IMPACT OF CAPITAL MARKET ON FOREIGN DIRECT INVESTMENT (FDI) IN NIGERIA

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ABSTRACT

The study is an assessment of the impact of capital market on foreign direct investment (FDI) in Nigeria. The need for the study is motivated by challenges which include particularly, the business share price manipulations decrease in FDI and underdevelopment of Nigeria capital market. The research is therefore positioned to capture the impact of trade volume on FDI in Nigeria; to measure the relationship between trade volume and export. The researcher adopted a descriptive research design which involves the collection of variables from Central Bank of Nigeria statistical bulletin from 2002-2016 variables collected include FDI volume of trade, export and exchange rate. The research used frequency distribution table for data presentation, in testing the research hypothesis, the researcher made use of SPSS 2.2. The investigator found that there was a positive association between FDI and volume of trade, a significant relationship between FDI and exchange rate. From the findings, the researcher recommended that government should improve the economic conditions of the country caused particularly by insurgency, communal crisis, religious crisis etc. Federal government should instill policies on tax holiday, tax reduction and on such macro economy policies that will attract foreign investment in Nigeria; government should enhance social amenities in the economy and reduce cost of power, transportation, raw materials etc.

Introduction

In contemporary economic situations, many scholars have agreed that no nation is an Island of its own and in so doing, every nation foster one or more means of interactions with other countries of the world either economically, socially, religiously etc. However recent turn of event have put economic or transaction motive as the leading basis for inter-country relations with FDI at the helm of affairs. Egbo (2003) opined that FDI is any investment made to acquire a lasting management (Normally 10% of voting stock) in a commercial enterprise operating in a foreign economy. It may include an investment in the form of either “Green Field” investment also called “Motar and brick” investment or merger acquisition (M & A) which entails acquiring or merging of existing business rather than new investment. In a related view Odita (2010) defined FDI as investment which adds to the real capital stock of an economy, particularly coming from a foreign source.

Objective of the Study

The general objective of the research is to investigate the impact of capital market on FDI. The following are the specific objectives which are to:

1. Capture the impact of trade volume and FDI in Nigeria.
2. investigate the relationship between trade volume and exchange rate;
3. Determine the relationship between trade volume and export.

Literature Review

Evaluation of the Nigeria Capital Market

According to Odife (2006), the first step in this direction is to secure adequate finance for the development of infrastructure and long term capital project. In 1946, government promulgated the 1946 (10 year plan) on local loan ordinance floatation of the first N300,000,000 government stock with its management vested on the Accountant General. In 1957 the government and other securities (local trustee power) Act was enacted. It also clearly defined the powers and responsibilities of Trustees; in addition colonial government setup the Professor Barrack committee. The terms of reference included the possibility of establishing a capital market in Nigeria. The committee recommended among others, facilities for dealing in shares, the transfer and measure for encouraging savings and issues of securities of government and other organizations.

Concept of FDI

Patrick and James (2010) in a corroborating view opined that FDI is important to global economic growth. In the developed economy, investors (in the category of the foreign direct investors) provide funds and technical expertise to smaller business in these emerging markets to expand and increase international sales. Divine (2013), posited that a general relief for a country to grow rapidly is for it to industrialize. Odita (2010) defined FDI, as investment which adds to the real capital stock of an economy, particularly coming from a foreign source.

Theoretical Framework

Theory of Monopolistic Advantage

It states that foreign investment has relative monopolistic advantages against the completive local firms. Empirically, the monopolistic advantage recommends horizontal FDI of the firm's knowledge technology and industries such as petroleum, pharmaceuticals, chemical transport equipment, (Adegbote and Ayadi, 2010; Adewale 2012; Ajayi 2004).

Oligopoly Theory of Advantage

The big firms want to maintain monopoly power. By ensuring entry barrier, they prevent new competitors enter by allowing the market vacuum, (Chukwudire 2010; Kabi 2012).

Product Life Cycle Model

Product life cycle model (PLM) can explain both trade and FDI by adding a time dimension to the field of monopolistic advantage. Initially a firm and lien innovate a product it produces at home enjoying its monopolistic advantage in the export market thus it become standardized in its growth process, (Egbo 2003; Gaurar 2010; Ihtisan nad Shelammand 2013).

Empirical Framework

In a study entitled the impact of capital market on economic growth of Nigeria, the components observed that the ability of the market to facilitate and mobilize savings and investments is an affirmation of its capital accumulation activities which is directly traceable to economic growth. The study finds out amongst others that the relationship (using the correlation result) between FDI and market capitalization was positive. The increasingly trend of market efficiency contribute to the economic growth of the country, (Nzota, 2012). Donovoa and Odia (2010) in an empirical analysis of the Nigeria capital market on socio-economic development from 1981-2008 using the ordinary least square found out those capital market activities have not impacted significantly on the GDP. Government is therefore advised to ensure measures to stem up investors assurance in the capital market.

