Foreign Investment and Capital Market Growth in Nigieria

Gofwan Hassan, Daniel Emmanuel K Ph.D, Jonah Arumona Phd

Bingham University Karu

ABSTRACT

The study of foreign investment and capital market growth in Nigeria was necessary to examine whether Foreign Direct Investment and Foreign Portfolio Investment enhanced Market Capitalization in Nigeria from 1999 to 2022. Auto-regression distributive lag was used with E view 10 statistical tool while the data source is secondary. The study is motivated by the fact that using foreign investment funds can boost the growth of capital market in Nigeria. The statistical result shows that FDI has positive and significant effect on Market Capitalization while FPI ,interest rate were not statistically positive and has no significant effect on Market Capitalization in Nigeria. It was concluded that foreign investments was partly positive and has significant effect on the growth of Nigerian Capital Market. The study recommended policymakers to improve or create investment friendly policies, strategies to attract financial intermediaries towards investment for more liquidity effeciency in the Nigerian firms, since investment increases liquidity of domestic capital markets.and can help develop market efficiency. Utilization of foreign direct investment funds contributes to the market liquidity effeciency to enable capital market growth in Nigeria. Moreso, foreign portfolio investment having, strong and well-regulated financial markets are necessary to deal with the inherent volatility. The financial system must have the capacity to assess and manage risks if it is to prudently and productively invest capital flows into foreign or domestic capital market.

Keywords: Foreign investment, Capital Market, Liquidity, Finance, Growth, Efficiency.

INTRODUCTION

The growth of capital market is an important component of the financial sector in Nigeria. Long term capital is deemed crucial for economic development as evidenced by the positive relationship between long-term capital and economic growth. Demirguc and Levine, (2019) opined that it is the responsibility of capital market to managed funds for both short and long-term capital for firms and investors alike at the right price and time. The issue of nexus between liquidity and capital market growth is topical not only in Nigeria, but the world over, especially in the developing world like Nigeria. Schumpeter (1911) as sited in the work of Gofwan (2023)posited that organized financial system stimulate innovative financing, leading to capital market growth. This study analyzes the relationship between foreign investment capital flow and growth of capital market in Nigeria with emphasis on Foreign Direct Investment and Foreign Portfolio Investment and interest rate is used as control variable. Sahin and Ege (2015) opined that capital markets assist in price discovery, liquidity provision, reduction in transactions costs, and risk transfer or sharing. In essence, the trend of stock market capitalization, number of listed companies, stock market index in term of volume, market size have posted some years of positive and negative trends.

Goldberg, (2010) posits that a capital market's growth strategy ought to be articulated around a well-

functioning and adequately regulated foreign investment in flow with strong domestic economic foundations. Araoye*et.al* (2021) posit that capital market in Nigeria is still not yet vibrant as its counterparts in the industrialized nations due to inefficient articulated strategies, technical know-how and the application of technological tools. As such, cannot compete satisfactorily in the international market in respects to volume of foreign investment inflows and number of foreign listed firms in now Nigeria Exchange Group (NEG). Evans (2002) asserts that in light of the various capital market inefficiencies in the past few years, there has been a tendency for demand for foreign investments. Yet, it is also recognized that efficient capital markets help to mobilize financing for growth and development. Both direct and portfolio investments can promote sustainable growth leading industrialization. Omisakin *et.al* (2009) pointed out that direct and portfolio investments provide economic benefits. However, it is necessary to recognize their differences, but with the right policies, both can contribute to a strong and healthy capital market growth. Most importantly, OECD, (2017), Yousuo (2018) and Adeyemi (2021) argued on the level of foreign participation which has constantly surpassed domestic participation in the Nigerian capital market during the study period is not sustainable and not good for the country's capital market growth. Most Challenges faced by capital market towards its growth as opined by Emmanuel *et.al* (2020) is the irregularity of financial liquidity which increases volatility of the market. Lai *et.al* (2023), argued that the existence of volatility in foreign investment tends to affect stock market growth as a result of uncertainty and risk. The lack of the sustainability may be because of political uncertainty, poor regulatory enforcement and largely corruption index. Onyeisi *et.al* (2016) stated that the huge presence of foreign portfolio investors in the country's capital market is the heightened risk of market reversal and possible market crash should these direct and portfolio investors have any reason to exit the market. This study investigates the relationship between foreign Direct Investment, foreign portfolio investment and capital market growth in Nigeria.

Researchers like Lai *et.al* (2023), Adeyemi (2021), Kuziva (2018), Mumeen *et.al* (2018) and others' argument on whether foreign investment ensures capital market growth, constitute direct motivation to this study. The direct participation in facing the challenging task of making sure that foreign investment's variables are tested for possible positive or negative significance to the growth of the Nigerian capital market growth is the major objective of this study. The Researchers cited above, on the argument platform endeavoring to understanding the relationship between foreign direct investment and foreign portfolio investment on capital market growth in Nigeria are Alfraro (2004), Sharmiladevi (2015), Mumeen *et.al* (2018) argued that Foreign investment have both short and long run positive effect. However, the study of Rodolphe *et.al* (2017), Nancy (2017), Kuziva (2018) argued that it has no positive significance on capital market growth but only on financial and economic volatility. The gap here amongst these researchers are that a statistical test be conducted to ascertain the positive significance of the foreign investment variables outline in this study to the capital market growth in Nigeria.

