

Leveraging Nigeria's Economic Development: Foreign Capital Inflow or Financial System?



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ABSTRACT

This study empirically evaluate the schematic contribution of financial system and capital inflows to the development of the Nigeria economy and the causality nexus that exist among the elements between the periods 1981 to 2014. This study employed linear and non-linear multiple regression, unit root test, co-integration test, error correction model and granger causality test to ascertain the causality nexus. Aggregate bank credit and market capitalization rate were proxies for financial system, foreign direct investment and home remittance were proxies for capital inflows while human development index was proxy for economic development. Finding reveals that all the indicators of financial system has no significant contribution to the development of the economy but rather pest on the development of the economic. On the order hand, foreign direct investment and home remittance significantly promote economic development in the long and short run. The result of the granger causality test reveal a unilateral nexus between FDI and HDI with causality flowing from FDI to HDI. On this premises, this study then conclude that capital inflows has illuminate development process in Nigeria both in the long run and short run although its contibutive quadrant is weak while the operation of financial system is parasitic to economic development over the period under study. Hence, study recommend (i) economic, political and institutional environment should be well stabilise to encourage more inflows of foreign capital (ii) taxes and levies paid by foreign investors in the course of operations should be reviewed downward and sweetener that will encourage more inflows of capital should be upheld to enable the country enjoy better development process and finally, financial discipline and moral tolerance such be embraced in order to achieve the motive of foreign inflows and hence promote economic development in Nigeria.

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1.0 Introduction

On this premises, it is paramount to note that the standardization of the Nigeria stock market has brought about increment in the quantum of foreign

inflows in the economy in form of foreign direct investment, foreign portfolio investment ,multilateral and bilateral loans, foreign assistance through

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grants and aids which gives a schematic view about the reinforcement nexus that could emerge between financial development and foreign inflows. Opinion of economist as to the potent role financial system play to the growth of an economy differs apparently.

Joseph Schumpeter (1912) emphatically hammered on well-structured and functioning financial system as a prerequisite for economic development as it help in actualizing the aim of the entrepreneur through financing their innovations. In the Schumpeterian theory of entrepreneurship, much emphasis was lead on the activities of the banks as it could serve as an engine room that ameliorate development through the operation of the entrepreneur. Bagehot (1873) and Hicks (1969) contend that Speedy industrial development could be achieves through the operation of the financial system as it resuscitate the mobilisation of fund for production. Conversely, Robinson (1952) contend that economic development establishes a demand for specific type of financial arrangement and that financial system respond automatically to economic growth. In the dual gap analysis which was an extension of Harrod (1939) and Domar (1946) growth model, they highlighted somepre-condition for economic development which include domestic savings, investment and external funds. Dual gap analysis hence emphasis that for a sustainable level of development to be achieve in an economic, capital inflow either through foreign direct investment, foreign portfolio investment or foreign aids and grant is essential.

The UNCTAD World business analysis (2006) further report that Nigeria accommodate the larger percentage of capital inflow projected into Africa to the tune of 70% of the total allocation to the sub African region and 11% of the total inflow into Africa countries generally. In the early 60's and 70's, Nigeria enjoyed capital inflow which was directed to the government in form of (ODA) over sea development assistance which however re-allocated to the private sector through the

activities of the banking system (Ukeje and Obiechima, 2013)

Capital inflow could simply refer to the quantum of foreign fund re-allocated to a particular country for the purpose of investment, trade or business production. In achieving a sustainable level of development of any economy, it play a potent role regardless of its level of growth. In the LDC's, it is used to increase accumulation and rate of investments to create conditions for accelerated economic growth while the developed nation used it as a supporting tools in maintaining sustainable level of development overtime. For the transition countries, it is useful to carry out the reforms necessary to cross to open economy (Chigbu Ekeji et al, 2015).

Inadequate empirical evidence on the synergistic effect of financial integration and capital inflow on economic development is largely due to the fact that most literature centred on the reinforcing nexus between financial intermediation and economic growth. This study is influenced by the series of financial, foreign loans and currency crises mitigating against the developing countries with emphasis on the Nigeria economy and thus synthesises the corollary contribution of capital inflows and financial system development to the development of the Nigeria economy. Upon this backdrop, this study tend to investigate which of this element (capital inflows or financial system) contribute more to the development of the Nigeria economy.

