

Financial Integration and Performance of the Nigerian Economy

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ABSTRACT

In this study, the impact of financial integration on Nigeria's economic development from 1991 and 2021 was examined. In this study, the dependent variable was real gross domestic product, while the independent variables were trade openness, financial deepening, foreign remittances, foreign direct investment inflow, and foreign portfolio investment inflow. Five hypotheses and five research questions were developed. We evaluated pertinent conceptual, theoretical, and empirical literatures. The longitudinal research design was used in the study. These factors' data are from the World Bank Development Indicators 2021 and the Central Bank of Nigeria Statistical Bulletin, 2021. Descriptive statistics, Augmented Dickey Fuller unit root test, Johansen Cointegration Test and Auto Regressive Lag Distribution Test were employed in analyzing the data. The analysis was done with the aid of E-views version 9.0. The study found that Foreign direct investment inflow has a positive and insignificant effect on economic growth in Nigeria. Foreign portfolio investment inflow has a positive and significant effect on economic growth in Nigeria. Trade openness has a positive and insignificant effect on economic growth in Nigeria. Financial deepening has a positive and significant effect on economic growth in Nigeria. Foreign remittances have a positive and significant effect on economic growth in Nigeria. The study therefore concludes that financial integration has significant positive impact on economic growth in Nigeria and thus recommended amongst others that government needs to put in place befitting macroeconomic policies and institutions that will enable the economy to reap the benefits of financial integration in order to sustain economic growth and development.

INTRODUCTION

Background to the Study

Globalization and advancement in information and communication technology not to mention growing financial deregulation and liberalization in international capital markets have made financial markets throughout the planet steadily become more receptive foreign investors. This development has also made variety of nations, including Nigeria, initiate reforms to foster financial market development and attract foreign portfolio flows (Obriki, 2021). Financial integration is the channel through which the financial markets of two or more countries or regions become more connected to each other. Conceptually, Kizito and Hooi (2019) noted that financial integration entails the eradication of restrictions on cross-border financial operations in order that financial institutions can freely operate, firms can directly borrow or raise funds, and equity and bond investors can directly invest across countries without restrictions. It includes the sharing of knowledge, best practices and technologies among financial institutions, cross-border capital flows, direct access of firms to funds and investors to investment in international capital markets, and trading of domestically innovated financial products within the international capital markets, also because the involvement of foreign investors within the domestic financial markets.

Financial integration can take different forms, which can include cross-border capital flows, participation of foreign interests within the domestic markets, information sharing and practices among financial institutions, or unification of market infrastructures. Financial integration can have a regional or global dimension, looking on whether a country's financial market is more closely connected to neighboring economies or to global

financial centers (IMF, 2016). Financial integration has major channels through which participating countries can have the benefit of it. The primary channel is that the consumption channel which eases capital scarcity and enhances risk sharing. Improvement in terms of trade and portfolio diversification cost of capital may potentially lower the value of capital thus boosting the speed of economic activities hence increasing the speed of economic performance. Financial integration might also help to advance the economies of nations through the assembly channel. This entails economic performance stimulation through production efficiency - as countries have greater access to world capital market amplifies specialization in production and productivity growth through enhanced stock exchange liquidity (Mahajan & Verme, 2016). As noted by Rajan and Zingales in Biplab and Inder (2021), financial integration facilitates developed financial systems, which helps in promoting an efficient and better quality of governance at the company level in addition as at the govt. level. As a result, factor productivity receives an upward thrust.

Bekaert, Harvey, and Lundblad (2019) find that financial openness improves securities market efficiency, institutional quality, and policy efficiency, although the findings aren't robust across specifications. They further note that the positive impact of financial openness on productivity outweighs the negative effects of possible contagion or banking crisis. In other words, increasing capital inflows improves credit access and reduces the price of capital, and at the identical time promotes technology transfers to LDCs, which, in turn, accelerates investment and increases productivity and so growth (Gehringer, 2016; Saafi, Mohamed & Doudou, 2016). Besides, financial integration improves factor productivity via greater efficiency in resources allocation and simple access to investment opportunities thereby stimulating economic performance (Gehringer, 2016).

Nigeria is one in all the developing economies that receives large chunk of international capital inflow as a result of financial integration resulting from financial liberalization of the SAP era, yet the country's growth has been low. Foreign capital inflow resulting from financial integration has been identified as a vital vehicle for augmenting the provision of funds for domestic investment (Fosu & Magnus, 2016). African countries and other emerging economies need substantial inflow of international capital to fill their savings and interchange gaps, enhance capital accumulation and growth, needed to beat widespread poverty in these countries. Thus, the relative advantage(s) of financial integration as a productivity-enhancing package is now widely acknowledged especially since the recent global financial crises (Ajayi, Adededeji, Giwa & Araoye, 2017).

Financial integration strengthens domestic financial sector making way for more efficient capital allocation and better investment and growth opportunities (Obriki, 2021). The potential benefits of financial integration include the higher allocation of resources, improvement within the quality and quantity of factor inputs, increase in productivity, increase in economic efficiency and improvement in trade, better exploitation of economies of scale, and improvement in standard of living, likewise because the establishment of closer cultural, economic, and political ties among the member states. Moreover, an economic union represents a form of trade bloc that comprises a standard market with a custom union, within which the members have common policies on the regulation of products, free movement of products, services, capital and labor, in addition as a typical external national trading policy. On the opposite hand, financial integration occurs when the financial markets of neighboring, regional or global countries are closely linked together. It entails the eradication of restrictions on cross-border financial operations so financial institutions can freely operate, firms can directly borrow or raise funds, and equity and bond investors can directly invest across countries without restrictions (Ehigiamusoe & Lean, 2019). Since it's believed that having access to a broader base of capital could be a key requirement for economic performance, then financial integration is important because it expedites flows of capital from developed economies with rich capital to developing economies like Nigeria with limited capital. Such capital inflows can significantly reduce the value of capital in capital-poor Nigeria resulting in higher investment.