The study put up effort to bridge the geographical and time gap created by these researchers and to also add to the body of knowledge on foreign investment and capital market growth in Nigeria. The following questions are outlined to achieve the stated objectives thus: What is the effect of foreign direct investment on capital market growth? To what extent does foreign portfolio investment affect capital market growth? To what extent does interest rate affect capital market growth? The objective of the study is to examine the effect of foreign investment on capital market growth and the specific objectives are to: Investigate the effect of foreign direct investment on capital market growth; assess the effect of foreign portfolio investment on capital market growth. Note that capital market is represented by market capitalization. There fore, the following hypotheses are to be tested:

Ho_1:   Foreign direct investment funds has no significant effect on market capitalization

Ho_2:   Foreign portfolio investment funds has no significant effect on market capitalization

Ho$_3$:   Interest Rate has no significant effect on market capitalization

LITERATURE REVIEW

Conceptual Framework

Foreign investment

Foreign investment involves capital flows from one country to another, granting the foreign investors extensive ownership stakes in domestic companies and assets. Foreign investment denotes that foreigners have an active role in management as a part of their investment or an equity' stake large enough to enable the foreign investor to influence business strategy (Yousuo, 2018). A modern trend leans toward globalization, where multinational firms have investments in a variety of countries. Mohsen *et.al* (2019) opined that large multinational corporations will seek new opportunities for economic growth by opening branches and expanding their investments m other countries. This allows the transfer of technology particularly in the form of new varieties of capital inputs that cannot be achieved through financial investments or trade. Foreign investment is an aspect of financial deepening which isa measure of the increase in the volume of financial services of the banks, financial intermediaries, financial institutions and financial market, as demonstrated by credit to the private sector according to Alile, (1999). Kuziva (2018) states that financial industry reflects strategies that quicken the pace of financial development, also Sharmiladevi (2015) assert that foreign investment improves capital market activities through increased competitive efficiency within financial markets thereby indirectly benefiting non-financial sectors of the economy.

Foreign Direct Investment (FDI)

Generally, it is believed that the financial system of a recipient country plays a positive role in the Foreign Direct Investment (FDI) performance of that country. As it was stated by Samson (2020), arguing that a well-developed financial system of the recipient country is an important precondition for Foreign Direct Investment (FDI) to have a positive impact on not only capital market, but economic growth as it enhances the efficient allocation of resources and improves the absorptive capacity of a country with respect to Foreign Direct Investment (FDI) inflows in not only capital market but the economy as well. Sharmiladevi (2015) opined that Foreign Direct Investment (FDI) is an investment in the form of a controlling ownership in a business in one country by an entity based in another country. FDI allows the transfer of technology particularly in the form of new varieties of capital inputs that cannot be achieved through financial investments or trade. Foreign portfolio investment increases the liquidity of domestic capital markets, and can help develop market efficiency as well. Calvo *et.al* (2000) as cited in Ayunku (2014) argued that as markets become more liquid, as they become deeper and broader, a wider range of investments can be financed. New enterprises, for example, have a greater chance of receiving start-up financing. Savers have more opportunity to invest with the assurance that they will be able to manage their portfolio, or sell their financial securities quickly if they need access to their savings.

Foreign Portfolio Investment (FPI)

Foreign portfolio investment flow refers to cross border investments in both equity and bond markets (Lo-duca, 2012a). Portfolio flows are regarded as a crucial source of private capital for virtually all economies, further, Karimo and Tobi, (2013) opined that developing economies stand to benefit immensely from a constant supply of stable capital flows. However, strong and volatile portfolio flows call for sound policy instruments to protect macro-financial stability in receiving economies and or nations. Foreign portfolio

flows have been observed to be very short-term in nature and are therefore regarded as hot money. According to Lo Duca, (2012) these flows are also vulnerable to informational problems and rational herding behavior in financial markets as investors look for international diversification opportunities (Calvo & Mendoza, 2000). A major source of instability that is inherent in portfolio flows emanates from the trading activities of fund managers as they enter and leave the market at the same time (Haley, 2001). An important feature of portfolio stocks and bonds is their high liquidity status which enables investors to dispose of their assets quickly (LoDuca, 2012). Capital controls have not been observed to have a significant effect on surges and sudden stops in foreign capital flows. Financial markets in low-income countries are shallow and narrow, making them more vulnerable to volatility in portfolio flows.

Market Capitalization (MCAP)

Wenfang (2011) argued that Market Capitalization culminate to the total stock market value of companies listed on an exchange market. Yartey (2008) stated that market capitalization as a percentage of Gross Domestic Product (GDP) can be used to measure capital market growth in an economy. Tiamiyu (2019) asserted that stock markets are expected to accelerate economic growth by providing a boost to domestic savings and increasing the quantity and the quality of investment. Levine and Zervos (1996) as cited in Onyeisi et.al (2016) assert that to examine whether there is a strong empirical association between stock market growth and long-run generalized economic benefits. Demirguc-Kunt and Levine (1996) as cited in Gofwan et,al (2023) had conglomerating measures such as stock market size, liquidity, and integration with world markets, into the index of stock market development. Gordon (2017), Mumeen *et.al* (2018), opined that it should be noted that there are many competing theories about the link between market capitalization, financial development and economic growth. The main indicators used to examine the link of financial development to market capitalization are: Bank credit to the private sector and Stock market capitalization. Since its inception, the World Investment Report (WIR20) has provided analysis of direct investment and international production, focusing on the downstream segment of the investment chain (WIR20). More recently, and with a growing need to mobilize the vast sums of capital needed as financial deepening to meet market capitalization is at its pick, the World Investment Report *(*WIR) has expanded its focus to the analysis of not only the local capital market but also global financial market. However, foreign direct investment (FDI), foreign portfolio investment (FPI) nevertheless offers a potential source of financial deepening and development, surrounding not only Nigeria capital market but beyond.

Interest Rate

In Nigeria, the interest rate which is determined by the Monetary Authority is referred to as the Monetary Policy Rate as opined by (Goldberg, 2009). This analysis makes deepening of financial capabilities fatal in which sufficient injection of funds into capital market necessary. With this, interest rate would be at the management and acceptable level in Nigeria. Robinson (2017) and Oyejide (2019) assert that interest rate is the annualized cost of credit or debt-capital and is computed as the percentage ratio of interest to the principal. An increase in the spreads leads to an increase in private sector credits possibly reflecting the credit supply conditions. Interest rate, which is the lending rate minus deposit rate, is significant to low income and middle income earners and institutions alike in terms of financial institutions as tools for capital market intermediaries (Oyejide, 2019). Research indicates that developing countries Nigeria inclusive prefer to allow a higher volatility of reserves and interest rates in exchange for a lower volatility on their exchange rates, at least as compared with industrial economies (Aizenman, *et.al* 2017). Again, the sensitivity of domestic interest rates to international interest rates is higher under fixed exchange regimes than under floating ones. Risma Nur *et.al* (2022) posited