1.1 Statement of problem

“Theory and evidence make it difficult to conclude that the financial system merely—and automatically—responds to industrialization and economic activity, or that financial development is an inconsequential addendum to the process of economic growth (Levine 1997)”

Shortage or inefficiency in capital inflow has been recorded as a major impediment that mitigate against development of most developing countries. In the argument of transfer of

technology, Charles contend that the major challenges facing the less developed countries is lack of capacity (finance) to establish an institution where new technology could be developed hence, their see importation of technology has a better chance which is a sub-optimal decision because its relegate the local available technology and therefore downsize development. FDI intelligent analysis (2015) reported that Nigeria consumes over 15% of the total capital inflow into the African continent which corroborate the report of the UNCTAD World business analysis (2006) yet, the effect of this enormous fund is yet to be felt to a reasonable extent. Monogbe, et al (2016) reported that the contribution of the financial system to economic development process has not been really felt to a large extent hence their concluded that the operation of the financial system to economic growth in Nigeria is parasitic in nature. The report of Ikechukwu and Torbira (2016) also validate monogbe et al opinion that the conventional banks still depend on the economy for survival and that they pest on the economic bliss. Cooper and hardt (2000) reported that international financial flows has failed to promote economic growth due to high incidence of uncontrolled Capital outflows. Hence, this study is a potent corollary which tends to ameliorate the proportional contribution of capital inflows and financial system growth to development of Nigeria economy over the period 1981 to 2014 and to ascertain the nexus between this elements.

2.0 literature review

2.1 Theoretical frame work

Gap and catalyst Thesis

The catalyst sees development bank as a catalyst to economic development hence, they argues that there is a need to establish development bank as it is seen as a stimuli to economic bliss and that industrial expansion can be achieved speedily. The catalyst argues that lack of access to finance is an impediment to industries and manufacturing

enterprises hence, development bank should as a matter of urgency finance and allocate advances to industries that cannot easily access loans and advances from deposit money bank in order to achieve the expected sustainable level of development. On the order hand, gap thesis explains that the operation of commercial bank evolved from the activities of the goldsmith who keep valuables for a returns in the early 20's. Gap thesis technically address two fundamental issues: the tradition of the central bank and the inadequacy of the commercial banks arrangement. The selective measures of the commercial banks as to which sector of the economy is appropriate to allocate loans and advances is the key factor that calls for the establishment of bank of industry. According to this theory, Commercial banks are services oriented enterprises which mostly gives loans and advances for short term project and merely give advances to industries and firm who needs them for long term purposes. Mine-while, the central bank is concern with the management of the entire economy through monetary and fiscal policy and regulating the financial system hence, there is a need to fund the operations of other sector of the economy like the manufacturing and production industries who need fund for long term proposes since the introspect of the business is long term in nature. The need for this right form of finance which is capable of skyrocketing the performance of the economic form the third factor in Gap thesis and lead to the establishment of bank of industry which will play a supportive role in ensuring an equitable distribution of loans and advances to all sector of the economy.

Foreign Direct Investment theory

This theory pointed out various element that facilitate the international movement of capital. However, series of theories highlighted market imperfection as the prerequisite for foreign capital inflow while others consider monopolistic advantage and oligopolistic. One of the early theory that links foreign direct investment to

international capital inflows can be traced to the empirical study of MacDougall (1958). The hypothesis considers two countries in its model: one being the host country and the other being the investing country while marginal productivity and cost of capital are assumed to be equal, hence there is a free propensity of capital moving from capital surplus country to capital deficit country which tends to equalise the marginal productivity of capital between the two countries. The abundant flow of capital from the surplus country to the deficit country facilitates efficiency and effective utilisation of resources which in turn stimulates economic welfare. Though the quantum of output in form of investment outflow leaving the investing country is much, yet the net national income does not decrease due to the returns earned on capital invested abroad. Aliber (1970), presented a theory of foreign investment in terms of relative strength of the different countries' currencies. This theory is anchored on the basis of difference in the strength of the currencies in the investor's country and the host country. He suggested that countries with devalued currencies have a higher capability to attract foreign direct investment, because it creates the opportunity for investors to take lead of market capitalization differences when compared to countries with stronger currencies. Aliber's theory was supported widely; though the model could not give a suitable reason for investments between two advanced nations that have currencies of equal value. Also, the relevance of the model cannot explain the investment of a developing nation with weaker currency, multi-national enterprises in developed nations within one fully-integrated market.

