Foluso Ololade Oluwole
Department of Banking and Finance, Adekunle Ajasin University,
Akungba- Akoko, Ondo State, Nigeri
foluso.oluwole@aaua.edu.ng

FOREIGN CAPITAL INFLOWS: A PANACEA FOR ECONOMIC DEVELOPMENT IN NIGERIA

Preliminary communication

Abstract

This study examined the effect of foreign capital inflows on economic development in Nigeria. The study adopted Augmented Dickey–Fuller (ADF), Bound Test and Autoregressive Distributed Lag to analyze the yearly data sourced from Central Bank of Nigeria (2019). The ARDL Bound Test result revealed long run relationship between foreign capital inflows and economic development in Nigeria. The ARDL coefficients revealed that foreign direct investment had positive but insignificant effect on per capita income (c=0.056; p=0.17) while positive and significant relationship was established between foreign portfolio investment and per capita income (c=0.0001; p=0.01). Furthermore, the control variable, exchange rate was found to have positive but insignificant effect on per capita income (c=0.03; p=0.75) while inflation rate had negative and significant effect on per capita income (c= -0.02; p=0.053). the causality test revealed that foreign capital inflows did not granger cause economic development in Nigeria.

It thus concluded that the inflow of foreign capital has not been able to fully improve per capital income in Nigeria. The study recommended that, easy policies tax payment and expatriation of profit should be initiated to encourage the inflow of foreign direct investment in the economy. The financial markets need to be developed and policies to reduce spiraling inflation should be put in place to encourage foreign investors.

Keywords: *Foreign capital inflows, Per capita Income, Foreign Portfolio; Inflation, Exchange rate.*

JEL: O10, P45

1. INTRODUCTION

Developing countries have significantly focused their attention in receiving financial assistance from developed and industrialized economy in the recent years. The advent of globalization arises from the fact that most developing countries lack the necessary resources to experience significant growth and development, hence the need for the inflow of foreign capital. Foreign capital inflows involve the inflow of both tangible and intangible capital from foreign countries into a domestic country for investment purpose in order to promote growth and development. Chigbu, Ubah and Chigbu (2015); Gabriel, John and Baryl (2019).

Foreign capital inflow plays a significant role in closing the gap between inadequate domestic savings and investment in emerging countries through the inflow of new technologies and external finance. The synergy between these two is directly expected to result in stimulation of domestic investment, creation of employment, creation of new market, gaining of critical technical knowledge, deepening of financial sector and revitalization of industrial sectors. These factors are necessary prerequisite for achieving meaningful growth and development (Fambon, 2013; Chigbu, *et al.,* 2015, Lozi and Shakatre, 2019 Badwan and Atta 2020, Okolie, Onya & Onwumere, 2020; Adekunle, Ogunade, Kalejaiye, Balogun, 2020).

However, statistics, according to CBN 2018, had it that, Nigerian economy has experienced huge but fluctuating inflow of foreign capital since 2011. However, whether this has translated into development remains a question to be answered. Thus, this study seeks to examine the effect of foreign capital inflows on economic development in Nigeria.

The relationship between foreign capital inflow and economic development in Nigeria are sparse in the literature which has generated a gap to be filled. Considering the increased attention on the sustainable developmental goals (SDGs) of eradicating poverty and promoting economic growth and jobs, there is a need to continually investigate how foreign capital inflows has translated to development in terms of improved standard of living. Thus, this study seeks to examine the effect of foreign capital inflows on economic development in Nigeria, focusing on Per capital Income which measures the average income per person, standard of living and the quality of life of people of a nation. Furthermore, the direction of causality will also be examined to determine the direction of relationship between the foreign capital inflows and per capital income.

2. LITERATURE REVIEW

2.1. Theoretical Review

There are different theories that explained the international capital flows and economic growth. Among which are the The Dual gap model, Push-Factor and Pull-Factor theory, Theories of International Financial Puzzle, Neo Classical theory. This study is however based on the dual gap model

The two-gap model is an extension of the Harrod-Domar growth model in which growth is driven by physical capital formation. In the Harrod-Domar Model, output depends upon the investment rate and the productivity of investment. A savings gap exists if domestic savings alone are insufficient to finance the investment required to attain a target rate of growth (Fambon, 2013). In addition to the savings gap, there is also a trade or foreign exchange gap which is based on the assumption that not all investment goods can be produced domestically. These two gaps are combined to form the two gap model. More closely related to the two-gap model is the recent concern over the third "Fiscal" gap between government revenue and expenditures, as illustrated by the three-gap models by Bacha (1990) and Taylor (1990).