Dominant theory suggests that financial integration may foster more efficient resource allocation, facilitate risk diversification, increase specialization in production, create technological spin-offs, contribute to the event of the economic system, improve investment rates and boost growth per Mougani in 2017 as cited by Obriki, (2021). Many of the positive impacts observed in these countries are largely thanks to increased investment opportunities and financial development induced by greater openness of financial markets. Many studies have

naturally proposed that less developed countries should adopt economic policies geared toward fostering greater international financial integration. However, this approach has been criticized by others who, specifically, note that fluctuations in capital flows associated with capital account liberalization are likely to cause and spread financial crises. Institutions like the International money and a few authors thus emphasized that while financial openness is desirable, it's essential for such liberalization to be gradual and prudent (IMF 2016). supported the foregoing, this study examined the effect of economic integration on the economic performance in Nigeria.

Statement of Problem

The nexus between international financial integration and economic performance continues to be one amongst the foremost debated issues among international economists. In a very perfect neoclassical textbook world, there are good arguments for a positive growth impact of integration with the international capital market, especially for developing countries. By tapping the pool of world savings capital-poor countries could free themselves of a binding constraint on economic performance – lack of capital. However, arguments against the economic wisdom of openness to global capital flows have also been recommend. Financial integration will likely not engender economic performance within the presence of distortions like trade barriers and weak institutions, or if information asymmetries affect the right working of international financial markets.

There are arguments that financial integration has remained a curse to developing countries since these economies haven't fully reaped the fruits of financial integration (Egbetunde & Akinlo, 2019). However, as financial integration plays a critical role within each economy in fostering economic performance and improvement within the industrial sector, the approaching together of the financial systems of regional economies to make regional financial integration will be of slew. There are significant although gradual reforms within the financial set-up of developing economies that implies the emergence of regional financial integration. Such policies specialize in financial market liberalization, privatization, technical modernization, improvement in internal and external monitoring mechanisms, revisions of investment codes to boost foreign participation, and implementation of varied institutional and regulatory changes. Weak financial development and financial integration might be an inhibiting factor promoting the success of African economies. Financial integration empowers member countries to require the advantage of the “systemic scale economies” which accrues to larger financial systems.

Iwegbu, Kainu & Leonardo (2022), contend that financial integration promotes growth at the regional level of which an increase in financial integration enhances the economic performance of the region, compared to performance of individual countries. Moreover, it's the shortage of controlling measures put in situ to fight corruption of developing countries, non-enhancement of quality regulatory, lack of strict adherence to policy regulations framework that hinder the promotional effect of financial integration.

Notwithstanding these theoretical benefits of economic integration for trend growth and inequality, empirical studies have up to now produced mixed evidence, particularly regarding the effect of economic market integration on economic performance in developing countries. One reason why enquiry on the financial integration-growth link remained inconclusive to this point is that different approaches and econometric techniques made it difficult to synthesize the results. Furthermore, to the simplest of the researcher's knowledge, there's paucity of studies on the effect of financial integration on the economic performance in Nigeria. Most of the studies during this area concentrate on the importance of economic market development. and people that covered its effect on economic performance don't seem to be recent. This study, therefore, filled this gap by empirically investigating the effect of financial integration on the economic performance of Nigeria between 1991 and 2021.

Objectives of the Study

The broad objective of this study is to look at the effect of financial integration on economic performance in Nigeria for the amount 1991 to 2021. Specifically, the objectives of the study are to:

1. Ascertain the effect of Foreign Direct Investment (FDI) inflow on economic performance in Nigeria.

2. Determine the effect of Foreign Portfolio Investment (FPI) inflow on economic performance in Nigeria.
3. Investigate the effect of Trade Openness on economic performance in Nigeria.
4. Evaluate the effect of economic Deepening on economic performance in Nigeria.
5. Ascertain the effect of Foreign Remittances on economic performance in Nigeria.

Research Questions

1. To what extent does foreign direct investment inflow affect economic performance in Nigeria?
2. How does foreign portfolio investment inflow affect economic performance in Nigeria?
3. To what extent does trade openness affect economic performance in Nigeria?
4. To what extent does financial deepening affect economic performance in Nigeria?
5. How does foreign remittances affect economic performance in Nigeria?

Research Hypotheses

- H0₁: Foreign direct investment inflow has no significant effect on economic performance in Nigeria.
H0₂: Foreign portfolio investment inflow has no significant effect on economic performance in Nigeria.
H0₃: Trade openness has no significant effect on economic performance in Nigeria.
H0₄: Financial Deepening haven't any significant effect on economic performance in Nigeria.
H0₅: Foreign remittances don't have any significant effect on economic performance in Nigeria.

REVIEW OF RELATED LITERATURE

Financial Integration

Financial integration is the process by which the financial markets of two or more nations or regions become increasingly interconnected via the development of new relationships with one another in the areas of financial services and international commerce, according to the IMF (2016). Financial integration may take many different forms, including international capital flows, foreign participation in local markets, information exchange among financial institutions, and mergers of financial market infrastructures. Prasad, Rogoff, Wei and Kose (2018) Linkages between a country's economy and the world capital markets are referred to as financial integration. To put it another way, it refers to how closely a country's capital market is linked to the markets of other countries and the global community. Their definition is based on the possibility of legislative limitations or other nation-specific elements (such as macroeconomic, institutional, or governance issues) that might either encourage or inhibit cross-border capital flows. According to the McKinnon-Shaw theory, higher real interest rates are the outcome of the government removing credit limitations and restrictions in 1973. This, in turn, promotes savings, which frees up money for investments and improves economic performance.