Notwithstanding the different approaches of the theories, the underpinning fact is that the purpose of foreign direct investment is to enjoy incentives from host countries in form of long term and short term capital as shown in the country's balance of payment statement of account. These models help to establish the fact that government policies on the domestic economy equally contribute by motivating global organizations to invest.

International Capital Movement Theory

Despite its poorly organized system, this theory estimates current account balance as vital for the aggregate income determination; it is characterized by the fact that commodities are mobile between countries while factors of production are not (Jones, 1967) with a macro-econometric model based around the concept of flow equilibrium. As Obstfeld (2004) suggests that this phenomenon of 'financial globalization' calls for standard intertemporal view of the current account. This theory is modelled to imply that large debtor countries tend to pay a lesser rate of returns on their external liabilities than their gross external asset earnings based on the assumption that the financial markets are incomplete in the world wealth distribution. This theory is nonetheless attractive based on its consideration on the total analytical characterization of time-varying portfolio shares and returns as well as an analytical description of the world distribution of wealth (Devereux and Saiti, 2007).

2.2 Review of related literature

Aurangzeb and Haq, (2012) examined the preliminary contribution of foreign capital inflow on economic growth in Pakistan between the period of 1981 to 2010. The study employs series of estimation tools among which includes stationary test, multiple regression and so on. Findings reveal that of all the variables used in the process of research, three exogenous variables are statistically and significantly stimulate economic growth while there exist a bilateral causal link between remittance, foreign direct investment, economic growth and external debt. Furthermore, results show a unilateral link between gross domestic product and foreign direct investment. The study hence concluded that in achieving a sustainable level of growth in a country, foreign capital inflow is essential.

Guglielmo, et al (2009) examine the dynamic nexus between financial development and economic growth in the ten new EU countries

between the periods 1994-2007. This study developed a dynamic panel model and employed granger causality test as an estimation tools for justification. Finding reveals that there exist a unidirectional causality flow between financial development indicators to economic growth. The study finalised lack of financial depth has resulted into underdevelopment of credit market and stock in some of the countries under study and on this backdrop, their concluded that the argument as to which of the sector leads the economy goes beyond the scope of their paper.

Wang and Wong (2009) studied Foreign Direct Investment and economic growth; they employed data from 69 nations between 1970 to 1989 under two economic situations; “human capital and well-developed financial markets”. They discovered the extent of the correlation between foreign direct investment and growth, they noted that these two situations could be fundamentally different catalysts for foreign direct investment to stimulate economic growth from the viewpoint of growth accounting.

Levine et al (2000) investigated financial intermediary development and economic growth in 74 countries. There reported that there is a positive nexus between the independent component of the financial intermediary development and economic bliss hence suggested that reform that strengthen creditor’s right is a key stimuli to foster economic performance.

Razzaque and Ahmed, (2000) reported a negative relationship between foreign aid and domestic savings using time series data to analysis the nexus between domestic savings and foreign aid in Bangladeshi. The study employ Cointegration test and found that in the short run, domestic savings and foreign aid negatively affect growth

Mohamed and Sidiropoulos, (2010) investigated the contribution of worker’s remittance to the growth of 7 MENA countries using panel data between the periods 1975-2006. The study employ fixed and random effect of Hausman test as estimation tools. Finding reveals that workers

remittance contribute immensely to the growth of the studied countries directly and indirectly through the channel of financial institution.

Demirgoc-kunt and Detrigiache (1998) in there empirical studies of 80 countries highlighted some fundamental factors that explains different in interest margin which relegate sectoral allocation of loans and advances, the factors includes, bank specific characteristics, legal and institutional indicators and macro-economic conditions. There added that information asymmetric problem and financial repression exert a binding constrain on intermediation process. In another similar study, beck et al (2000) used panel data of 63 countries to investigate the nexus between financial intermediation development and growth, the output of their findings shows that financial intermediation services through issuance of loans and advances to manufacturing sector exert a large positive impact on total factor of productivity growth.

