OLS technique will be used to estimate the research model, out of which the values for testing the study's hypotheses will be obtained.

### Model Estimation

The functional model was estimated thus:

Dependent Variable: FDI

Method: Least Squares

Date: 03/05/22 Time: 12:39

Sample: 1990 2020

Included observations: 31

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ASI	-8.14E-05	2.93E-05	-2.779794	0.0098
MKP	0.165787	0.110975	1.493918	0.0146
VOT	0.223504	0.402845	0.554815	0.5836
C	1.417119	0.570343	2.484681	0.0195
R-squared	0.583417	Mean dependent var	1.663705	
Adjusted R-squared	0.448241	S.D. dependent var	1.207286	
S.E. of regression	1.114214	Akaike info criterion	3.174090	
Sum squared resid	33.51979	Schwarz criterion	3.359121	
Log likelihood	-45.19840	Hannan-Quinn criter.	3.234406	
F-statistic	2.740406	Durbin-Watson stat	1.388835	

Prob(F-statistic) 0.062790

**Source: Researcher**

The result summarized above is analyzed in terms of statistical and econometric criteria. The R – squared value shows that 58.34 percent of the variance in foreign direct investment in Nigeria is due to changes in stock market capitalization, all share index and value of transaction. Thus, the remaining 41.66 percent was due to changes in other factors not included in the model.

The estimated model from the coefficients is stated below:

$$\text{FDI} = 1.417 - 8.14\text{ASI} + 0.165\text{MKP} + 0.223\text{VOT}$$

From the model estimation above, ASI and VOT have negative relationship with foreign direct investment; while MKP has positive relationship with foreign direct investment.

#### 4.2.2 Hypotheses Testing

To test the hypotheses, we will use probability criteria, if:

$p > 0.05$ : Accept  $H_0$ .

$p < 0.05$ : Reject  $H_0$ .

#### Testing of Hypothesis One (1)

Hypothesis one is restated below:

**H<sub>01</sub>:** Stock market capitalization does not have significant impact on foreign direct investment in Nigeria.

**Table 4.3: Extraction for Testing Hypotheses One**

Variable	Coefficient	t-statistic	Prob.	Remark
MKP	0.165787	1.493918	0.0146	Reject $H_{01}$

**Source: Researcher**

Firstly, the result shows that there is a positive and significant relationship between MKP and FDI (representative of foreign direct investment) in Nigeria. The result means that a single unit increase in MKP leads to a decrease of 0.165 units in foreign direct investment in Nigeria. Since the computed probability value of MKP (0.0146) is below the critical test level of 0.05 (i.e.  $P < 0.05$ ), we reject the null hypothesis and conclude that Stock market capitalization have significant impact on foreign direct investment in Nigeria.

#### Testing of Hypothesis two (2)

Hypothesis two is restated below:

**H0<sub>2</sub>:** Value of transaction does not have significant impact on foreign direct investment in Nigeria.

**Table 4.4: Extraction for Testing Hypotheses Two**

Variable	Coefficient	t-statistic	Prob.	Remark
VOT	0.223504	0.554815	0.5836	Accept H <sub>02</sub>

**Source: Researcher**

The result in table 4.4 as issued in regression revealed that there is a positive and insignificant relationship between VOT and FDI SMKP (representative of foreign direct investment) in Nigeria. The result means that a single unit increase in VOT leads to an increase of 0.223 units in foreign direct investment in Nigeria. Since the computed probability value of VOT (0.5836) is greater than the critical test level of 0.05 (i.e.  $P > 0.05$ ), we accept the null hypothesis and conclude that Value of transaction have significant impact on foreign direct investment in Nigeria.