Capital Market Growth in Nigeria

The creation of Lagos Stock Exchange in 1960, which was later incorporated by law in 1961 through the

combined efforts of Central Bank of Nigeria (CBN), industrial development banks, and the business communities; promptly begins operations with 19 securities listed on the floor for trading. As the national development continues under the post-colonial reform, however, it later metamorphosed into the Nigerian Stock Exchange (NSE) in 1977. With this advent, it developed into many branches with itself and today, it is called Nigeria exchange Group (NEG). The studies on capital market growth in Nigeria have shown controversial results. Yartey (2008) argued in fact, the performance of Nigerian capital market from 2008 till date has made drivel of most known fundamental and technical analysis for equity investment. The Growth and development of Nigerian capital Market has some certain measurement such as: Volatility and Asset Pricing, Market Liquidity, Regulatory and Institutional Indicators, Determinants of share Prices (Kehinde & Taiwo, 2019). Levine and Zervos (1996) examines whether there is a strong empirical association between the market growth and long-run economic growth. Demirguc-Kunt and Levine (1996) had conglomerating measures such as stock market size, liquidity, and integration with world markets, into the index of stock market development (Onyeisi *et.al* 2016). It should be noted that in a general term, the growth in capital market according to Tatiana *et.al* (2021) argued that capital markets are used primarily to raise funding, usually for a firm, to be used in operations, or for growth. Capital growth, or capital appreciation, is an increase in the value of an asset or investment over time.

Tamplin, (2023) opined that capital growth is measured by the difference between the current value, or market value, of an asset or investment and its purchase price, or the value of the asset or investment at the time it was acquired. However, Most empirical studies have held a consensus that the development of efficient capital market can promote growth of an economy. Hence the growth of businesses through capital markets drives innovation, increases productivity, and boosts consumer spending.

Ezie (2021) explained that foreign investment in the capital market leading to high performance or growth occurs when: stakeholders (banks, contractual savings institutions, and or firms) participates. Omorogbe (2012) further stated that when there is sufficient financial depth from foreign investment, it reduces the costs of contract enforcement, transaction and information symmetry, it gives rise to main functions namely: i) Facilitate goods and services exchange (e.g. payment services), ii) Mobilise and pool savings of a large number of investors investment; iii) Acquire and process information about companies and the potential investment projects and to also allocating public savings to the most productive uses, iv) Follow investments and exert corporate governance, v) Diversify and reduce liquidity risk and inter-temporal risk.

Deepening financial capacity through foreign investment is one of the major strategies for capital market growth, stability and development. Financial deepening is seen as financial institutions' capacity to effectively deploy savings for investment objectives; accumulation of financial stock of asset; increasing provision of financial services; engaging finance functions through organized domestic institutions (Godfrey & Agwu 2020). Emmanuel *et.al* (2020), assert that nations with extensive financial markets are distinguished by robust private domestic lending, particularly large consumer credit extension, which boosts local output and consumption.

EMPIRICAL REVIEW

Daniel *et.al* (2024) studied Equity Investment Funds on Capital Market Growth in Nigeria: The study examines the extent Equity Investment influences Capital Market. The data is secondary from CBN Statistical Bulletin and NBS (1999 to 2022) and ex-post facto research design, time series. ARDL as method used. The findings revealed that equity investment funds have positive and significant effect, while a reserve investment fund is negative and insignificant on Capital market growth in Nigeria. It concludes that equity investment funds is effective for capital market growth. It recommends that authorities should encourage and apply all necessary tools for equity investment funds diversifications to promote greater penetration on

the part of institutional equity investors, Create informal equity investment in Nigeria due to thorny challenges drive from assessing finances. The study focuses on equity and reserve funds and not foreign investment as a means to facilitate Nigerian capital market growth, as such further studies that would incorporate foreign investment funds is necessary.

Lai *et.al* (2023) studied the impact of macro factors on the market capitalization of countries around the world. Data are collected for the period 2008-2019, using panel regression to test the data. From the generalized method of moments (GMM), the results show that inflation, interest rates and foreign direct investment are positive, statically significant in affecting the capitalization of the stock market. The higher the net foreign direct investment capital, the more support for the growth of the stock market. Higher inflation and interest rates hinders stock market development. The study concludes and confirms that developed stock markets have significantly higher capitalization values than the rest. Therefore, it recommended that foreign direct investment capital be sorted after through foreign investment friendly policies that would guarantee boost to capital market development. It also recommends that further studies be conducted using variables like foreign direct portfolios and mutual funds.

Araoye*et.al* (2021) examined capital market growth on the foreign portfolio investment in Nigeria. The time series secondary data for 1990 to 2019 used for the study were obtained from the Central Bank of Nigeria Statistical Bulletin, Nigeria Stock Exchange fact sheet, National Bureau of Statistics, Articles, Journals libraries and Internet. Vector Error Correction Model was employed in estimating the effect of the independent variables on the dependent variable. Granger causality test was also adopted to establish the direction of causality among the relevant variables. The findings revealed that market capitalization has positive but significant impact on foreign portfolio investment in Nigeria. The granger causality result indicates unidirectional causality movement from market capitalization (MCAP) and real gross domestic product (RGDP) to foreign portfolio investment. The study recommended policy changes necessary to encourage listing of SMEs and other private companies on the floor of stock exchange.

Emmanuel *et.al* (2020) studied Impact of Foreign Direct Investment on Nigerian Capital Market growth for the period of (2000-2015). The problem is the mixed results or findings of previous studies on the effect of foreign direct investment on Nigerian Stock Exchange Market. Four hypotheses were formulated in line with the objectives of the study. Ex-post facto research design and time series data were adopted and data for the study were obtained from Central Bank of Nigerian Statistical Bulletin. Simple linear regression model analysis was applied to test hypotheses formulated with the aid of Statistical Package for Social Sciences (SPSS) version 23. Findings showed that Foreign Direct Investment contributes to the development of stock market in Nigeria and impacted on the total domestic savings. The study also revealed that Foreign Direct Investment has affected positively on securities indices in Nigerian Stock Market. Based on this, the study recommends among others that Nigerian government must ensure the protection of foreign investor's interest and assets from changing government policies.