Furthermore, Financial integration also occurs when the government lowers restrictions on capital movement to avoid treating foreign creditors unfairly in the domestic financial system. Financial integration, according to Wambugu (2018), is the process of a nation removing its administrative and market-based obstacles to cross-border capital flows. In order to become a part of the global market, it also involves steps to draw in foreign money, which results in the creation of a financial market structure and goods that are comparable to those found on other markets. FDI and portfolio inflows were employed in the study as indicators of financial integration. Yabara (2018) thought that in this situation financial integration may be attained without requiring uniting markets or institutions. For instance, while having separate institutional and legal frameworks, the United Kingdom and the United States of America are considered to have a high degree of integration.

The integration of financial systems through legal agreements has a number of benefits. The first is the use of economies of scale to help businesses, especially small and medium-sized ones that have trouble getting financing, get greater access to larger financial or capital markets (Honig, 2018). By expanding portfolio diversity while simultaneously integrating into a bigger market, individual risks might also be reduced. Additionally, formal integration, which broadens the opportunities for involvement in financial system regulation, might improve regulatory independence. A consistent valuation guideline should be followed by

financial institutions that operate under the auspices of integration agreements for various countries. This boosts both the transparency of the various financial sectors and the general stability of the connected financial systems. However, financial integration could happen even in the absence of formal agreements. It may take many different forms, including the exchange of financial data, foreign investment in local banking, insurance, and pension fund operations, as well as the direct borrowing of domestic companies on global financial markets (Sami, Meriem & Makram, 2016). Three crucial components are present in this concept of financial market integration. Firstly, it is not dependent on regional financial arrangements. Financial structures include all financial intermediaries, such as institutions or markets, and how they interact with one another in terms of the movement of money to and from individuals, organizations, and governments. Secondly, even once finan-

cial integration is complete, there may still be difficulties with the intermediation process, which involves gaining access to or investing in capital through markets or institutions. The impacts of current frictions on various domains, whether symmetric or asymmetric, are the focus of financial integration. As long as frictions influence these asymmetrically, several locations can still be financially integrated even when frictions exist. However, the process of financial integration cannot be completed if the frictions have unequal impacts on the various sectors.

Thirdly, the definition of financial integration distinguishes between the supply and demand for investment possibilities, the two main components of a financial market. Regardless of their place of origin, investors (who have a demand for investment opportunities) and companies (who have a supply of investment opportunities, such as listings), both of which have a need for investment opportunities, must have equal access to banks or trading, clearing, and settlement platforms. Full integration necessitates that, once access has been given, similar market participants are not treated differently based only on their country of origin. Financial integration is not present when a system consistently discriminates against international investment possibilities because of national legislative limitations. Additionally, a region may only be somewhat financially integrated (Saafi, Mohamed & Doudou, 2016).

Liebscher, Christl, Mooslechner, and Ritzberger-Grünwald (2016) demonstrate how integration can manifest in a variety of ways and in different ways:

- Monetary integration, either through dollarization, as in Latin America and the Caribbean, or through currency unions, as in Europe, Western, and Central Africa.
- The capital account's liberalisation.
- Outsourcing financial infrastructure or services to foreign countries, as is the case when stocks are listed on international stock markets.
- Entry from abroad.
- Harmonization and convergence of regulations.

Economic performance

Economic performance, which is a growth in an economy's capacity to generate goods and services over time as compared to one period of time to another, is the amount of products and services the economy produces over time (Lawal, Nwanji, Asaleye & Ahmed, 2016). Its value is expressed as a percentage of the nation's GDP. In any given economy, improving economic performance is thought to be a primary national policy objective. Economic performance is the increase in a country's overall production (goods or services) (Abbas, 2016).

Either good or negative economic performance is possible. The phrase "negative growth" or "recession" can be used to describe negative growth. Negative growth is linked to both economic depression and recession (Levine, 2016). Jhingan (2016) defined economic performance as long-term, slow, and steady development brought on by a general rise in the risk of saving and population. It has further been defined as an improvement in a nation's level of output through time in terms of both commodities and services. The rise in the quantity of products and services produced in the nation is a key indicator of economic performance. When an economy's productive capacity rises and leads to the creation of additional products and services, it is said to be expanding (Jhingan 2016).

Nigeria's primary economic objective is to achieve sustained economic growth and performance as measured by gross domestic product. It is the total annual output of commodities and services from the economy. Economic performance is defined as a gain in national income or the total number of products and services produced by a nation, along with improvements in the people's overall standard of life (Chinwuba & Amos, 2018).

Either good or negative economic performance is possible. The phrase "negative growth" or "recession" can be used to describe negative growth. Economic recession and depression are both correlated with negative growth. An alternative measurement of gross domestic product is the gross national product (GNP). The information may be expressed in a single currency, depending on either current exchange rates or purchasing power parity, in order to compare several nations. The precipitate figure is then used to compare nations with varied populations. The GDP or GNP is typically reported in "real" or inflation-adjusted terms rather than the actual money amount gathered in a particular year, which is known as the nominal or current figure, to account for changes in the value of money (inflation or deflation (Akinmulegun, 2018)).