Research Methodology

Research Design

This is the programmer that is meant to guide the researcher in collecting, analyzing and interpreting observations. Olannye (2006) noted that Research design is the plan, approach or framework for carrying research studies. Green and Tull (2009), defined research design as constituting the collection, measurement and analysis of data. The information of which is to see that the problems are unambiguous.

Population and Sample Size

Olannye (2006) opined that population is well defined collection of individual, objects known to have similar characteristics or attributes. It is generally a large collection individuals objects that is focused on scientific enquiry. Sample as defined by shuttle (2009) is a short cut method for investigating a whole population. It should be noted that there are not enough time, money energy, labour equipment to measure every single object within the parent population. The sample period is (2002-2016).

Sampling Techniques

In choosing suitable technique, the researcher is faced with either the probability or the non-probability method. In the case of the former, a random selection is carried out where every member of the population has equal chance of representing the population, (Olannye 2006; Asika 2004; Dada 2003).

Method of Data Collection

In carrying out this work, the investigator gathered data from secondary sources specifically through the use of annual reports of CBN. This was done in order to capture variables relating to volume of trade, FDI, profitability and export.

Techniques of Data Analysis

Nwandigwe (2012) asserted that data analysis is the engine room of every research. It is also in the works of Asika (2002). The brain box of all academic study in the above view justified the relevance of need for data analysis in research work, expressed by the formular below.

$$V = n\sum xy - (\sum x)(\sum y)$$
$$(n\sum x^2 - (\sum x)^2 - (n\sum y^2 - (\sum y)^2$$

Where:
r = Regression co-efficient
n = Number of year (11)
x = Independent variable given by profit after tax (PAT)
y = Dependent variable given by
3.7 Model Specification
FDI = F(VT, EXP, ex rate) ....(i)
FDI = Bo + B1 (Vr) + B2 (Exp) + B3 (ExR) + U ....(ii)
Where FDI = Foreign Direct Investment
VT = Volume of trade, emanating
Exp = Export value
Exrate = Exchange rate
U = error term

DATA PRESENTATION
FOREIGN DIRECT INVESTMENT (FDI)

YEAR	FOREIGN DIRECT INVESTMENT (FDI) N'MILLION
2002	8988.50
2003	13,531.20
2004	20,964.40
2005	26,083.70
2006	41,734.00
2007	4,324.86
2008	4,659.156
2009	3,810.51
2010	3,810.25
2011	5304.12
2012	3,199.89
2013	4,860.24
2014	5204.32
2015	3,319.69

Source: Central Bank of Nigeria Statistical Bulletin

TABLE 3 DESCRIPTIVE STATISTICS

	MEAN	STD DEVIATION	N
FOREIGN DIRECT INVESTMENT	12319.1199	12357.20847	11
VOLUME OF TRADE	2357.89	6.17477E6	11
EXPORT VALUE	1148187	2.02956E7	11
EXCHANGE RATE	1110445	27.52807	11

SOURCE: SPSS OUTPUT

The above table 3 shows the descriptive statistic for the study hypothesized variables, which shows the mean and standard deviations for the variables under consideration. For example the mean value for FDI is 1219.12 with a standard deviation value of 12357.21, the

Mean value for VDI is 2.357 with a standard deviation value of 6.1748. For export value (E.V) it has a mean value of 1.148 with a standard deviation value of 2.0295 while that of exchange rate (E.R) has a mean value of 111.045 with a standard deviation value of 27.528.
The regression analysis was also carried out in the collected data and its output is exhibited in table 3 and table 4 below:

Table 3b. MODEL SUMMARY

Model	R	R. Square	Adjusted R. square	Std. error of the estimate	Durbin-Watson
1	941[a]	.886	.837	4986.29931	1.964

Source: SPSS OUTPUT

Table 3b reveals the result of the regression analysis; it shows that the study model has a predictive capacity of about 83.7%. This is evidenced by the value of the adjusted R^2 which is o.837. The implication of this is that the explained variables of exchange rate, export value and volume jointly allowed for 83.7%. In essence exchange rate, export value and volume of trade, could affect the flow of FDI into the domestic economy of Nigeria to at least 83%. Though the value of Durbin-Watson statistics of 1.964 indicates the weak presence of multi continuity.

TABLE 4. COEFFICIENT

	Unstandardized coefficients		Standardized coefficients		
Model	B	Std. Error	Beta	t	Sig
1. (Constant)	-38240.380	8076.873		-4735	.002
Volume of trade	-002	000	-806	-5.261	.001
Export value	2.206E5	000	036	.267	.797
Exchange Rate	487.277	71.542	1.086	6.811	.000

Source: SPSS OUTPUT

Table 4 shows the values of the coefficient for the study independent variables results reveals that the explained variable FDI is positively related to export value and exchange rate while it is negatively related to volume of trade. This is evidence that the value of the standardize coefficient which are -0.806, 0.036 and 1.086 for the explanatory variable volume of trade, export value, and exchange rate respectively. The implication of this is that the more export value and volatility in exchange rate the increase in the flow of foreign direct involvement into the economy.