2.2. Empirical Review

There has been divergent views and findings on the relationship between foreign capital inflows and economic growth.

The studies from developed countries demonstrated significant positive relationship between foreign capital flows and economic growth. Ozturk and Kalyoncu (2007) empirically examined how FDI relates to economic growth in a cross-country comparison of Pakistan and Turkey. Their findings suggested that FDI causes growth in Pakistan while the causal relationship is bidirectional in case of Turkey. The work of Azienman, Jinjarak and Park (2013); Albulescua (2015); Yakubovskiy and Sandru (2018); Seher and Taner (2019); Rodionova, Yakubovskiy and Kyfak (2019); and Gövdeli (2019); all agreed with the findings of Ozturk and Kalyoncu (2007).

Ivanovic (2015) examined the relationship between foreign direct investment and domestic investment in Croatia from 1995 to 2014. The study employed vector autoregressive method for analysis and it was revealed that foreign direct investment had negative effect on domestic investment.

Tsaurai (2017) examined the impact of foreign portfolio equity investments on economic growth in Asian and European by employing panel data from 2001 to 2014. The study employed Panel unit root and Generalized Methods of Moments Estimation techniques to examine the effect of the independent variables on the dependent variables. It was found that foreign portfolio equity investments positively, but none significantly influenced economic growth in the Asian and European emerging markets.

Temitope (2014) adopted both the Vector Autoregressive (VAR) analysis and the Impulse-Response Function (IRF) to examine the importance and the effects of domestic savings and foreign direct investment (FDI) on South African economy, using data spanning over the period 1975 to 2011. The result of the IRF showed that while increased domestic savings is important to improve the level of economic growth in South Africa, it also leads to increased FDI. This result is in consonance with the work of Saibu (2014), Angmortey and Tandoh-Offin (2014); Ocharo *et al.,* (2014); Orji *et al.,* (2014); Chigbu *et al.,* (2015); Adusah-Poku (2016); Abdillahi and Manini (2017); Chorn and Siek (2017);. Musibau, *et al.,* (2019); Badwan and Atta (2020); Anidiobu, *et al.,* (2020); all these authors all find a positive relationship between foreign capital flows and economic growth.

However, Rehman and Ahmad (2016) assessed the effect of foreign capital inflow on economic growth of 21 developing countries for the period of 1990 to 2013 using panel unit root test and pooled mean group (PMG) estimation for short-run and long-srun analysis and it was indicated that inflows including net external debt and net official development assistance had significant and negative impact on economic growth of developing countries, while net foreign direct investment and net remittances had positive and significant impact on economic growth in the long-run. For a negative result, Abdullahi, Garba and Magaji (2017) empirically analyzed the impact of foreign capital inflow on growth of sub-Saharan African countries for the period 2010-2015 using difference GMM. It was found that foreign capital inflow adversely affects the growth of the Sub-Saharan Africa economies.

Nkoro and Uko (2013) evaluated the nature of causality between foreign capital inflows and real economic growth and also, the effect of foreign capital inflows on GDP in Nigeria. The result of the variance decomposition was in consonance with that of cointegration analysis of causality, which revealed that causality runs from foreign direct investment (FDI) and foreign aid to real GDP (growth). Other authors that dealt with causality are Okafor, Ugochikwu and Ezeaku (2016) who established a bi directional relationship; Eze and Okparaka (2017) of which the causality result indicated that there is uni-directional relationship between the variables under study.

Obiechina and Ukeje (2013) examined the impact of capital flows (foreign direct investment), exchange rate, export and trade openness on economic growth of Nigeria as well as the causal long-run relationship among the variables, using time series data from 1970 – 2010. Using Engle-Granger 2-Step procedure, it was observed that all the variables, except the FDI are statistically significant and influence economic growth in the short-run dynamic equilibrium model. This supports the work of Adegboye, Ogbebor and Egharvba (2014); Edu *et al.,* (2017); Gabriel, *et al.,* (2019); Okoro, *et al.,* (2019); Adekunle, *et al.,* (2020); and Etale, *et al.,* (2020) ;

A little bit of digression from the above studies is the work of Asien and Oriavwote (2013); and Ikpesu and Okpe (2019). Asien and Oriavwote (2013) examined the association between foreign capital inflows to Nigeria and real growth rate of gross domestic product, domestic credit to the private sector, rate of inflation, perceived level of corruption and market capitalization. The data were analyzed using econometric models of co-integration technique and error correction model (ECM). Results of the parsimonious ECM tests suggested that high level of corruption constituted greatest impediment to foreign capital inflow to Nigeria.