Kenourgios and samitas (2007) reported the credit to the private sector is one of the element that ignite economic bliss in the long run. The study examine the long run nexus between finance and economic growth and finally concluded that private credit stimulate growth in Poland. Fink, et al (2005) discovered that financial development positively contribute to the growth of the 33 countries under study in the short run and not in the long run. Kohli (2003), concluded in his empirical studies that foreign capital inflows has significantly illuminate stock market growth, domestic money market, volatility and liquidity.

Onlike Mina Balamoune (2001) uses vector error correction mechanism to investigate the nexus between financial liberalization and economic growth in morocco using time series data spanning from 1970 to 1999. Output of his econometrics result reveals that there exist a weak relationship between economic growth and financial liberalization while he finally concluded that there exist a demand following view of

financial reform which simply means that economic growth is a catalyse to finance.

Monogbe,(2105) studied the impact of insurance sector development on the growth of the Nigeria economy with data sourced from the central bank of Nigeria statistical bulletin spanning from 1981 to 2013. The major intension of the research work was to identify the extent to which the non-banking institution has promoted the economy overtime. In actualising the objective of the research three variable were used as proxy for insurance sector and judging by the output of the granger causality test, the study found that the direction of causality flow between insurance sector development indicators and economic growth are bidirectional in nature and hence there causality nexus is reinforcing which suggest that the existence of non-banking financial institution is passionately contributing to growth of the economic overtime and also enjoys the existing growth recorded in the economy so far.

Kang and Stulz (1997) captures the cross country fluctuation in East Asia using quarterly data between the period 1990-2001 and an attempt to investigate the determinate of capital inflow in Korea. Their findings reveals that there exist a significant nexus between exchange rate volatility, inflation rate, real GDP and interest rate. Chakraborty (2003) investigated the response of some macro-economic variable to foreign capital inflow in India between the periods 1993-1999. The result of the Cointegration test shows that there exist a long run nexus among some pair of variables while the output of causality test reveals unilateral causality link between private capital inflows, nominal effective exchange rate, trade base and export base.

Monogbe, et al (2016) investigate the causality nexus between financial development in Nigeria and economic performance between the periods 1986 to 2014 using time series data. The study employed granger causality test, unit root test and Cointegration test to ascertain the long run nexus that exist among variable employed. Finding

reveals that there exist a parasitic relationship between finance and economic performance in favour of the economy which suggest that economic growth promote financial sector development sequel to this, the study conclude that in the Nigeria context, economic leads while finance follow.

Note point of departure

Inadequate empirical evidence on the synergistic effect of financial integration and capital inflow on economic development is largely due to the fact that most literature centred on the reinforcing nexus between financial intermediation and economic bliss. This study is a potent corollary which tends to ameliorate the proportional contribution of capital inflows and financial system growth to development of Nigeria economy over the period 1981 to 2014 and to ascertain the nexus between this elements. Secondly, this study also tend to ascertain whether it relevant for economic development to rely on foreign capital inflow or financial system for development.

3.0 methodology

3.1 research design

In actualising the objective of this study, we employ ex-post factor research design. Data for this empirical study were secondary data sourced from the CBN statistical bulletin and annual report from 1981-2014. Foreign direct investment (FDI) and Home remittance (HRT) were proxies for foreign capital inflows indicator, market capitalisation rate (MCP) and aggregate bank advances and loan (ABL) were proxies for financial system indicators while human development index (HDI) was proxies for development.

3.2Operational Measures of Variables

Human development Index: The Human Development Index (HDI) is a composite statistic of life expectancy, education, and income per

capita indicators, which are used to rank countries into four tiers of human development.

Foreign direct investment: Foreign direct investment is an investment offshore which is aimed at profitability and cost minimization. Foreign Direct Investment for Nigeria – Annual official foreign direct investment data as obtained in CBN statistical bulletin will be proxy for FDI.

Home Remittance: Home remittance is a transfer of money by a foreign worker to an individual in his or her home country. It comprise of the total current transfer in cash or kind made or received by resident household to or from non-resident household. It was sourced from the World Bank staff estimates based on IMF balance of payments data.