Financial Integration and Economic Performance

It is thought that financial integration has an impact on the actual economy through at least two major avenues. First, it is believed that the size of the financial industry and the amount of credit that is readily available serve as proxies for indicators of how well the sector manages to accumulate funds and allocate them to profitable ventures. By moving money from the least productive to the most productive investments, this transfer offence should not only increase the economy's capacity for production but also increase its efficiency. The ability of the financial industry to withstand shocks is a second channel. A strong financial system will increase individuals' and businesses' ability to protect themselves against risks and systemic shocks (Bloch & Tang, 2016).

Through two key mechanisms, financial integration improves how the financial system functions. First, financial integration improves financial infrastructure and boosts money flows through less asymmetric information, which reduces moral hazard and adverse selection and increases loan availability (Unite & Sullivan, 2016 and Mishkin, 2017). Second, financial integration makes financial markets more extensive, stable, and efficient, which boosts economic performance and development (Levine, 2016). The most compelling and long-lasting case for capital account liberalisation and financial integration is made by the basic open economy Neoclassical-Solow model ((Unite & Sullivan, 2016).

Financial integration will result in a natural flow of capital from industrialized economies with ample capital to those with constrained capital, which will ultimately result in a "unconditional" convergence of portfolio (asset) returns, capital intensity, technology, and per capita incomes. By forcing governments to exercise discipline, financial integration enhances macroeconomic policy-making and promotes the adoption of pro-growth initiatives (Goldberg, 2016). It improves country risk-sharing (Duc, Anh & Chi, 2020), boosts product market competition (Armanious, 2017), directs capital flows to the most effective and productive uses, and ensures that executives are giving their best efforts. It also strengthens corporate governance by encouraging greater competition in the market for corporate control (Mishkin, 2016).

Foreign Direct Investment Inflow and Economic Performance

Foreign Direct Investment (FDI) is used by the majority of developing nations as a strategy of obtaining foreign reserves through investments, enterprises, and foreign help from developed nations. FDI is regarded as a useful source of money and capital formation, a means of transferring technology and know-how, and a workable commerce channel between nations. The Spillover effect enables the dissemination of discoveries and inventions to the recipient nations, one of which is Nigeria. Although the link between the Sustainable Development Goals and the need for rapid growth is not entirely evident, cross-border commerce is crucial for economies to have equitable and sustainable growth (UNCTAD, 2019). Given this context, it should come as no surprise that the flow of foreign direct investment (FDI) to developing nations has dramatically increased over the past few decades. Given the lack of adequate financial resources, technology, and skills, low income nations are becoming more and more aware of the importance of FDI to economic performance and growth.

Although empirical studies give deep insights into the relationship between FDI and economic success in the host nation, they present contradictory information regarding the effect and function of FDI. In addition to increasing the host country's ability to absorb foreign technology, FDI also helps with innovation, technological transfers, and managerial skills, encourages trade integration, and strengthens the host country's competitive environment.

Numerous research indicates that FDI has a favourable impact on host nation economic performance, whereas other studies find little evidence of this. Additionally, the studies that have already been done have mostly looked at how FDI from abroad affects the economic performance of the host nation. For instance, De-Mello (1999) contends that the amount of trained workers in the host nation determines whether FDI improves economic performance. Although FDI positively affects GDP, Ajayi (2017) found that the size of the benefit is dependent on the degree of human capital. Similar findings are made by Xu (2000), who finds that FDI only encourages better economic performance when the host country reaches a certain minimum level of human capital. There are three fundamental ways that FDI may help the economy. The first benefit is the release from the stalemate brought on by domestic saving rules. In this case, foreign direct investment helps the process of capital accumulation by raising domestic savings. Second, FDI is the primary channel via which technological spillovers result in an improvement in factor productivity and efficiency in resource usage, which promotes growth. Thirdly, FDI increases exports because it makes local industry more competitive and capable (Ajayi, 2017).

Foreign Portfolio Investment Inflow and Economic Performance

The economy of any growing and emerging nation depends heavily on foreign capital flows. These flows close the investment gap and meet the nation's capital requirements both at home and abroad. Foreign investors from different nations across the world are eager to invest in the rest of the world in the current period of globalization and financial deregulation. Foreign investment, however, can sometimes be counterproductive for emerging economies by subjecting them to shocks and distortions from abroad as well as to sharp inflows of cash or sharp outflows of capital (Sethi, 2018).

According to Bada (2017), a component of foreign capital flows is a movement of financial assets like cash, stocks, or bonds across borders in the hopes of making a profit. This happens when investors acquire short-term securities or notes from foreign governments or corporations or buy on-controlling shares in foreign corporations. Additionally, as noted by Pazarloglu and Gulay (2017), a foreign portfolio results in a contribution to the host country's capital accumulation and production capacity, new knowledge and technology, contribution to the improvement of the country's balance of payments, new sales and marketing techniques, new business opportunities, and high tax revenue. Additionally, foreign investment has a variety of impacts on the output, employment, income, balance of payments, and economic growth of the host nation. Despite these benefits, there are potential drawbacks to FPI.

Additionally, it appears that foreign investment boosts growth through increases in productivity and efficiency, according to the research. The empirical data are not all in agreement. Others learn that there is no proof of a favourable short-term spillover from overseas enterprises. The proposed forward and backward links may not actually be required, and the claims that multinational corporations promote improved productivity because of competition may not actually hold true in actuality are some of the explanations offered for these contradictory outcomes. Other factors include the fact that multinational corporations frequently locate in high productivity industries, which may cause less productive enterprises to leave such areas (Smarzynska, 2016). The advantage of foreign direct investment in export promotion, however, is still debatable and critically depends on the motivation for such investment. Crowding out is an uncommon occurrence. According to earlier research, the capacity of the host nation to absorb foreign technology and the kind of investment climate determine the extent to which direct and indirect investment spillovers occur. Depending on the economic, institutional, and technical conditions of the recipient nations, the influence of foreign portfolio investment may be positive, negative, or minor.