Ikpesu and Okpe (2019) applied autoregressive distributed lag (ARDL) technique in investigating the effect of capital inflows and exchange rate on agricultural output in Nigeria between the periods 1981 and 2016. Findings from the empirical research revealed that private capital inflow and public capital inflow positively affect the country agricultural output while exchange rate depreciation would cause agricultural output to decline in the short and long run.

The question is, how is this study different from the studies reviewed so far?

The effect of foreign capital inflows in the recent years as reviewed has been a subject of debates among scholar. The first advocates of foreign capital asserted that the inflows of capital from external sources assist in supplementing insufficient domestic savings thereby contributing significantly to investment, employment generation, poverty reduction and economic growth. Notable among these authors are Osinubi and Amaghionyeodiwe (2010); Khadraoui (2012); Odhiambo (2011); Ndambendia and Njoupouognigni (2010); Orji, *et al.,* (2014); Adusah-Poku (2016); Chigbu, *et al.,* (2017); Ikpesu (2019); Monogbe, *et al.,* (2020); Gabriel *et al.,* (2020). Also, the second proponents are of the view that there is indirect relationship between foreign capital inflows and economic growth of developing nations (Akinlo, 2004; Burke & Ahmadi-Esfahani, 2006; Alfaro, Chanda, Kalimli & Sayek, 2001; Shahbaz and Rahman, 2010; Rehman and Ahmad, 2016; Kanu, 2016; Giwa, *et al.,* 2020). These dividing views among scholars

have generated an inconclusive result which need a further study in developing countries like Nigeria.

Furthermore, studies in the recent years have focused on the relationship between foreign capital inflows and economic growth in developing countries using panel data (Orji, *et al.,* 2014; Adusah-Poku, 2016; Rehman and Ahmad, 2016; Kanu, 2016; Chigbu, *et al.,* 2017; Abdullahi, Garba and Magaji, 2017). Most of the re-viewed studies in Nigeria also investigated the effect of foreign capital inflow on economic growth (Asien and Oriavwote, 2013; Okafor, Ugochikwu and Ezeaku, 2016; Ikpesu, 2019; Monogbe, *et al.,* 2020; Gabriel *et al.,* 2020; Giwa, *et al.,* 2020). Therefore, this study focuses on investigating how the flow of capital from developed countries has translated into development in form of improved stand-ard of living using the average income per person.

3. METHODS

This research work is quantitative in nature and employed ex post facto research design in order to examine the effect of foreign capital inflows on economic de-velopment in Nigeria. This is because the data for the study are mainly historical and non-manipulated data which are analyzed using econometric techniques. The yearly data for this study were obtained from secondary sources which covered the periods of 1986 to 2019. The data for the research were sourced from Central Bank of Nigeria Statistical Bulletin (2019).

3.1. Model Specification

The model for this research is based on the model of Badwan and Atta (2020) which opined that economic growth is a function of foreign direct investment, foreign portfolio investment, worker remittances and grants. However, this study includes exchange rate and inflation as control variables.

$$PCI = f(FDI, FPI, EXR, INFR)$$

The linear equation of this model can be written as:

$$PCI_t = B_0 + B_1 LFDI_t + B_2 FPIGDP + B_3 LEXR + B_3 INFR + e_t$$

Where:

PCI = Per Capita Income

FDI = Foreign Direct Investment

FPI = Foreign Portfolio Investment as a percentage of Gross Domestic Product

EXR = Exchange Rate

INFR = Inflation Rate

L = Log of Data series

B_0 = Constant Term

$B_1 - B_4$ = Parameters of the variables to be estimated

e = Unexplained Error Term

3.2. Method of Data Analysis

Time series analysis is central to empirical modeling of the effects of capital inflows on economic growth. Using non-stationary series could yield spurious results. It is for this reason that this study conducted stationarity tests for the series using the Augmented Dick-Fuller (ADF). The long run relationship between foreign capital inflows and economic development was determine using ARDL Bound Test. Autoregressive Distributed Lag technique was employed to examine the effect of foreign direct investment, foreign portfolio investment, exchange rate and inflation rate on per capita income. Finally, Pairwise Granger Causality test was conducted in order to establish the direction of causality between foreign capital inflows and economic development.