Market capitalization rate: It is the rate of return an investor expect on is security investment. It is used in estimating an investors potential returns on investment. It is captured using total annual market capitalisation on the Nigeria stock exchange as stated in the bulletin

Aggregate bank loan: This amount to total volume of loan and advances granted by the commercial bank to all sector of the economic.

3.3 Model specification

In consonant with previous related works, we hereby formulate the research model which reveals the nexus between foreign capital inflows, financial system indicators and economic development in Nigeria. The model is first formulated in its functional form.

$$HDI_t = f(FDI_t, HRT_t, MCP_t, ABL_t) \dots \dots (1)$$

Converting to econometric form by the introduction of the constant term (β_0) and error term (μ)

$$HDI_t = \beta_0 + \beta_1 FDI_t + \beta_2 HRT_t + \beta_3 MCP_t + \beta_4 ABL_t + \epsilon_t \dots \dots (2)$$

To avoid outliers and extremer's, we linearize this model by introducing natural log thus:

$$\begin{aligned} \text{LnHDI}_t = & \beta_0 + \beta_1 \text{LnFDI}_t + \beta_2 \text{LnHRT}_t + \beta_3 \text{LnMCP}_t \\ & + \text{Ln}\beta_4 \text{ABL}_t + \epsilon_t \dots \dots (3) \end{aligned}$$

Where

HDI = Human development Index

FDI = Foreign direct Investment

HRT = Home Remittance

MCP = Market Capitalization Rate

ABL = Aggregate Bank Lending

β_0 = constant

β_1 - β_6 = slope

Ln = natural log

ϵ = error term

Apriori Expectation

Based on theories and empirical studies, we expect that the predictor variable have a positive nexus with the dependent variable and it is mathematically stated thus:

$$\beta_1, \beta_2, \beta_3 \text{ and } \beta_4 > 0$$

3.3 Identification of analytical tools and technique

This study tend to ascertain whether its relevant for economic development to rely on foreign capital inflow or financial system development using more sophisticated econometrics tools.

3.2.1 Stationality Test

Having understand the fact that data's with unit root is not good for empirical study coupled with the argument that time series data are expose to non stationality problem, we subject the data to be used in this research work to unit root test to avoid having spurious result using Dickey Fuller (DF) unit root test. Gujarati and Porter (2009), Maddala (2007) provided the bases for evaluating the existence of unit root or time series thus

$$\begin{aligned} \Delta y_1 = & \alpha_0 + \alpha_1 y_{i-1} + \sum_{i=1}^n \alpha_1 \Delta y_i - 1 + \delta_1 \\ & + e_1 \dots \dots (4) \end{aligned}$$

Where;

Y = chosen variable

α_0 = slope

$\Delta = 1(1)$ order of differencing

α_i = constant parameter

\sum_i = stochastic process of stationarity

Criterion (AIC) to ensure that \sum_i is white noise.

From equation (4), the hypotheses to be tested are;

$H_0: a_i = 0$, i.e. “there is a unit root, - the time series is non-stationary”.

$H_1: a_i \neq 0$, i.e. “there is no unit root, - the time series is stationary”

As decision criterion, the null hypothesis will be rejected if and only if the calculated Augmented Dickey Fuller statistic is greater than the critical value which suggests absence of unit root hence one can proceed to test for long run association between the variable employed.

3.2.2 Johansen’s co-integration test

If there is an existence of a prevailing dependent variable in form of y and the supporting set of independent variables x_1, \dots, x_n with co-integration, the extent to which they are co-integrated is defined by their respective probability value and the order of ranking equation in order to create decision criterion for acceptance/ or rejection of the null hypothesis which presupposes no co-integration, (Maddala, 2007 as cited in Nnamdi and Torbira, 2016). Brooks (2009) however explains that if a set of time series are co-integrated in the first order of integration, i.e. (same order of integration), VAR is expected to accommodate the same set of variables with a specific $K-1$ lags of the dependent variable in their first form of difference together with a prevailing matrix of T – coefficient. The decision criterion holds that the “null hypothesis will be rejected when the trace statistic is greater than the critical value followed by the ranking order” of the model which suggests presence of long run association and co-integration amongst the variable employed. Hence, Johansen co-integration model is expressed thus:

$$\Delta y_t = \pi y_t - k + T_1 \Delta y_{t-1} + T_2 \Delta y_{t-2} + \dots - T_k - 1 \Delta y_t - (k - 1) + V_t \dots (5)$$