Mohsen *et.al* (2019) studied the relationship between financial development indexes and foreign direct investment. The main objective is to examine the effects of financial development indicators in two groups (the financial markets index and the financial institution index) on the FDI absorption rate. The effects of these indicators have been evaluated in the form of a panel data model for 11 countries including (Saudi Arabia, Argentina, Sweden, Poland, Belgium, Iran, Thailand, Nigeria, Austria, Norway, and Venezuela) in the period 1990 to 2014. The results show that when the financial institutional index including (FID, FIE), financial market index including (FMD), GDP & DCP increase the FDI increases, and when FIA, FMA & FME increase, the FDI decreases. So Expanding the capital market will increase FDI attraction in selected countries, and for countries with weak capital markets, the financial market access index and the financial institution efficiency index has a significant negative effect on FDI absorption and vice versa. This study touches more than one specific country. It cannot be used to specifically determine the performance and

growth of the Nigerian capital market. Further study is required to direct attention to only Nigeria as a country.

Kuziva (2018) studied foreign investment and capital market in low-income SADC countries; Capital flow volatility and its directional linkages, from 2000 to 2015. The study uses (P-ARDL). It reveals that both portfolio flow and remittance flow volatility are significant. Money Supply, Real Gross Domestic Product (GDP) and Interest Rates, Global GDP significantly affects portfolio volatility but has no significant effect on remittance volatility. Only domestic and global interest rates are negatively related to remittance and portfolio volatility in these economies. Secondly, the panel vector error correction model (P-VECM) reveals a bi-directional relationship between remittance flow volatility and financial deepening. Also indicates a one-way causal relationship from portfolio flow volatility to financial deepening. Finally, the (P-VAR) model finds that global shocks are rapidly transmitted to the domestic economy and not vice versa. Shocks in portfolio volatility account for significant variations in money supply and lead to a decline in general price levels from the short run to the long run. In order to achieve stable and constant capital in-flows, policy makers should adopt price and interest rate stability. Geographical and time gaps exist or garnered from inception thus 2022.

Mumeen*et.al* (2018) examined the relationship between financial deepening, foreign direct investment (FDI) and output performance in Nigeria from 1980-2015 using the Auto regressive Distributed Lag (ARDL) Bound Test. The result shows a long-run relationship was established of financial deepening, foreign direct investment in Nigeria. Foreign direct investment (FDI) and market capitalization both in the short-run and in the long- run periods. It is recommended that financial depth should be enhanced through improved and highly efficient provision of credit by banks to the real sector of the Nigerian economy. This study is conducted since 2018. Therefore, it has created time gap in which this study deemed it fit to fill the gap using FDI, FPI and Exchange Rate with the period to date.

Yousuo, (2018) studied the impact of Foreign investment and capital market in 1981-2018, the study use multiple regressions with the application of dummy variables to capture the effects of the various Regimes using secondary data. The results shows that foreign investment has both short and long-run effects on capital market performance, the estimated regression line are significance as confirm by the f-statistics. The independent variables have positive and significant effect on the capital market growth in the short run. The selected processes of foreign investment are the true determinant of capital market growth in Nigeria with high degree of effectiveness in the civilian regime. The study recommends that stringent measures should be taken to enhance the effects of FD on capital market performance. This study does not effectively evaluate foreign investment on capital market in terms efficiency of investment funds, but only test the effect of FD on capital market performance. It's equally needs update to 2022.

Rodolphe *et.al* (2017) empirically investigated the effects of source and destination countries' financial development on foreign direct investment (FDI) through causality, in exploiting variations in both country-specific financial development and sector-specific financial vulnerability. The study database on real manufacturing FDI projects worldwide. We find that both SFD and DFD have a large positive influence on green field, expansion, and mergers & acquisitions FDI, by directly increasing access to external finance and indirectly promoting manufacturing activity. The overall findings shows economic impacts of SFD and DFD tend to be similar but their direct and indirect effects vary across margins and types of FDI. It concluded that expansion, mergers & acquisitions by directly increasing access to external finance and indirectly promoting manufacturing activity is achievable. It recommended that Firms wishing to engage in FDI must incur substantial upfront fixed costs. As for exporting, market research needs to be done to identify profitable destinations and learn about their specificities, products may have to be modified to meet foreign tastes or regulatory requirements, distribution and servicing channels must be established. Crucially, each new FDI project involves establishing a production facility in the destination country. This study data

is generated worldwide and not a specific nation. This study requires an update using secondary data from Nigerian bureau for statistics and central bank of Nigeria.

Nancy, (2017) studied the effect of Foreign investment on capital market growth in Kenya. It is secondary data covering 2015 to 2016. (SPSS) Statistical Package was used. The value (0.00) of the F-test statistic indicates significance. The findings indicated that financial innovation and credit accessibility have a significant effect on the capital market. Financial institutions that maintain high levels of investment in innovation have been able to exploit emerging market opportunities. Some- opportunities allow for the reduction in the costs of operations, while others make it possible for capital market to serve their customers in new ways, or to meet needs that the market has not met before. It recommends that, financial institutions –should increase their investment in activities that spurfinancial innovation. This study is deemed fit for update and further elaboration on the study of financial innovation. This study is done in Kenya, 2017. The study has geographical and time gap to fill.

Onyeisi *et.al* (2016) conducted study foreign portfolio investment and stock market growth in Nigeria from 1986 to 2014 with the objective of finding its impact on stock market growth. The study used co-integration, vector error correction model and Granger Causality econometric tools. The results is thus: the vector error correction model indicates long-run significant impact of foreign portfolio investment on stock market growth in Nigeria, and the Granger Causality shows there is no causality between foreign portfolio investment and stock market growth in the Nigerian economy. The implication of the results is that foreign portfolio investment (FPI) inflows may not contribute positively to the increase in stock market when there is no conducive business environment for foreign investment to thrive in Nigeria. The study recommends that Federal Government of Nigeria should strengthen the Security and Exchange Commission (SEC) to promote constant inflows of foreign portfolio investment to Nigeria. That Nigeria Government should develop capital markets so that domestic trade volume should increase more than foreign portfolio investment (FPI) because of the existence of huge risk premium in Nigeria and that Central Bank of Nigeria (CBN) should be proactive in regulating foreign exchange transactions in Nigeria since the country is import-dependent country. This study was done since 2016, it requires update hence there is changes in exchanges rates and economic climates.