4. DATA ANALYSIS AND FINDINGS

4.1. Descriptive Statistics

Table 1. Descriptive Statistics

	LPCI	LFDI	FPIGDP	LEXR	INFR
Mean	12.48836	6.569821	179.7134	4.039505	19.53206
Std. Dev.	0.246735	1.644136	762.6163	1.416932	17.77788
Skewness	0.280787	0.216685	4.279576	-0.758584	1.776015
Kurtosis	1.398165	2.809330	21.30459	2.345652	5.234602
Jarque-Bera	4.081758	0.317568	578.4490	3.867457	24.94800
Probability	0.129914	0.853181	0.000000	0.144608	0.000004
Observations	34	34	34	34	34

Source: Researcher's Computation, 2021

The result of the descriptive statistic is presented in Table 1. The result shows that log of per capita income, log of foreign direct investment, and log of exchange rate have the lowest mean values, followed by inflation rate and foreign portfolio investment as a percentage of gross domestic product. Furthermore, the standard deviation values for the data series are close to the mean values. The descriptive result reported in Table 4.1 reveals further that, log of per capita income, log of foreign direct investment, and log of exchange rate are normally distributed. However, the result shows that all the variables are positively skewed indicating stability of variables. The result of the Kurtosis indicated that the variables have mixture of leptokurtic and platykurtic variance.

4.2. Correlation Matrix

Table 2. Correlation Matrix

	LPCI	LFDI	FPIGDP	LEXR	INFR
LPCI	1.000000				
LFDI	0.187196	1.000000			
FPIGDP	-0.190005	0.324517	1.000000		
LEXR	0.780945	-0.200861	-0.295930	1.000000	
INFR	-0.402517	0.123743	0.248820	-0.405663	1.000000

Source: Researcher's Computation, 2021

The result presented in Table 2 shows correlation matrix result for the data series and it indicates that variable employed for the study have low correlation values in relation to the log of per capita income which is a suggestion of non-co linearity

among the data series. The result shows that, log of foreign direct investment and log of exchange rate have direct movement with log of per capita income while inflation rate and foreign portfolio investment as a percentage of gross domestic product have indirect movement with log of per capita income.

4.3. Test of Stationarity

Table 3. Analysis of the Unit Root Test

Level Form			First Differences		
Variables	T-stat	P-value	T-stat	P-value	Order of Int.
LPCI	-0.654407	0.8441	-3.696583	0.0090	I(1)
LFDI	-2.083292	0.2523	-7.171303	0.0000	I(1)
FPIGDP	-5.670696	0.0000	NA	NA	I(0)
LEXR	-2.648615	0.0938	-5.711700	0.0000	I(1)
INFR	-2.568922	0.1094	-4.847964	0.0005	I(1)

Source: Researcher's Computation, 2021

Table 3 reveals the summary of unit root test for the data series using Augmented Dickey-Fuller test both at level and first difference. In order to reject the unit root the test statistics must be greater than the critical value at 5% level of significance in absolute term. The Table 4.3 reveals that at level, foreign portfolio investment as a percentage of gross domestic product is stationary since its t-statistic value is greater than critical value at 5% while log of per capita income, log of foreign direct investment, log of exchange rate and inflation rate contain unit root at level since their t-values are less than the critical values at 5%.

However, when taken at first difference as reported in Table 3, log of per capita income, log of foreign direct investment, log of exchange rate and inflation rate are found to be stationary, since their respective t-statistic values are greater than the critical values respectively. Thus, the hypothesis of unit root is rejected for all the variables. The implication of this result is that the variables are integrated of different order with log of per capita income, log of foreign direct investment, log of exchange rate and inflation rate integrating at I(1) and foreign portfolio investment as a percentage of gross domestic product integrating at I(0). Thus, this study employed ARDL-Bound Co-integration technique for analysis given the mixture of integration of data series.

4.4. Co-integration Result

Table 4. ARDL Bound Test

Null Hypothesis: No long-run relationships exist		
Test Statistic	Value	k
F-statistic	5.434488	4
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
5%	2.86	4.01
Selected Lags base on Akaike information criterion (AIC) = 2(21.37760*)		

Source: Researcher's Computation, 2021

The co-integration result which measures the long run relationship among the variables is presented in Table 4 above using ARDL Bound Test approach. The result shows that the F-statistic value is given as 5.434488 which is greater than the lower bound critical value of 2.86 at 5% level of significance. The implication of this is that foreign capital inflows measure as foreign direct investment and foreign portfolio investment have long run relationship with economic development.