Where $(\sum_{i=1}^k \beta_i) - 1r$ and $T_i = (t-11\beta_i) - 1r$

3.2.4 Granger Causality Tests:

This test seeks to ascertain the extent to which set of variable employed promote/ reinforce or interwind each other over the period under study. Granger causality test is however presented on the premises of the underlining equation.

$$y_t = \alpha_0 + \sum_{i=1}^n \alpha_1 y_{t-i} + \sum_{i=1}^n \alpha_2 X_{t-i} + U_t \dots \dots (6)$$

$$x_t = \delta_0 + \sum_{i=1}^n \delta_1 x_{t-i} + \sum_{i=1}^n \delta_2 Y_{t-i} + V_t \dots \dots (7)$$

Where X_t and Y_t represent the set of endogenous and exogenous variables respectively while U_t and V_t represent the error term respectively. The lag length specified is maximum of 2. Decision Rule: “If p -value(s) $< \alpha$, reject H_0 . If p -value(s) $> \alpha$, do not reject H_0 .”

4.0 presentation of data and interpretation

4.1 stationarity test

This test is employed to ascertain the stationarity of the time series used in the process of research having understood the fact that time series data usually have a problem of stationarity and to hedge against spurious results. Decision criterion here holds thus: we reject null hypothesis if the calculated Augmented Dickey-Fuller (ADF) statistic test is greater than the Test Critical Value otherwise, we do not reject it using E-views 9 statistical package for processing of the data.

Table 1: presentation of unit root test result

Variables	ADF Stat	5%critical value	Order	Remark
D(LOG(HDI))	-7.0332	-2.9571	1(1)	Stationary
D(LOG(FDI))	-7.8804	-2.9571	1(1)	stationary
D(LOG(HRT))	-2.9604	-2.8497	1(1)	Stationary
D(LOG(MCP))	-4.3881	-2.9571	1(1)	stationary
D(LOG(BLT))	-4.8555	-2.9571	1(1)	stationary

Source: E-View 9.1 Output.

The result of the regressed data in table 1 above reveals that all the time series used in the process of research has unit root at level which suggest that they are not stationary. Further analysis shows that the data became stationary after first differencing in the order of 1(1) integration which suggest absence of unit root hence we can proceed to test for long run association between variable employed using johansen's co-integration tests.

4.2 "johansen Cointegration test".

This technique is employed to ascertain the long-run nexus/ association between the variable employed in the process of research.

Table 2: presentation of the output of Cointegration test

Hypothesized	Eigenvalue	Trace stat	0.05 Critical Value	Prob
No. of CE(s)				
None *	0.589540	72.1185	69.8188	0.0324
At most 1	0.474139	43.6233	47.8561	0.1181
At most 2	0.311691	23.0562	29.79707	0.2433
At most 3	0.231090	11.1037	15.49471	0.2052
At most 4	0.080762	2.6947	3.841466	0.1007

Source: E-View 9.1 Output.

From table 2 above, we observe the existence of one co-integrating equation judging by the ranking of the model and the probability value which suggest present of long run nexus between all the variable used in this research work. The existence of the long run nexus depict that all the variable used in the process of research share "mutual stochastic trend and are linked in common long-run equilibrium hence, we can proceed to error correction mechanism (ECM) to test the speed of adjustment from short run disequilibrium to long run equilibrium state".

4.3 Multiple regression

Ordinary least square is employ to ascertain the short run relationship between all the variable used in the process of research.

Table 3: presentation of ordinary least square result (non-linear)

Variable	Coefficien			
	t	Std. Error	t-Statistic	Prob.
C	0.531362	0.010431	50.93951	0.0000
FDI	0.000290	0.000108	2.682941	0.0119
HRT	-6.10E-06	2.91E-06	-2.099901	0.0446
MCP	2.24E-06	3.40E-06	0.658844	0.5152
ABL	-4.05E-06	8.28E-06	-0.489207	0.6284
R-squared	0.607957	Mean dependent var	0.519118	
Adjusted R-squared	0.553882	S.D. dependent var	0.059051	
S.E. of regression	0.039442	Akaike info criterion	3.492932	
Sum squared resid	0.045114	Schwarz criterion	3.268468	
Log likelihood	64.37985	Hannan-Quinn criter.	3.416383	
F-statistic	11.24285	Durbin-Watson stat	1.259796	
Prob(F-statistic)	0.000012			

Source: E-View 9.1 Output.