Trade Openness and Economic performance

The relationship between trade openness and economic success in emerging nations has drawn more study

interest in recent years. This development is driven by the growing economic interconnectedness on a global scale and the conviction that trade liberalisation is essential to hasten the shift from a relatively closed to an open economy (Zahonogo, 2016). Theoretical research implies that the degree of economic openness affects how international commerce influences the transfer of new technologies, technological advancement, and innovation. This justification has frequently served as motivation for developing economies to embrace trade liberalisation policies (Zahonogo, 2016). A fresh wave of trade theory developed in the late 1980s and early 1990s, concentrating on the investigation of the dynamic relationships between global commerce and economic performance. The static perspective of trade benefits was abandoned in favour of the dynamic approach, which sought to understand the processes by which trade influences growth and how these mechanisms change over time. Productivity growth is a significant mechanism through which trade may promote economic growth. A nation's comparative advantage can grow over time toward the production of goods with better profit margins due to the higher level of differentiation created when it opens up to commerce and invests in research and development (R&D). According to Acemoglu et al. (2016), trade openings result in the establishment of institutions that safeguard property rights, which are essential for the development of a sustainable economy with rapid growth.

Foreign Remittances

As they make up roughly 27% of the gross domestic product (GDP), international remittances are one of the main sources of foreign capital entering emerging economies (Meyer & Shera, 2017; Sibindi, 2018). The better movement between developed and developing nations, as well as technical advancements that have made it easier for people to transfer money internationally at cheap cost, are to blame for the sharp rise in the amount of remittances to poor countries (Meyer & Shera, 2017). Remittances are regarded by the World Bank as employees' personal transferor compensation. Remittances are a significant source of savings and capital for investments in health, education, and entrepreneurship, increasing productivity and employment and ultimately improving economic performance, according to Anton (2018) and Yang (2018). According to the idea that certain remittances are converted and deposited with banks, making the funds accessible for lending to the private sector and so facilitating Economic performance, remittances can also aid in increasing the growth of the financial sector. Remittances support the welfare of the family members left behind and help to eradicate poverty in the recipient nation (Gupta, Pattillo & Wagh, 2018). Even while remittances have a significant positive influence on developing nations' performance, it is still unclear how they affect economic performance (Kumar et al., 2018). Approximately 97 pieces of research stated that remittances have a beneficial impact on economic performance (Kumar et al., 2018; Meyer & Shera, 2017; Pradhan, Upadhyay and Upadhyay, 2018), while other strands of research focused on a neutral or negative link between remittances and growth (Feeny, Iamsiraroj & McGillivray, 2018; Lim & Simmons, 2019). The research is mainly concerned with whether financial development plays a crucial role in the link between remittances spurred growth and economic performance, notwithstanding the inconclusive discussion on this topic (Abida & Sahaier, 2018; Chowdhury, 2016; Raheem, 2019; Sibindi, 2018). It is stated that a strong financial sector is critical to economic performance because it generates crucial information for investments, improves the effective allocation and use of funds, monitors investments, enhances trade and diversification, and manages risk (Levine, 2016).

Financial Deepening

The expansion of the real economy and the development of the financial system are linked, according to the finance and development theory. This theory contends that real income and real interstate impact the financial system's depth. Actually, the relationship between financial depth and economic growth is supported by the complementarity between money and capital. It is believed that in this situation, investment cannot be done without the accumulation of a sizable sum of money in the form of bank deposits. Financial intermediaries notice an expansion in their operations and promote investment when savings rise faster than the rate of real economic activity.

Theoretical Framework

Theory of Financial Liberalization

The common understanding of financial repression was first severely contested by McKinnon and Shaw on

their own in 1973. They contend in their respective books that policies like low and managed interest rates, selective credit management, and concessional lending practises, among others, cause pervasive financial repression in emerging nations (McKinnon 1973; Shaw 1973). These writers contend that a depressed financial market discourages saving, delays resource allocation that is efficient, promotes market segmentation, and leads to financial disintermediation of the banking system. According to the notion of financial liberalisation, financial restraint caused by interest rate limitations keeps interest rates low, which discourages saving and, as a result, limits the amount of investment. Savings thus serve as a constraint on investment.

Broadly speaking, financial liberalization may be described as the process of letting markets decide who receives and gives credit, and at what price. Elimination of credit regulations, deregulation of interest rates, open banking, bank autonomy, private ownership of banks, and liberalization of international finance are the six fundamental aspects of full financial liberalization. Interstate liberalisation has drawn the most attention of these six aspects and is the subject of this study (Obriki, 2021).

The basic goal of financial liberalisation is to create a deeper, more reliable, and more efficient financial system that can support the expansion of private sector businesses. In this instance, there are two aspects to efficiency. The first concerns better credit allocation, or giving credit to borrowers who are likely to earn higher returns for a given degree of risk. The second aspect of efficiency is more competition, which comes about as a result of restrictions that limit competition being eliminated or liberalised entrance (Obriki, 2021).

Financial liberalisation, in particular, boosts savings, increases the effectiveness with which resources are distributed across various investment projects, and, as a result, accelerates economic growth. Additionally, it gives banks and other financial intermediaries more discretion over their actions, enhancing their capacity to manage risks. It is also important to note that financial liberalisation lessens the likelihood of governments perpetually running budget deficits since it is a conscious effort to shift away from financial repression as a strategy to support fiscal imbalances (Orji & Ogbuabor, 2015). Financial liberalisation generally has the advantage of promoting long-term growth and development. Financial deregulation can help developing nations increase local savings and growth and lessen their over-reliance on international capital flows (Orji & Ogbuabor, 2015).