4.5. Autoregressive Distributed Lag

Table 5. Short Run Cointegrating Form

Dependent Variable: LPCI				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LFDI)	0.000226	0.004098	0.055042	0.9566
D(FPIGDP)	0.000013	0.000001	11.216647	0.0000
D(LEXR)	-0.071355	0.022018	-3.240798	0.0038
D(INFR)	-0.002002	0.000246	-8.137531	0.0000
D(INFR(-1))	0.001097	0.000392	2.799149	0.0105
CointEq(-1)	-0.111984	0.036427	-3.074226	0.0055

Source: Researcher's Computation, 2021

The short run co-integrating result of the autoregressive distributed lag technique is presented in Table 5. The result shows that log of foreign direct investment has positive and insignificant effect on log of per capita income in the short run. Furthermore, the result shows that foreign portfolio investment as a percentage of GDP has positive and significant effect on log of per capita income.

However, the control variable, exchange rate is established to have negative and significant effect on log of per capita income in the short run. Similarly, inflation

rate is found to have negative and significant effect on log of per capita income at current period but positive and significant effect on log of per capita income at first period lag. Finally, the co-integrating equation (CointEq(-1)) has coefficient of -0.111984 which is significant at 5% significance level and it implies high speed of adjustment from shocks in the dependent variable and any disequilibrium in the long-run will be adjusted at a speed of 11%.

Table 6. Long Run Coefficients

Dependent Variable: LPCI				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LFDI	0.056101	0.040004	1.402374	0.1748
FPIGDP	0.000113	0.000040	2.813144	0.0101
LEXR	0.032180	0.099890	0.322157	0.7504
INFR	-0.020157	0.009865	-2.043247	0.0532
C	12.626701	0.893669	14.129062	0.0000

Source: Researcher's Computation, 2021

Table 6 presents the long run result for the study. The result shows that log of foreign direct investment has positive and insignificant effect on log of per capita income with a coefficient of 0.056101. This suggests that 1% increase in foreign direct investment will lead to 5.6% increase in per capita income. Also, foreign portfolio investment as a percentage of GDP is discovered to have positive and significant effect on log of per capita income with coefficient of 0.000113. This implies that 1% increase in portfolio investment will lead to 0.01% increase in per capita income.

The control variable, log of exchange rate is also found to have positive and insignificant effect on log of per capita income with a coefficient of 0.032180 indicating 1% increase in exchange rate will lead to 3.2% relative increase in per capita income. Finally, inflation rate which is another control variable is indicated to have negative and significant effect on log of per capita income with a coefficient of -0.020157. This implies that 1% increase in inflation will lead to 2% decrease in per capita income. The t test result shows that log of foreign direct investment has a t-value of 1.402374 with a corresponding p-value of 0.1748 which implies that foreign direct investment has insignificant effect on real gross domestic product. However, foreign portfolio investment as a percentage of GDP has a t-value of 2.813144 with a probability value of 0.0101 which is significant at 5% indicating that foreign portfolio investment has significant effect on per capita income.

4.6. Post Test Techniques

Table 7. Diagnostics Results

Diagnostics test	Observed value	P-value (Chi-square)
Normality Test	2.24678	0.3256
Breusch-Godfrey LM test for Serial Correlation	3.176897	0.2042
Heteroskedasticity Test: Breusch-Pagan-Godfrey	9.911756	0.3577
Ramsey RESET Test	0.576777	0.4560

Source: Researcher's Computation, 2021

Table 7 shows the diagnostics test for the regression result. The Table reveals that the residual is normally distributed given a probability value of 0.3256 which is greater than 0.05% acceptance region. Likewise, the result of the serial correlation indicates that the residual is not serially correlated given p-value of 0.2042 which is greater than 0.05% acceptance region. In the same vein, the result shows that the residual of the regression has no Heteroskedasticity problem with a probability value of 0.3577 which is greater than 0.05% acceptance region. Finally, the result shows the result regression model is rightly specified with a probability value of 0.4560 which is greater than 0.05% acceptance region.

4.7. Granger Causality Test

Table 8. Pairwise Causality Test

Null Hypothesis:	Obs.	F-Statistic	Prob.
LFDI does not Granger Cause LPCI	30	0.91668	0.4726
LPCI does not Granger Cause LFDI		1.53321	0.2289
FPIGDP does not Granger Cause LPCI	30	0.78415	0.5482
LPCI does not Granger Cause FPIGDP		3.10370	0.0373

Source: Researcher's Computation, 2021

The 8 presents the result of Pairwise causality for the study in order to test hypothesis three. The result shows that there is independent relationship between log of foreign direct investment and log of per capita income which implies that foreign direct investment does not granger cause per capita income. The result

also shows that foreign portfolio investment as a percentage of GDP does not granger cause log of per capita income with per capita income mainly granger causing foreign portfolio investment. The implication of this findings is that, foreign capital inflows does not ganger cause per capita income and thus acceptance of the null hypothesis.