The table also reveals that the variables interest rate and volume of trade are statistically significant as a measure of impact on foreign direct investment. This is supported by the result of the statistics with the probability of values where we have for trade a probability value of 0.001 ($p<0.05$) and for exchange rate a probability value of 0.000($p<0.05$). This shows that these two variables are statistically significant at 95% confidence interval. However, export value though positively exert a measurable influence of FDI but is not statistically significance as shown by value of its T statistic with a probability value of 0.797 ($p>0.05$).

Test of Hypothesis One:

Ho_1: There is no significant relationship between trade volume and FDI in Nigeria.

Our regression analysis shows that there exist a negative relationship between the flow of foreign activities in Nigeria capital market as evidenced by the beta value of the coefficient of volume of trade which value is given as -0.806. However, as revealed by the result of the t statistics of value -5.296 with a significant value shown by the value of is probability of 0.001, the independent variables, trade volume is statistically significant at 0.05 confidence level ($p<0.05$). The implication of this is that the volume of traded stock in the capital market exerts significant impact on the flow of FDI into the Nigeria capital market. We will reject the null hypothesis and conclude that there is a significant relationship between FDI and trade.

Test of Hypothesis Two

Ho_2: There is no significant relationship between FDI and exchange rate.

The above hypothesis desire to test if there exist a significant relationship between FDI and exchange rate. Our regression analysis shown that there exist a positive relationship between the flow of FDI and exchange rate in Nigeria economy as evidence by the beta value of the coefficient of exchange rate which is given as 11.086. However as revealed by the result t-statistics of its probability of 0.000 the explained variable exchange rate is statistically significant at 0.05 confidence level ($p<0.05$). We therefore reject the null hypothesis and conclude there is a significant relationship between FDI and exchange rate.

Test of Hypothesis Three

Ho_3: There is no significant relationship between FDI and export.

Our regression analysis shown that there exist a positive relationship between the flow of FDI and export activities in Nigeria economy as evidence by the beta value of the coefficient of export which is given as 0.036. however as revealed by the result of the statistics of the value 0.267 with a significant value shown by the value of its probability of 0.797 the explanatory variable export value is not statistically significant at 0.05 coefficient level ($p<0.05$). this result shows that there is no statistical significant relationship between FDI and export, we with this accept the null hypothesis and conclude that there is a significant relationship between FDI and export.

Discussion of Findings

Capital market has been identified as the storehouse of long term capital. Companies and government alike have always sought long term loan from the capital market at the center stage of economic development. Renowned scholars in the past have attributed long term growth and stability of the economy to direct function of the capital market. In view of this fact, the researcher is therefore motivated to establish a level of relationship between the capital market and FDI. Findings obtained include the following:

i. There is no significant relationship between volume of trade and FDI in Nigeria.
   Trade volume of trade recorded in the capital market is not a determinant of capital inflow in the Nigeria economy. Foreign investors are particularly drawn to availability of market, raw material, favorable economic condition etc. Libos (2001), observes that

capital market formation is positively with FDI and FDI in turn is significantly related to capital market index such as market capitalization value of traded security, total new issue while a negative relationship exist between FDI and market liquidity.

ii. There is no significant relationship between FDI and exchange rate.
Capital inflow into the country is usually calculated in foreign currencies which often than not, require conversion to local currencies and this is dependent on the prevailing exchange rate. Where there are exchange fluctuations the nation will record a decline in FDI. Ehiedu (2011) found among others the positive relationship between FDI and market capitalization and most importantly FDI and exchange rate. In view of this it is advised that economy should witness steady exchange rate. The inflow of FDI should be encouraged.

iii. There is significant relationship between FDI and export.
The influx of foreign corporations into the nation's economy would help improve production activities in the economy and which in turn will improve export trade.

Conclusion

Against the backdrop of the findings obtained, the researcher observes that capital market plays a significant role in capital mobilization in the Nigeria economy. Cases of corporate failure in the past have been traced to under capitalization which is a reflection of banks failures to grant loans to corporate entities in the economy. In view of this part the repositioning of the capital market is therefore seen as the right step which would boost capital accumulation and by extension attract FDI into the economy. It should also be noted that a major micro economic objective is the reduction of foreign control of the economy by foreign companies and therefore recommended that a gradual reduction and substitution of FDI is advised.

Recommendation

To improve capital market and FDI performance the researcher recommends the following:

1. Government should improve the economic conditions of the county particularly on issues of insurgency, communal crisis, religious crisis etc. FDI cannot thrive where such animalist tendencies exist.
2. Federal government should instill policies on task holiday reduction, economic rebirth macro economy policies that will attract foreign investment to Nigeria.
3. Government should improve the level of social amenities and reduce the cost of power, transportation, raw materials etc.

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