Non-linear multiple regression result above reveals that capital inflow indicators seems to promote economic development in the short run. Foreign direct investment (FDI) possess a

significant probability value of 0.0119 with a corresponding coefficient value of 0.0002 which suggest that FDI ignite economic development in the short run, holding all thing constant, increase in the inflow of capital in form of direct investment will promote Nigeria economic development to the tune of 0.2%. Home remittance (HRT) also exert a significant probability value of (0.044) but a negative coefficient of (-0.0006) which suggest that home remittance seem to promote economic development while its negative coefficient could

be attributed to misappropriation of such fund into non-productive sector of the economy. The two indicators of financial system (MCP and ABL) seem to be corrosive to economic development in the short run judging by the probability value and their negative coefficient respectively. The adjusted R² shows a moderate predictive ability while the Durbin Watson statistic (1.2597) shows presence of auto correlation. Owing to the short run estimate it is obvious that capital inflow stimulate economic development in Nigeria

Table 4: presentation of ordinary least square result (linear estimation)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.524748	0.057519	-9.123002	0.0000
LOG(FDI)	0.057666	0.010064	5.729818	0.0000
LOG(HRT)	0.004336	0.014727	0.294457	0.7705
LOG(MCP)	-0.036674	0.048305	-0.759221	0.4538
LOG(ABL)	-0.024504	0.053008	-0.462281	0.6473
R-squared	0.637490	Mean dependent var		-0.661820
Adjusted R-squared	0.587489	S.D. dependent var		0.112752
S.E. of regression	0.072417	Akaike info criterion		-2.277688
Sum squared resid	0.152084	Schwarz criterion		-2.053224
Log likelihood	43.72070	Hannan-Quinn criter.		-2.201139
F-statistic	12.74945	Durbin-Watson stat		1.495424
Prob(F-statistic)	0.000004			

Source: E-View 9.1 Output.

from the linearize estimation, we observe that foreign direct investment promote economic development to the tune of 0.5%, this result validate the dual gap analysis which exert that for a sustainable level of development to the recorded in an economic, external fund inform of foreign inflows is essential. Home remittance positively stimulate economic development but possess an insignificant coefficient. MCP and ABL possess an insignificant probability value coupled with a negative coefficient value which suggest that financial system growth in Nigeria is not

promoting economic development but rather pesting on the economy for its survival, the output of this findings validate the report of (Nnamdi and Torbira (2016) who discovered that the operation of conventional banking in Nigeria is parasitic to economic growth. The adjusted R² report that exogenous variable account for about 59% variation in the dependent variable, Durbin Watson statistic show an absent of auto correlation while the F-statistic and the corresponding probability reveals normal distribution.

Table 5: presentation of Error correction model result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.508878	0.059592	-8.539377	0.0000
LOG(FDI)	0.055853	0.010279	5.433907	0.0000
LOG(HRT)	0.003071	0.014767	0.207939	0.8368
LOG(MCP)	-0.020893	0.049746	-0.419986	0.6778
LOG(ABL)	-0.040339	0.054362	-0.742045	0.4645
ECM(-1)	0.264722	0.192794	1.373080	0.1810
R-squared	0.659740	Mean dependent var		-0.660259
Adjusted R-squared	0.596729	S.D. dependent var		0.114126
S.E. of regression	0.072474	Akaike info criterion		-2.248202
Sum squared resid	0.141818	Schwarz criterion		-1.976109
Log likelihood	43.09533	Hannan-Quinn criter.		-2.156651
F-statistic	10.47023	Durbin-Watson stat		2.050478
Prob(F-statistic)	0.000012			

Source: E-View 9.1 Output.