Sharmiladevi (2015) examined the relationship between foreign investments (FI), Foreign Direct Investment (FDI) and economic growth in India during the time period 2000 to 2013. A Multiple Regression Model is built taking economic growth as dependent variable and foreign investment and FDI as independent variables. Results of the regression indicate that 87.1% of the variations in economic growth are explained jointly by Financial Deepening. It suggests that India needs well developed and stable financial structure to bring investors' confidence and foreign direct investment into the economy, which facilitates higher economic growth. This study is conducted in India and not in Nigeria, However, it need to be updated and domiciled in Nigeria and also be modified towards Foreign investment and capital market growth in Nigeria reflecting 2022 upward.

Ayunku and Etale (2014) examined the determinants of stock market development for the period of 1977-2010. The objective is to investigate the long run and short run relationship between the variables, and the utilization of Johansen Co-integration and Error Correction Model (ECM) approach. The empirical result indicated that market capitalization, credit to private sector and Interest rate (Int. R) are all important determinants of stock market development both in the long run and short run in Nigeria as these variables have positive effect and thus stimulate economic growth in Nigeria while inflation and saving rate had negative impact on stock market development in Nigeria. These results as they stand have some policy implications and it therefore follows that to achieve accelerated stock market development and economic growth in Nigeria, monetary authorities should effectively moderate and control the inflation and savings rate so as to sustain macroeconomic stability. This study therefore recommended amongst others that policy

makers should be concerned with stock market liquidity, given that market capitalization is a strong indicator of stock market development in Nigeria. So far to say as one of the recommendation for further studies to foster stock market liquidity on the capital market made up the further studies as the update that this research needs by using FDI, FPI with control variable as interest rate.

Alfaro *et al*. (2004) examined the various links among foreign direct investment (FDI), financial markets, and economic growth. They explored whether countries with better financial systems can exploit FDI more efficiently using panel data model in eview9 statistical tool. The analysis conducted using cross-country data and showed that FDI alone plays an ambiguous role in contributing to economic growth. As a result, however, countries with well-developed financial markets gain significantly from FDI. The results again are robust to different measures of financial market development in inclusion. This study determinant of economic growth and consideration of endogenity is limited to the study of financial development towards economic growth and not capital market growth. Moreso, the study requires update and the use of enhanced statistical methods and tools.

THEORETICAL FRAMEWORK

Markowitz Efficient Frontier Theory.

Harry MMarkowitz (1952, 1958) noted the fact that appropriate risk facing an investor was portfolio risk which led to a fundamental point that the riskiness of a stock should not be measured just by the variance of the stock but also by their co-variances. Markowitz discovered that it was the covariance that determined the risk of a portfolio and not the variance of individual assets in the portfolio. The best portfolio would consist of assets which are perfectly negatively (inversely) correlated. However, according to Markowitz, the benefits of diversification need not only exist if the assets are perfectly negatively correlated. This is in tandem with investment.

Capital Movement Theory

Patrick (1966) argued that early rough consensus that openness to capital flows has salutary effects on economic growth, thereby necessitate capital movement theory. According to Mishra *et.al* (2015) subsequent to the Asian crisis of 1997 and the Russian crisis of 1998, the consent unraveled strong and opposing views feasible because hypothesized relationships between financial openness and future growth do not assert themselves strongly in statistics. They stated that at this point, it is not clear whether or not (and under what conditions) capital account openness and/or liberalization lead to economic growth. Also, that openness is a continuous economic concept that has most often been measured with discrete or categorical policy variables with attendant loss or gain of statistical power. Mishra *et.al* (2015) argued that early studies of the capital movement theory enable financial openness and intermediaries using single indicator variable that summarizes government policies to strengthen financial openness.

Internalization theory

The theory was initially put forward by Coase in 1937. Hennart (1982) further developed the idea of internalization by offering models between the two types of integration: vertical and horizontal. The Internalization theory tries to explain the growth of transnational companies and their motivations for achieving foreign direct investment. Under this arrangement, transnational companies organize their internal activities so as to develop advantages eventually be exploited. This theory has also provided explanations on the growth process not only on the capital market but also in an economy were largely used in the literature to explain how FDI and FPI influence growth.

This study is underpinned by the theory of internalization. Hence the theory supports the development and growth of capital markets through foreign investment and capital movements. Kuziva (2018) from Southern African Development Community (SADC) countries supported the theory recognizing that the policies of financial efficiency are very vital for the operation of capital market. The theory was relevant due to its policies leading to foreign investment in the capital market growth aspect of financial performance from foreign nations leading to industrialization in Nigeria.

METHODOLOGY

Research design is ex-post fac to which involved an investigation of what caused the other among different variables in which there is no control of the variables. The population of the study is Nigeria capital market as a sector. And the sample is the proxies of the capital market which is market capitalization. This study employed the time series type of data. The source of the data is secondary; from the Central Bank of Nigeria Statistical Bulletin, World Bank International Financial Statistics and National Bureau of Statistics covering 1999 to 2022.

Model Specification

Adapted model from Lambe *et.al* (2021)

Modified: $MCAP = \beta_0 + \beta_1 FDI + \beta_2 FDP + \beta_3 INR + \varepsilon$ --- (1.1)

Where: MCAP = Market Capitalization

FDI = Foreign Direct Investment

FDP = Foreign Direct Portfolio

INR = Interest Rate

β_0 is the intercept of the regression model of Market Capitalization. β_1, β_2, and β_3 are rates of change of the Foreign investment variables with respect to Market Capitalization $\varepsilon…$ is the error term associated with the model of the Foreign investment variables with respect to Market Capitalization variable as its proxy.