Endogenous Growth Theory

According to the endogenous growth hypothesis, actors with the goal of maximising profits are primarily responsible for the long-term growth (Romer, 1986). According to the notion, FDI has a long-term impact on growth. To explain the importance of FDI in developing nations, Lucas (1990) and Romer (1987) modified the Solow neoclassical model theory by integrating the growth-driving variables of physical capital as well as human capital.

The permanent transfer that comes along with FDI was used to represent FDI as the element that promotes growth. Long-term growth will be accounted for by the knowledge transfer as an externality, which will produce non-diminishing rewards. FDI boosts knowledge in labour training and skill development, in addition to capital creation and technology transfers, which both contribute to growth.

Three important mechanisms via which 'd influences growth are identified by the endogenous growth hypothesis. By importing new technology and inputs, it boosts the host nation's capital accumulation by filling the savings gap required for investments. By removing entrance obstacles and reducing the market strength of the incumbent firms, FDI increases competition in the receiving nation. Finally, training improves the host nation's level of knowledge and abilities. According to the theory of endogenous growth, FDI increases growth by lowering the cost of R&D and encouraging innovation. This theory takes into account the volatility and long-term effects of capital flows on growth, which are the main goals of the current study. But the theory mainly emphasises long-term capital flows, ignoring the crucial role that portfolio flows (short-term flows) play in growth.

Empirical Review

A dynamic panel system-GMM was used by Biplab and Inder (2021) to analyse the impact of financial

integration on growth, total factor productivity, and capital accumulation using a dataset made up of 43 Asian nations from 1995 to 2019. Defacto financial integration has a hazy influence on production, productivity, and capital stock growth in comparison to de jure financial openness. Financial openness increases capital accumulation and productivity greatly in developing nations, but merely increases productivity in less developed nations. For more open countries, the negative effects of the currency crisis on growth and capital accumulation are found to be considerable.

Acquah and Ibrahim, (2020) studied the connections between FDI, economic growth, and financial sector development in 46 African nations between 1980 and 2016. Although increased FDI is often linked to higher growth, the two-system generalised technique of moments demonstrates an equivocal influence of FDI on growth. Therefore, the model definition determines the precise impact of FDI on economic performance. It's interesting that they found that the growth of the financial sector dampens the beneficial effects of FDI on economic performance.

Duc, Anh and Chi (2020) explored the link between China's economic success and financial integration. The de jure (a proxy for government policies promoting integration) and the defacto (a proxy for economic activity) are two unique components of financial integration that were used as the independent variable. Granger Causality test and Auto-Regressive Distributed Lags (ARDL) were used to analyse the data. The study discovered a long-term correlation between China's economic success and de facto financial integration. The Granger causality test also confirms the bidirectional causation between financial integration and economic success in China.

Abdulaziz (2020) examined how financial integration affected Ethiopia's economic performance. This time series analysis spans the years 1980 to 2017. The GDP precipitate is used as the dependent variable, and the independent variables are the secondary school enrollment rate, population growth rate, trade openness, inflation rate, and term of trade. Domestic credit to the private sector is utilised as a percentage of GDP net financial flow. A time series multilinear regression model was employed. Statistical and econometric software is used to model and analyse variables using the Ordinary Least Square (OLS) regression approach (EViews). According to the findings, domestic credit to the private sector as a share of GDP, net financial flow, secondary school enrolment rate, and trade openness are statistically significant in explaining Ethiopia's economic performance, while population growth rate, inflation rate, and terms of trade have no significant impact on it. The study's findings support the statistical significance that financial integration has on economic success.

Ibrahim and Vo (2020), studied, between the years of 1985 and 2019, the effects of economic integration on sectoral values and the mediating function that financial development plays in 28 chosen sub-Saharan African nations. The study used generalised methods of moments, and the industries, services, and agricultural sectors were all taken into account. Trade integration and financial integration are two other integration strategies under consideration. However, the study substituted financial integration with metrics of financial globalisation. Our analysis uses the interest rate spread, which neither serves as a de jure nor a de facto indicator of financial integration. Their study's findings are consistent with the claim that economic integration raises production levels in the manufacturing, service, and agriculture sectors. The most reliable and significant indicator of economic integration is trade integration, which is proven to be more resilient.

RESEARCH METHODOLOGY

Research Design

A longitudinal research design was used for this study. It is a method of study where the same variables are repeatedly observed over a short or long period of time. In longitudinal studies, a sort of correlational study, researchers watch and gather information on several factors without attempting to affect them. The design was chosen because it enables the researcher to see advancements or changes in the traits of the target population at both the group and individual level (Obriki, 2021).

Population and Sample Size

The population covered in this study was the Nigerian Economy. Moreover, our sample size equals our study population. Therefore, there was no need for sampling technique since our study population was fully utilized.

Methods of Data Collection

The data used for this research were gotten from secondary sources. Data for the study was sourced majorly from the World Bank Development Indicators (2021) and the CBN Annual Statistical Bulletin (2021). This data set contains comprehensive information on real gross domestic product, foreign portfolio investment inflow, foreign direct investment inflow, trade openness, foreign remittances, financial deepening (proxied by credit to the private sector as a percentage of GDP), exchange rate and interest rate and will be included in the study to control the relationship between the regressed and regressor from 1991-2021. The choice of period was based on the assumption that, the longer the period the better the result.

Data Analysis Techniques

The statistical tools used in this study are presented below.