Error correction model tend to ascertain the speed at which disequilibrium in the short run is adjusted and reinstate in the long run and from the output, it is obvious that this findings validate the result of the linear multiple regression which suggest that capital inflows has significantly ameliorate economic development in Nigeria even in the long runwhile the indicators of the financial system are corrosive to economic development suggesting a parasitic nexus. The result also reveals that in the long run, change in the capital inflows and financial system development account for 60% change in economic development. The sensitivity of economic development to variation in capital inflows indicators is positive and stood

at (0.05565) and (0.00307) for FDI and HRT respectively while the responsiveness of economic development to change in the financial system indicators in Nigeria is negative and stood at (-0.0208) and (-0.04033) for MCP and ABL respectively which signifies inverse relationship. ECM possess a positive but insignificant probability value while its DurbinWatson value (2.0504) report absence of auto correlation which implies that the outcome of this findings could be used for policy decision. The probability value and its corresponding F-statistics report normal distribution and overall significances of the model.

Table 6: presentation of granger causality test result

Pairwise Granger Causality Tests

Date: 07/05/16 Time: 07:49

Sample: 1981 2014

Lags: 1

Null Hypothesis:	Obs	F-Statistic	Prob.
LOG(FDI) does not Granger Cause LOG(HDI)	33	0.20851	0.0502
LOG(HDI) does not Granger Cause LOG(FDI)		0.43922	0.5126
LOG(HRT) does not Granger Cause LOG(HDI)	33	0.47072	0.4979
LOG(HDI) does not Granger Cause LOG(HRT)		1.05704	0.3121

LOG(MCP) does not Granger Cause LOG(HDI)	33	1.55896	0.2215
LOG(HDI) does not Granger Cause LOG(MCP)		1.16365	0.2893
LOG(ABL) does not Granger Cause LOG(HDI)	33	1.72025	0.1996
LOG(HDI) does not Granger Cause LOG(ABL)		3.89603	0.0507

The result of the granger causality test makes a clear justification as to which of these elements is contributing more to development in the Nigerian economy. From the output, we found that there exists a unidirectional nexus between FDI and economic development indicator HDI with causality flowing from FDI to economic growth. On the other hand, there also exists a unidirectional nexus between HDI and ABL with causality in favour of HDI suggesting a parasitic relationship between HDI and financial system indicator.

5. Discussions, Summary and Conclusion

This research work examines the contributive measures of capital inflows and financial system growth to economic development between the periods 1981-2014. Augmented Dickey-Fuller unit root test was employed and the data's were reported stationary in the order of $I(1)$ integration while the result of the Cointegration test reports the existence of one Cointegration equation which suggests long run relationship between variables employed. From the output of the linearized multiple regression, we found that foreign direct investment (FDI) stimulates economic growth to a large extent in the short run while Home remittance also exerts positive and significant probability value but with a corresponding negative coefficient. This suggests that home remittance seems to promote economic development if properly allocated to capital investment which is capable of yielding profitable returns. On the other hand, all indicators of financial system exert negative and insignificant probability value which suggests that the survival of financial system operation in Nigeria largely depends on the development of the economy. This result is in consonance with the empirical findings of (Nnamdi and Torbira (2016) which reported

that the conventional banking in Nigeria has a parasitic relationship to economic growth.

Result of the error correction model also validates the output of the linear multiple regression and also confirms that more inflows of capital will further promote economic development in the long run while the operation of the financial system as actually not contributed a reasonable quota to the development of the economy but rather pest on the economic development.

The output of granger causality test also supports the previous result by reporting a unilateral relationship between economic development indicator (HDI) and foreign direct investment (FDI) in favour of FDI which suggests huge contribution from FDI to development while aggregate bank lending pest on the economy as the result shows a unilateral nexus in favour of HDI.

On this premise, we conclude that capital inflows have illuminated the development process in Nigeria both in the long run and short run although its contributive quadrant is weak while the operation of financial system is parasitic to economic development over the period under study. On this backdrop, we recommend that (i) economic, political and institutional environment should be well stabilised to encourage more inflows of foreign capital (ii) taxes and levies paid by foreign investors in the course of operations should be reviewed downward and sweetener that will encourage more inflows of capital should be upheld to enable the country enjoy better development process and finally, financial discipline and moral tolerance should be embraced in order to achieve the motive of foreign inflows and hence promote economic development in Nigeria.

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