A Prior Expectation

The a priori expectation is that β_1, β_2, $\beta_3 >< 0$ indicating either positive or negative relationship between the variables that is increase/decrease Foreign Direct Investment, Foreign Direct Portfolio, Interest rate in Nigeria will lead to decrease/increase in market capitalization. Re-writing equation (1.1) to capture the dynamic relationship among the variables in short run, thus; the model becomes:

Table 1: Variable Measurement

S/NO	VARIABLES	ACRONYM	TYPE	MEASUREMENT	SOURCE
1	Market capitalization	MCAP	Dependent Variables	Total Market Capitalization as indicator for capital market develop in Nigeria	Levine & Zervos (1996)

2	Foreign Direct Investment	FDI	Independent Variables	investment in the form of a controlling ownership in a business in one country by an entity based in another country	Omorogbe (2012)
3	foreign portfolio Investment	FPI	Control Variables	Measure Rate of equity profile investment in Nigeria	Tiamiyu K. (2019)
4	Interest Rate	IntR		Measure periodic increase in commodity price	Risma Nur K. (2020)

Equation--- (1.2)

$$\Delta MCAP = \alpha_{o+} \sum_{g=1}^{I} \alpha_{1i}\Delta MCAP_{t-i+} \sum_{h=1}^{m} \alpha_{2i} \Delta FDI_{t-i+} \sum_{i=1}^{n} \alpha_{3i} \Delta FDP_{t-i+} \sum_{j=1}^{o} \alpha_{4i} \Delta INR_{t-i} + \mathcal{E}_i$$

Equation (1.2) was used to estimate and analyze the short-runeffects of Foreign investmenton the growth of Nigerian capital market. However, from equation (1.2), $\Delta MCAP_{t-i}$ is the lag 1 of Market Capitalization which is the dependent variable. Below are the independent variables: ΔFDI_{t-I} is the lag 1 of Foreign Direct Investment; ΔFDP_{t-i} is the lag 1 of Foreign Direct Portfolio; and ΔINR_{t-i} is the lag 1 of Interest Rate.

RESULT AND DISCUSSION

Descriptive Statistics

Descriptive statistical analysis is usually conducted on the data collected for a study in order to know the nature of the data collected statistically.

Table 2: Descriptive Analysis

	MCAP	FDI	FDP	INR
Mean	10823650	714.1857	11142.77	17.83540
Median	11587650	741.0414	10226.18	16.92153
Maximum	31520550	1414.548	23052.81	29.13000
Minimum	300000.0	92.79200	1169.624	11.48313
Std. Dev.	8100535.	416.0478	6753.253	3.329635
Skewness	0.424553	0.055244	0.092622	1.476735
Kurtosis	2.841993	1.991707	1.743867	7.023951
Jarque-Bera	0.745949	1.028861	1.612187	24.91517
Probability	0.688683	0.597841	0.446599	0.000004
Sum	2.600008	17140.46	267426.4	428.0495
Sum Sq. Dev.	1.511115	3981202.	1.055509	254.9889
Observations	**24**	**24**	**24**	**24**

Source*:* Output from E-views 10 (2023)

The summary of descriptive statistics of relevant variables of study is as reported in Table 3.1.1 above, the mean, median, standard deviation, as well as the skewness and kurtosis measures of our variables of interest, are given. The mean values of Market Capitalization (MCAP), Foreign Direct Investment (FDI), Foreign Direct Portfolio (FDP), and Interest Rate (INR) are 10823650, 714.1857, 11142.77, and 17.83540

respectively. The respective standard deviations are 8100535, 416.0478, 6753.253, and 3.329635. Minimum values for Market Capitalization (MCAP), Foreign Direct Investment (FDI), Foreign Direct Portfolio (FDP), and Interest Rate (INR)in Nigeriaare 300,000.00 Billion Naira, 92.79 Billion Naira, 1,169.62 Billion Naira, and 11.48 percent respectively; while their maximum values are 31,520,550 Billion Naira, 1,414.55 Billion Naira, 23,052.81 Billion Naira, and 29.13 percent respectively.

Besides, Skewness tells us about the distribution of the variables. For normal Skewness, the value must be less than zero. If the value of a variable is more than zero, then the variable is said to be an abnormal distribution. However, based on this, all our variables have Abnormal Distribution Curves. The Flatness and the fitness of the distribution are measured using the Kurtosis. If Kurtosis value is less than 3, it means the variable distribution is normal, but when it is more than 3, the distribution of the variable is said to be abnormal. However, based on this, the Kurtosis values of Market Capitalization (MCAP), Foreign Direct Investment (FDI), and Foreign Direct Portfolio (FDP)indicated normal distributions; while value of Interest Rate (INR)indicated abnormal distributions. The difference between the kurtosis and skewness is measured using Jarque-Bera. INR has highest Jarque-Bera value of 24.91517 while MCAP has the lowest Jarque-Bera value of 0.745949. At 5% significance level, MCAP, FDI, and FDP indicated normal distribution curves, while INR indicated normal distribution curve. Finally, the table shows that the total number of observations of the descriptive statistics model is 24.

Table 3: Correlation Analysis

Correlation Analysis

Covariance Analysis: Ordinary			
Date: 11/20/23 Time: 03:47			
Sample: 1999 2022			
Included observations: 24			
Correlation			
Probability	MCAP	FDI	FDP	INR
MCAP	1.000000			
	⎯⎯			
FDI	0.412924	1.000000		
	0.0449	⎯⎯		
FDP	0.781798	0.664478	1.000000	
	0.0000	0.0004	⎯⎯	
INR	-0.259758	-0.167740	-0.350127	1.000000
	0.2203	0.4334	0.0935	⎯⎯

Source*:* Output from E-views 10 (2023)

From table three above, there is positive, significant relationship between Market Capitalization (MCAP) and Foreign Direct Investment (FDI); also, strong and positively significant relationship Market Capitalization (MCAP) has with Foreign Direct Portfolio (FDP); but a weak and an insignificant negative relationship between Market Capitalization (MCAP) and Interest Rate (INR).

Unit Root Test

The study starts by examining the sationarity of the data used for this research study (the existence of unit roots) in the econometric. The stationarity test for variables used in regression analysis is usually used in the

unit root test. If the variable's mean and variance are constant, the data is said to be stationary. If one of them varies, though, it suggests that the data has a unit root. The value of the stationarity of time series used in regression, as Gordon (2017) puts it, disturbs the fact that a non-stationary time series cannot be extended to other time intervals other than the current. This makes it of no practical benefit to predict dependent on these time series. Furthermore, regression investigation conducted without subjecting the data to unit root test may be hazardous or spurious because the estimated parameters would be bias and inconsistent. To avoid this, tests were conducted using the ADF statistic to investigate Unit root presented as follows:

Table 4: Summary of Augmented Dickey-Fuller Test

Augmented Dickey-Fuller Test

Variables	ADF P-value @ 5% Level	ADF P-value @ 5% 1st Difference	Order of Integration
MCAP	0.3789	0.0083	I(1)
FDI	0.4983	0.0002	I(1)
FDP	0.3642	0.0002	I(1)
INR	0.0000	–	I(0)
Note: * represents 1% significant level; ** represents 5% significant level and *** represents 10% significant level. Calculated at trend and lag lengths selected automatically using the Schwarz Info Criterion (SIC).			