This study established the relationship that exists between capital inflows and economic development in Nigeria. The result of the long run ARDL indicated that foreign direct investment had positive and insignificant effect on per capita income. The implication of this is that, the inflow of foreign direct investment would complement domestic investment thereby leading to the creation of employment opportunities and improvement of per capita income. This is not in line with the result of Abdillahi and Manini (2017); Rodionova, *et al.,* (2019) who establish negative relationship between foreign direct investment and economic growth but conformed with the result of Fambon (2013); Gabriel, *et al.,* (2019); Badwan and Badwan (2020).

Also, positive and significant relationship is established between foreign portfolio investment and per capita income. This suggests that the inflow of foreign capital would complement domestic financial resources which aid investments and hence improvement in per capita income through generation of employment. These findings conformed with the result of Adekunle, *et al.,* (2020); Etale and Sawyerr (2020) who revealed positive effect of foreign portfolio investment and economic performance.

Furthermore, the control variable, exchange rate was found to have positive but insignificant effect on per capita income. This indicates that an effective exchange rate has the capacity to stimulate per capita income through the encouragement of capital inflows in form of international investments. This is at variance with the findings of Gabriel, *et al.,* (2019) who establish negative relationship between exchange rate and economic growth but conformed with the empirical findings of Etale and Sawyerr (2020). Finally, it was established that inflation rate had negative and significant effect on per capita income suggesting the undesirable effect of spiraling inflation on welfare of the citizens which is in line with result of Fagbemi and Olufolahan (2019).

5.   CONCLUSION AND RECOMMENDATIONS

However, whether capital inflows have been able to support the development developing countries remains a question which needs to be answered with majority of studies in the subject area focusing on the effect of foreign capital inflows on economic growth. Consequently, this study examined the effect of capital inflows

on economic development in Nigeria between the period of 1986 and 2019. The study concluded that the inflow of foreign capital in form of foreign direct investment has not been able to fully improve the standard of living in Nigeria. Foreign capital inflows in form of foreign portfolio investment has a positive and significant effect on the standard of living; contributing paltry to economic development.

The effect of exchange rate is insignificant, though positive while inflation is found to decrease the standard of living by a certain percentage and at a very significant rate. In conclusion, foreign capital inflows in Nigeria has not improved per capital income of citizens of Nigeria.

Based on findings from the study, the recommendations are as follows:

Firstly, Given the insignificant effect of foreign direct investment on economic development, there is need for government to fully exploit the potentials of foreign direct investment. Easy policies, tax payment and expatriation of profit should be initiated to encourage the inflow of foreign direct investment in the economy.

Secondly, as a result of the paltry effect of foreign portfolio investment on economic development, policy maker should ensure that financial market is highly liquid and developed to attract foreign portfolio investment. More advanced instruments should be introduced into the capital market to attract the inflow of foreign portfolio investment in Nigeria.

Furthermore, Exchange rate policy should be formulated in consideration to the foreign investors who are interested in shifting capital to the country. The policy should be formulated to encourage and attract foreign direct investment and portfolio investment. Finally, there is need to put spiraling inflation into check in the country. Policy makers should initiate effective policy that would control inflation rate in order to encourage foreign investors. This is because high inflation would reduce the value of domestic currency which is undesirable for foreign investors.

This study is limited in terms of scope by considering only Nigeria. Further research, It could be extended to other developing Africa Countries.

REFERENCES

1. Abdillahi, U.A. & Manini, M.M. (2017). Private capital inflow, financial development and economic growth in Kenya. *Journal of Economics and Sustainable Development, 8*(10), 161 – 199.

2. Abdullahi, I.S., Garba, M. & Magaji, I. (2017). Impact of foreign capital inflow to the growth of the economies of sub-Saharan Africa. *International Journal of Economics and Financial Management, 2*(2), 31-28.

3. Adegboye, A. C., Ogbebor, O. A., and Egharvba, M. I. (2014). External capital flows and economic growth in Nigeria. *JORDIN, 12*(2). www.transcampus.org/journals.

4. Adekunle, I. A., Ogunade, A.O., Kalejaiye, T.G. & Balogun, A.M. (2020). Capital inflow and industrial performance in Nigeria: Including the excluded. AGDI Working Paper, No. WP/20/021, African Governance and Development Institute (AGDI), Yaoundé.