Unit Root Tests: Time series data are one of the crucial forms of data utilised in the majority of empirical studies. These empirical studies that rely on time-series data always presumptively presume stationary time series. The mean variances, auto-covariance, and other characteristics of a stationary time series remain constant across time. Though it is well recognised that most economic time series are non-stationary, this fact can result in misleading regression when one non-stationary time series is regressed on another non-stationary time series. Even though there is no theoretically significant association between the relevant variables, a false regression has a high R-squared and a significant t-ratio. Unit root tests are necessary to prevent the issue of erroneous regression.

Auto Regressive Lag Distribution (ARDL)

The Autoregressive Distributed Lag Model is one of the estimate approaches employed in this study. This estimation method was chosen because studies with mixed integration in their unit root test results can use it. The study subjected the model to several pre-estimation tests (such as descriptive statistics, correlation analysis, unit root test, and ARDL bond test) and diagnostic test before using the ARDL model to test the research hypotheses provided earlier (such as Variance Inflation factor, Ramsey Reset Test, Serial correlation LM test, and Breusch-Pagan-Godfrey Heteroskedasticity Test).

Model Specification

The specification of the models for this work is based on the objective of the study. The model measures the effect of financial integration on economic performance in Nigeria. The study adopted the of Polanyi (2018) model. The model is stated below:

$$GDPC = \alpha_0 + \alpha_1 FI1 + \alpha_2 FI2 + \alpha_3 TD$$

FI1 = Net capital inflow to GDP

FI2 = Net FDI inflow to GDP

TD = Trade openness

The model was adopted and modified; The functional form of the model used in this study is specified as follows:

$$RGDP = f(FDI, FPI, TOP, REM, EXCH, INT, CPS/GDP)$$

Where;

RGDP = Real Gross Domestic Product

FPI = Foreign Portfolio Investment Inflow

FDI = Foreign Direct Investment Inflow

TOP = Trade Openness

REM = Remittances

CPS/GDP = Credit to private sectors a percentage of GDP (Proxy for financial deepening)

INT = Interest Rate (Control Variable)

EXCH = Exchange Rate (Control Variable)

From functional form, the econometric form is stated thus:

$$RGDP = \beta_0 + \beta_1 FPI + \beta_2 FDI + \beta_3 TOP + \beta_4 REM + \beta_5 CPS/GDP + \beta_6 INT + \beta_7 EXCH + \mu \text{ ---- (1)}$$

Where β_0 = Autonomous or intercept

β_1 to β_7 = Coefficient of Parameters

μ = Stochastic variable or error term

To linearize equation 1, we apply logarithm to equation 2 which gives:

$$LRGDP = \beta_0 + \beta_1 LFPI + \beta_2 LFDI + \beta_3 LTOP + \beta_4 LREM + \beta_5 LCPS/GDP + \beta_6 INT + \beta_7 EXCH + \mu \text{ --- (2)}$$

Where LRGDP= Log of Real Gross Domestic Product

LFPI = Log of Foreign Portfolio Investment Inflow

LFDI = Log of Foreign Direct Investment Inflow

LTOP = Log of Trade Openness

LREM = Log of Remittances

LCPS/GDP = Log of Credit to private sectors a percentage ford

INT/EXCH = Control Variables

Apriori Expectation: The apriori expectation is expressed as: $\beta_1 > 0$; $\beta_2 > 0$; $\beta_3 > 0$; $\beta_4 > 0$; $\beta_5 > 0$; $\beta_6 > 0$; $\beta_7 > 0$

DATA PRESENTATION AND ANALYSIS

Data Presentation

This section comprised of the data presentation, estimation and results of the empirical investigation carried out. It also addresses the relationship between each of the measures of Financial Integration (Foreign Direct Investment (FDI), Foreign Portfolio Investments (FPI), Trade Openness (TOP), Financial Deepening (CPS/GDP), Foreign Remittances (REM) against Real Gross Domestic Product (RGDP). The following data are presented in table 4.1 below:

Table 1: Raw Data of Financial Integration and Economic Growth in Nigeria

Year	RGDP	FDI	FPI	TOP	REM	DCPS	INTR	EXCR
1991	40,843.65	4,115.00	611.10	37.0216	65.54471	7.01	13.01	9.91
1992	30,604.35	2,601.00	182.68	38.22739	56.4484	6.42	44.59	17.3
1993	20,780.57	5,327.00	177.80	33.71975	793.154	10.11	57.17	22.05
1994	17,213.58	3,282.00	271.41	23.05924	549.8727	8.11	57.03	21.89
1995	17,082.56	1,917.53	255.84	39.52838	250.043	5.81	72.84	21.89
1996	17,535.35	5,971.85	540.89	40.25773	296.5873	5.84	29.27	21.89
1997	18,504.63	1,029.73	203.21	51.46101	585.7384	7.16	8.53	21.89
1998	19,397.26	1,588.01	23.63	39.27861	448.5468	7.32	10	21.89
1999	20,205.61	1,728.18	110.14	34.45783	1301.056	7.86	6.62	92.69
2000	21,044.68	1,689.39	5,022.65	48.9956	1391.826	7.51	6.93	102.11
2001	22,392.33	938.84	8,317.72	49.6805	1166.615	9.29	18.87	111.94
2002	22,178.82	1,721.62	1,339.38	40.03517	1208.959	8.09	12.88	120.97
2003	23,196.92	1,673.21	1,828.94	49.33496	1062.821	8.09	14.03	129.36
2004	27,092.80	2,607.55	1,778.19	31.89587	2272.735	7.84	15	133.5
2005	29,699.41	146.35	4,879.50	33.05946	14640.08	7.95	17.86	132.15
2006	32,768.85	3,196.19	12,880.19	42.56657	16932.14	7.54	8.24	128.65
2007	36,873.30	8,676.81	7,996.73	39.33693	18014.43	10.58	5.38	125.83
2008	41,469.03	10,512.65	34,024.04	40.79684	19199.97	19.77	11.58	118.57
2009	46,382.16	15,253.44	3,452.55	36.05871	18370.8	22.75	11.54	148.88
2010	51,877.80	9,117.20	25,864.44	43.32076	19744.76	18.96	13.72	150.3
2011	59,418.27	8,167.60	35,403.39	53.27796	20616.77	15.07	10.84	153.86
2012	71,130.26	15,301.24	149,924.60	44.53237	20542.88	18.31	12.22	157.5
2013	82,868.12	12,274.34	103,209.60	31.04886	20797.07	17.85	8.48	157.31
2014	95,214.87	16,142.95	18,436.23	30.88519	20999.08	18.59	8.06	158.55
2015	102,543.81	14,352.04	8,587.01	21.33265	20626.05	19.64	9.01	193.28
2016	87,609.74	3,354.65	17,102.66	20.72252	19697.94	20.50	15.68	253.49
2017	87,732.32	3,108.31	85,235.37	26.3476	22037.02	19.55	16.52	305.79
2018	96,602.02	5,655.69	125,478.30	33.00783	24311.02	17.54	12.09	306.08
2019	71,387.83	2,853.19	3,248.94	34.02388	23809.28	17.63	11.4	306.92
2020	70,608.65	3,378.69	29,194.07	25.39979	17207.55	18.83	13.25	358.81
2021	72,390.00	69,880.00	138,690.00	10.3	41400	18.85	16.91	414