Source: E-views 10 (2023)

Table 4 shows the Augmented Dickey-Fuller stationarity test results of the four economic variables used in this study. From the results, Market Capitalization (MCAP), Foreign Direct Investment (FDI), and Foreign Direct Portfolio (FDP) were stationary at first difference, while Interest Rate (INR) was stationary at first difference. This implies that the economic variables are fit and suitable to be used for the analysis. Based on the above table, the outcome of the results revealed that the series are integrated at different orders. Therefore, only Bound Test of Co-integration proposed by Pesaran, *et.a l*(2001) was used.

Co-integration ARDL Bounds Test

Having established that the variables are an admixture of I (0) and 1(1) orders of integration. The Auto Regressive Distributed Lag (ARDL) bounds test for co-integration was carried out. Co-integrating Hypothesis:

H_o: There is no long-run relationship

H_i: There is long-run relationship

Table 5: Co-integration Results

Null hypothesis: No levels relationship		
Number of cointegrating variables: 3		
Trend type: Unrest. constant (Case 3)		
Sample size: 23		
Test Statistic		Value
F-statistic		2.467908

t-statistic					-2.446421	
	10%		5%		1%	
Sample Size	I(0)	I(1)	I(0)	I(1)	I(0)	I(1)
			F-Statistic			
30	3.008	4.150	3.710	5.018	5.333	7.063
Asymptotic	2.720	3.770	3.230	4.350	4.290	5.610
			t-Statistic			
Asymptotic	-2.570	-3.460	-2.860	-3.780	-3.430	-4.370
* I(0) and I(1) are respectively the stationary and non-stationary bounds.						

Source: Output from E-views 10 (2023)

The above results revealed that F-Value of 2.467908 is less than the I(1) bound (Critical Value for the upper bound) of 5.018 at 5% level of significance. Similarly, the absolute T- statistics value of 2.446421 is less than the I(1) bound (absolute Critical Value for the upper bound) of 3.780 at 5% level of significance. Therefore, it indicates that the null hypothesis of no long relationship is accepted that, there is no long run relationship among the variables. Thus, the study estimated the short-run ARDL model via the use of Ordinary Least Square Model of auto regression distribution lag (ARDL) as indicated in the Dynamic regressors, table 6.

Dynamic Regressors (Ardl)

Specifying auto regression distribution lag (ARDL) test, it should be noted that it has crucial significance on the hypothesis since it impacts all the inferences on the long-run and short-run relationships between the dependent and independent variables. The study analyzes the hypothesis in question thus:

Table 6: Ordinary Least Square Test

Dependent Variable: MCAP				
Method: ARDL				
Date: 02/01/24 Time: 08:06				
Sample (adjusted): 2000 2022				
Included observations: 23 after adjustments				
Maximum dependent lags: 2 (Automatic selection)				
Model selection method: Akaike info criterion (AIC)				
Dynamic regressors (2 lags, automatic): FDI FDP INR				
Fixed regressors: C				
Number of models evaluated: 54				
Selected Model: ARDL(1, 1, 0, 1)				
Note: final equation sample is larger than selection sample				
Variable	Coefficient	Std. Error	t-Statistic	Prob.*
MCAP	0.438775	0.173688	2.526217	0.0225
FDI	11737.38	3992.272	2.940024	0.0096
FDP	224.8740	272.3252	0.825755	0.4211
INR	-312143.5	280226.3	-1.113898	0.2818
C	30218351	15787158	1.914110	0.0737

R-squared	0.834848	Mean dependent var	11281200
Adjusted R-squared	0.772916	S.D. dependent var	7959177.
S.E. of regression	3792810.	Akaike info criterion	0.3.38090
Sum squared resid	2.30E+14	Schwarz criterion	33.72649
Log likelihood	-376.8804	Hannan-Quinn criter.	33.46782
F-statistic	13.48010	Durbin-Watson stat	2.093087
Prob(F-statistic)	0.000018		
*Note: p-values and any subsequent tests do not account for model selection.			
Source: Output from E-views 10 (2023)			

From the table 6 above, the Auto-Reagratiom Distributuib Lag (ARDL), the interpretation can be inferred; thus showing the coefficient of R^2 as well the model fitness of the sample size data as indicated in the coefficient of R-square figure 0.834848 presented by the model. This value implies that 83% of the variation in Capital Market Growth is explained by the independent variables of Foreign Investment. Collectively among the variables, the value of F-statistic is 13.48010 with probability of F-statistic is 0.000018. On individual variable contributions, Foreign Direct Portfolio, and Interest Rate have negative effect with the p-value of 0.4211, and 0.2818. Though control variable–Interest Rate, these p-values are higher than 5% therefore, no significant effect on Capital Market growth. This result implies that the regression of Market Capitalization and Foreign Direct Investment are positive and statistically significant at 5% with the p-value of 0.0225 and 0.0096. Capital Market growth in Nigeria by the study is supported by boost in the activities of Market Capitalization.

This means that all investment funds injected into the market geared toward capital improvement, build Capital Market Growth. The Durbin-Watson statistic of 2.093087 is within the acceptable range of 1.5 to 2 for a sample of at least 23 observations. The result of hypotheses is to be analyzed and interpreted below.

Post Diagnostic Test

In order to make the results in table 7 more reliable and valid, we checked for the residual (auto- correlation and heteroskeda sticity) and the stability of the model (Cusom Square).

Serial Correlation LM Test

H_O: There is no serial correlation

H_1: There is serial correlation

Table 8: Breusch-Godfrey Serial Correlation LM Test

Null hypothesis: No serial correlation at up to 2 lags			
F-statistic	1.052246	Prob. F (2,15)	0.3736
Obs*R-squared	2.706822	Prob. Chi-Square (2)	0.2584

Source: Output from E-views 10 (2023)

Table above shows that all observed R-square and the corresponding P-Values is 0.2584, greater than 0.05; therefore, Ho is accepted and concluded that the model is free from the problem of serial auto correlation.