5. Adusah-Poku, F. (2016). Which form of foreign capital inflows enhance economic growth? Empirical evidence in Sub-Saharan Africa. *Asian Economic and Financial Review, 6*(10), 557-570.

6. Albulescua, C. T. (2015). Do foreign direct and portfolio investments affect long-term economic growth in Central and Eastern Europe?. *Procedia Economics and Finance, 23*, 507 – 512.

7. Angmortey, S. & Tandoh-Offin, O. (2014). Does foreign capital crowd out domestic savings in developing countries? An empirical investigation of Ghana. *International Journal of Economics and Finance, 6*(8), 161-171.

8. Anidiobu, G.A., Paschal Okolie, P.I.P., Onyia, C.C. & Onwumere, J.U.U. (2020). Impact of foreign capital inflow on economic growth in Ecowas Sub-Region. *International Journal of Academic Research in Accounting, Finance and Management Sciences, 10*(1), 172-188.

9. Asien, N.E. & Oriavwote, V. (2013). Association between capital inflow and macroeconomic factors: Evidence from Nigeria. *Journal of Economics and International Finance, 5*(8), 307-317.

10. Azienman, J., Jinjarak, Y., & Park, D. (2013). Capital flows and economic growth in the era of financial integration and crisis, 1990–2010. *Open, Economies Review, 24*(3), 23-45.

11. Bacha, E.L. (1990) A three-gap model of foreign transfers and the GDP growth rate in developing countries, *Journal of Development Economics, 32, 279-296.*

12. Badwan, N. & Atta, M. (2020). The impact of international capital flows on economic growth in Palestine. *Journal of Economics, Management and Trade, 26(11): 23-37,*

13. Chigbu, E.E., Ubah, C.P. & Chigbu, U.S. (2015). impact of capital inflows on economic growth of developing countries. *International Journal of Management Science and Business Administration, 1*(7), 7-21.

14. Edu, G.T., Inaya, L. & Bassey, A.F. (2015). Foreign private capital inflows and economic growth in Nigeria *European Journal of Business and Social Sciences, 4*(8), 205 – 217.

15. Etale, E. L. M. & Etale, L. M. (2016). The relationship between exports, foreign direct investment and economic growth in Malaysia. *International Journal of Business Management and Economic Research*, *7*(2), 572-578.

16. Eze, O.R. & Okparaka, V.C.J. (2017). Causal and long-run relationship between foreign capital inflow and domestic savings in Nigeria. *Global Advanced Research Journal of Management and Business Studies, 6*(7), 208-215.

17. Fambon, S. (2013), Foreign capital inflow and economic growth in Cameroon. *WIDER Working Paper No.2013/124.*

18. Gabriel, B.A., John, O. & Baryl, I.O. (2019). Capital flows and economic growth in Nigeria: An econometric approach. *International Journal of Research*, *7*(9), 183-199

19. Gövdeli, T. (2019), External debt and economic growth in Turkey: An empirical analysis. *Sosyoekonomi*, *27*(40), 119-130.

20. Ikpesu, F. (2019). Growth effects of capital inflows and investment in Nigeria. *International Journal of Management, Economics and Social Sciences, 8*(1), 5-19.

21. Ikpesu, F., & Okpe, A.E. (2019). Capital inflows, exchange rate, and agricultural output in Nigeria. *Future Business Journal, 5*(3), pp.1-8.

22. Ivanovic, I. (2015). Impact of foreign direct investment (FDI) on domestic investment in Republic of Croatia. *Review Of Innovation And Competitiveness, 1*(1), 137-160.

23. Lozi, B.M. & Shakatreh, M. (2019). The impact of international capital flows on Jordan's economic growth. *International Journal of Economics and Financial Research, 5*(9), 214-220

24. Musibau, H.O., Yusuf, A.H. & Gold, K.L. (2019). Endogenous specification of foreign capital inflows, human capital development and economic growth:

A study of pool mean group. *International Journal of Social Economics, 10*(1), 1-21.

25. Nkoro, E. & Uko, A.K. (2013). Foreign capital inflows and economic growth in Nigeria: An empirical approach. *Asian Journal of Empirical Research, 2*(5), 149-161.

26. Obiechina, M.E. & Ukeje E.U. (2013). Economic growth, capital flows, foreign exchange rate, export and trade openness in Nigeria. *International Journal of Economics and Management* Sciences, *2*(9), 01-13.

27. Ocharo, K.N., Wawire, N.W., Nganga, T.K. & Kosimbei, G. (2014). Private capital inflows and economic growth in Kenya. *International Journal of Development and Sustainability*, *3*(4), 810-837.