### Testing of Hypothesis three (3)

Hypothesis three is restated below:

**H0<sub>3</sub>:** All share index does not have significant impact on foreign direct investment in Nigeria.

**Table 4.5: Extraction for Testing Hypotheses Three**

Variable	Coefficient	t-statistic	Prob.	Remark
ASI	-8.14E-05	-2.779794	0.0098	Reject H <sub>03</sub>

**Source: Researcher**

Finally, the result in table 4.5 as issued in regression revealed that there is a negative and insignificant relationship between ASI and FDI (representative of foreign direct investment) in Nigeria. The result means that a single unit increase in ASI leads to a decrease of 8.14 units in foreign direct investment in Nigeria. Since the computed probability value of ASI (0.0098) is below the critical test level of 0.05 (i.e.  $P < 0.05$ ), we reject the null hypothesis and conclude that All share index does have significant impact on foreign direct investment in Nigeria.

## 4.4 Discussion of Results

### Effect of stock market capitalization on foreign direct investment in Nigeria

The first objective of this study was to determine the effect of stock market capitalization on foreign direct investment in Nigeria. The regression analysis shows that stock market capitalization has positive and significant relationship with foreign direct investment in Nigeria. The coefficient of market capitalization is positive. This indicates that market capitalization has a positive impact on foreign direct investment inflow to Nigeria. This further allude that increase market capitalization stimulates the inflow of capital from overseas. Further observations indicate that market capitalization exerts a statistically significant role in the flow of capital to Nigerian corporations. This implies that as the market value of publicly traded corporate appreciates, so

does the inflow of foreign direct investment to Nigeria. This was similarly the findings and conclusions drawn by Arikpo and Ogar (2018) and Araoye et al. (2018).

### **Effect of value of transaction on foreign direct investment in Nigeria**

Another objective of this study was to determine the effect of value of transaction on foreign direct investment in Nigeria. The regression analysis shows that value of transaction is positive and insignificant; implying that an increase in value of transaction in Nigerian would increase foreign direct investment in Nigeria. The coefficient of the value of deals in the Nigerian Stock Exchange is positive. This implies that the value of deals in the exchange has a positive impact on foreign capital inflow to the economy. This further suggests that increase in the value of deals in the stock exchange stimulates the inflow of capital from overseas. Further observations indicate that the value of deals in the stock exchange exerts a statistically significant role in the flow of capital to Nigerian corporations.

### **Effect of all share index on foreign direct investment in Nigeria**

From the findings, it was established that all share index have negative and significant effect on foreign direct investment in Nigeria. The coefficient of all share index was found to be negative. This implies that the all share index, which is an index of the prices of the securities traded in the Nigerian Stock Exchange exerts a nonlinear impact on the foreign capital inflow to the economy. Further observations indicate that the all share index is statistically valid in this respect. This study is in variance with the study of Anthony-Orji, et al (2018) who drew a different conclusion with this study.

## **5.0 CONCLUSION AND RECOMMENDATION**

### **5.1 Conclusion**

This study examines the impact of stock market valuations on foreign direct investment in the Nigerian economy. This was aimed at ascertaining how the development of the Nigerian Stock Exchange has stimulate the inflow of foreign direct investment to Nigerian businesses. Historical data was collated and estimated employing the Ordinary Least Squares (OLS) technique. The empirical results indicate that market capitalization and value of deals in the exchange exert a positive impact on foreign direct investment inflows to Nigeria. Although, further observations indicate that only stock market capitalization exert a statistically significant impact on foreign direct investment inflows to Nigeria. Furthermore, it emerged that all share index is negative and has a statistically valid impact on foreign direct investment inflows in Nigeria.

### **5.2 Recommendations**

On the basis of the findings of this study, the following recommendations are made.

- i.** Government should consider the maintenance of prudent macroeconomic policies and also continue to create conducive environment to stimulate the flow of foreign direct investment.



- ii. Also, there is need to increase citizens' knowledge and awareness about participation in the stock market through conscious sensitization and education from schools to offices and places of worship.;
- iii. There is the need to revamp the stock market and reinforce institutional and regulatory framework to support FDI flow in the long run.

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