Heteroskedasticity Test

Ho: The Regression Model has no Heteroskedasticity

Hi: The Regression Model has Heteroskedasticity

Decision Rule: **Accept H_0** if the Prob. Chi-Square value is greater than 0.05 (5% level of significant). Otherwise, do not accept H_0.

Table 9 Heteroskedasticity Test: Breusch-Pagan-Godfrey

Null hypothesis: Homoskedasticity			
F-statistic	1.204585	Prob. F (4,17)	0.3450
Obs*R-squared	4.858459	Prob. Chi-Square (4)	0.3021
Scaled explained SS	4.077394	Prob. Chi-Square (4)	0.3956

Source: Output from E-views 10 (2023)

Based on the above rule of thumb, the Heteroskedasticity Test: Breusch-Pagan-Godfrey result shows that the Obs*R-squared Prob. Chi-Square value is 0.3021, greater than 0.05; thus, the study conclude that the regression model is free from Heteroskedasticity problem.

Decision rule: The hypothesis will always be rejected when the p-value as calculated is less than 5% level of significance (0.05%).

Ho_1: Foreign Direct Investment Funds has no significant effect on market capitalization

Given the t-value of 2.940024 and P-value of 0.0096 in table 6 was found to have a positive effect and statistically significant since the P-value is less than 5% significance level. This result, therefore suggests thatnull hypothesis one ($H0_1$) which states that Foreign Direct Investmentfunds has no significant effect on

Market Capitalization which is a proxy to capital market growth in Nigeria is not accepted. This is because foreign direct investor, the purpose is control and operation of an enterprise. Just as it will be slower and more costly for such an investor to commit to the host economy, it will be slower and more costly to divest. In the medium to long term, he expects a profitable operation and profitability create growth

Ho_2: Foreign Portfolio Investment funds has no significant effect on Market Capitalization

Based on the t-value of 0.825755 and P-value of 0.4211 in table 6shows that there is a negative effect on the Market Capitalizationsince the P-value is higher than 5% significance level. This result, therefore suggests that null hypothesis is not rejected. This is due to it nature of volatility investment. Portfolio investment, with its volatility, can also experience system-wide movements of capital which can have broad economic repercussions. And this create distance from capital market growth. For foreign portfolio investment, strong and well-regulated financial markets are necessary to deal with the inherent volatility. The financial system must have the capacity to assess and manage risks if it is to prudently and productively invest capital flows, foreign or domestic.

Ho_3: Interest Rate has no significant effect on Market Capitalization

Interest rate coefficient value of -312143.5 as indicated above, have negative effect and the p-value of 0.2818 is above 5% therefore, it has no significant effect on Capital Market growth. With this analysis, It

shows that financial capabilities status of the Nigerian capital Market. The need is critical in which sufficient injection of funds into capital market is necessary with the acceptable level of interest rate. Interest rate, which is the lending rate minus deposit rate as posited by Oyejide (2019) and as a monetary policy rate as argued by Aizenman, *et.al*(2017, poor interest rate policies lead to negative and insignificant effect on the capital market growth in Nigeria.

DISCUSSION OF FINDING

The discussion and interpretation of the study can be inferred and referred to the coefficient of R-squared and also the model fitness indicated in the coefficient of R-square figure 0.834848 and the adjusted R-squared value of 0.772916. This value implies that 83% of the variation in Capital Market Growth is explained by the independent variables of Foreign Investment. Collectively among the variables, the value of F-statistic is 13.48010 with probability of F-statistic is 0.000018. On individual variable contributions, Foreign Direct Portfolio, and Interest Rate have negative effect with the p-value of 0.4211, and 0.2818**.** Though control variable–Interest Rate, these p-values are higher than 5% therefore, no significant effect on Capital Market growth.

The above result is inter dim with the study carry out by Emmanuel *et.al* (2020), Yousuo, (2018), Onyeisi *et.al* (2016), Onyeisi *et.al* (2016) in their study of Foreign Investment on Nigerian Capital Market growth. The result was mixed- partly positive and partly negative considering variables used. Again, the study of Mohsen *et.al* (2019), Mumeen*et.al* (2018) and many more results are statistically positive and significant in the growth and development of capital markets in Nigeria. However, the study of Kuziva (2018), Nancy, (2017), Sharmiladevi (2015) and many more have contrary findings in their studies of foreign investment and Capital Market growths.

CONCLUSION AND RECOMMENDATION

This study draws its conclusion upon the fact that foreign investment has significant effect on the Growth of Nigerian Capital Market. Looking into the Durbin Watson Statistic value of 1.338012, shows that there is no problem of multi-colinearity in the model and all the variables performance displayed using f-statistics vale of 13.48010 and Prob(F-statistic) value of 0.000018. One makes decision that foreign investment can influence and contribute to the growth of Capital Market in Nigeria. In the light of the above, recommendations are outline below thus:

Improve Investment Policies and Strategies through the contribution of the stakeholders in the Nigerian capital market to develop more attractive products while the government should provide an enabling legal/regulatory environment to assure sanity in the market and thus protect investor's funds. This way, a sustainable self-reliant growth in line with "The Nigerian Capital Market Plan target (2015-2025)" will be triggered.

Secondly**,** It is incumbent upon policymakers to strengthen the existing policies on utilization of foreign investment by fighting corruption bedevilling the venture. This is due to its contribution to the market liquidity, effective/efficient in channeling funds embodied in foreign investment for capital market growth in Nigeria.Another stategy is that governments should ensure good and stable monetary policy in Nigeria so as to achieve the desired goal of interest rate stability to encourage investments capable of providing adequate resources needed by the Nigerian firms.

As investment increases the liquidity of domestic capital markets, to become deeper and broader, a wider range of investments can be financed by firms. New enterprises, for example, can have a greater chance of receiving start-up financing. As regard to foreign portfolio investment, strong and well-regulated financial

markets are necessary to deal with the inherent volatility. The financial system must have the capacity to assess and manage risks if it is to prudently and productively invest capital flows into foreign or domestic capital market.

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