28. Okoro, C.O., Nzott, S.N. & Alajekwu, U.B. (2020). Effect of international capital inflows on economic growth of Nigeria. *International Journal of Science and Management Studies, 02*(01), 13-25.

29. Orji, A., Uche, A.S. & Ilori, E.A. (2014). Foreign capital inflows and growth: An empirical analysis of WAMZ experience. *International Journal of Economics and Financial, 4*(4), 971-983.

30. Ozturk, I. & Kalyoncu, H. (2007). Foreign direct investment and growth: An empirical investigation based on cross-country comparison. *Economia Internazionale / International Economics, 60*(1), 75-81.

31. Rehman, S. & Ahmad, H.K. (2016). The impact of foreign capital inflows on economic growth: Pooled mean group analysis for developing countries *Pakistan Economic and Social Review 54*(2), 191-203.

32. Rodionova, T., Yakubovskiy, S. & Kyfak, A. (2019). Foreign capital flows as factors of economic growth in Bulgaria, Czech Republic, Hungary and Poland. *Research in World Economy, 10*(4), 48-57.

33. Saibu, O. (2014). Capital inflow and economic growth nexus in Nigeria: The role of trade openness. *Acta Universitatis Danubius, 10*(6), 98-112.

34. Seher, G. T., & Taner, S. (2019). Is there a threshold effect of public debt on economic growth? *Advances in Finance, Accounting, and Economics*.

35. Temitope, L. (2014). The effects of foreign resource inflow and savings on the economic growth of South Africa: A VAR Analysis. *Journal of Economics and Behavioral Studies,* 6(3), 232-241

36. Tsaurai, K. (2017). Is foreign portfolio equity investment inspired growth hypothesis relevant in emerging markets?. *Euro Economica, 2*(36), 78 – 90.

37. World Bank (2013). World Bank World Development Indicators Database (WDI). Washington D.C. World Bank.

38. World Bank 2014. World Bank Global Financial Development Database (GFDD). Washington D.C. World Bank.

39. World Bank 2014. World Bank World Development Indicators Database (WDI). Washington D.C. World Bank.

40. Yakubovskiy, S., & Sandru, S. (2018). Ways to improve the efficiency of the foreign economic positions of Romania and Ukraine. Acta Universitatis Danubius. *Economica, 14*(7), 24-30.

Foluso Ololade Oluwole
Department of Banking and Finance, Adekunle Ajasin University,
Akungba- Akoko, Ondo State, Nigeria
foluso.oluwole@aaua.edu.ng

PRILJEV STRANOG KAPITALA: LIJEK ZA GOSPODARSKI RAZVOJ U NIGERIJI

Prethodno priopćenje

Sažetak

Ova studija ispitala je učinak priljeva stranog kapitala na gospodarski razvoj u Nigeriji. Studija je usvojila prošireni Dickey–Fullerov (ADF), bound test i ADL test za analizu godišnjih podataka iz Centralne banke Nigerije (2019.). Rezultat ARDL Bound testa otkrio je dugoročni odnos između priljeva stranog kapitala i gospodarskog razvoja u Nigeriji. ARDL koeficijenti su otkrili da izravna strana ulaganja imaju pozitivan, ali beznačajan učinak na dohodak po stanovniku (c=0,056; p=0,17), dok je pozitivna i značajna povezanost utvrđena između stranih portfeljnih ulaganja i dohotka po stanovniku (c=0,0001; p=0,01) . Nadalje, utvrđeno je da kontrolna varijabla, tečaj ima pozitivan ali beznačajan učinak na dohodak po stanovniku (c=0,03; p=0,75), dok je stopa inflacije imala negativan i značajan učinak na dohodak po stanovniku (c= -0,02; p=0,053). Test uzročnosti otkrio je da priljev stranog kapitala nije bio veći uzrok gospodarskog razvoja u Nigeriji.

Stoga je zaključeno da priljev stranog kapitala nije mogao u potpunosti doprinijeti povećanju dohotka po glavi stanovnika u Nigeriji. Studija je preporučila da se uvedu jednostavne politike plaćanja poreza i odljev dobiti kako bi se potaknuo priljev izravnih stranih ulaganja u gospodarstvo. Potrebno je razviti financijska tržišta i uspostaviti politike za smanjenje rastuće inflacije kako bi se potaknuli strani ulagači.

Ključne riječi: *priljev stranog kapitala, dohodak po stanovniku, strani portfelj; inflacija, devizni tečaj.*

JEL: O10, P45