To ensure that the variables under investigation are not spurious, they were all logged. The logged form is therefore presented in table 2 below:

Table 2: Logged Data of Financial Integration and Economic Growth

Year	RGDP	FDI	FPI	TOP	REM	DCPS	INTR	EXCR
1991	4.6111	3.6144	2.7861	1.5685	1.8165	0.8456	1.1143	0.9961
1992	4.4858	3.4151	2.2617	1.5824	1.7517	0.8072	1.6492	1.2380
1993	4.3177	3.7265	2.2499	1.5279	2.8994	1.0048	1.7572	1.3434
1994	4.2359	3.5161	2.4336	1.3628	2.7403	0.9089	1.7561	1.3402
1995	4.2326	3.2827	2.4080	1.5969	2.3980	0.7639	1.8624	1.3402
1996	4.2439	3.7761	2.7331	1.6048	2.4722	0.7664	1.4664	1.3402
1997	4.2673	3.0127	2.3079	1.7115	2.7677	0.8547	0.9309	1.3402
1998	4.2877	3.2018	1.3735	1.5942	2.6518	0.8648	1.0000	1.3402
1999	4.3055	3.2376	2.0419	1.5373	3.1143	0.8957	0.8209	1.9670
2000	4.3231	3.2277	3.7009	1.6902	3.1436	0.8756	0.8407	2.0091

2001	4.3501	2.9726	3.9200	1.6962	3.0669	0.9680	1.2758	2.0490
2002	4.3459	3.2359	3.1269	1.6024	3.0824	0.9080	1.1099	2.0827
2003	4.3654	3.2236	3.2622	1.6932	3.0265	0.9079	1.1471	2.1118
2004	4.4329	3.4162	3.2500	1.5037	3.3565	0.8945	1.1761	2.1255
2005	4.4727	2.1654	3.6884	1.5193	4.1655	0.9004	1.2519	2.1211
2006	4.5155	3.5046	4.1099	1.6291	4.2287	0.8774	0.9159	2.1094
2007	4.5667	3.9384	3.9029	1.5948	4.2556	1.0245	0.7308	2.0998
2008	4.6177	4.0217	4.5318	1.6106	4.2833	1.2960	1.0637	2.0740
2009	4.6664	4.1834	3.5381	1.5570	4.2641	1.3571	1.0622	2.1728
2010	4.7150	3.9599	4.4127	1.6367	4.2955	1.2779	1.1374	2.1770
2011	4.7739	3.9121	4.5490	1.7265	4.3142	1.1780	1.0350	2.1871
2012	4.8521	4.1847	5.1759	1.6487	4.3127	1.2627	1.0871	2.1973
2013	4.9184	4.0890	5.0137	1.4920	4.3180	1.2517	0.9284	2.1968
2014	4.9787	4.2080	4.2657	1.4898	4.3222	1.2692	0.9063	2.2016
2015	5.0109	4.1569	3.9338	1.3290	4.3144	1.2930	0.9547	2.2862
2016	4.9426	3.5256	4.2331	1.3164	4.2944	1.3117	1.1953	2.4040
2017	4.9432	3.4925	4.9306	1.4207	4.3432	1.2911	1.2180	2.4854
2018	4.9850	3.7525	5.0986	1.5186	4.3858	1.2441	1.0824	2.4858
2019	4.8536	3.4553	3.5117	1.5318	4.3767	1.2463	1.0569	2.4870
2020	4.8489	3.5287	4.4653	1.4048	4.2357	1.2749	1.1222	2.5549
2021	4.8597	4.8444	5.1420	1.0128	4.6170	1.2753	1.2281	2.6170

Table 1 above clearly revealed that the financial Integration indicators over the years have been on an increasing-decreasing rates in no particular order in terms of its reported values over the years. Also, series of short falls were noticed as well. More so, the 2018 global financial crisis which led to economic meltdown, dys-functionalities encountered in Nigerian Financial System, unsupervised capital outflows especially from the capital market, inefficient institutional policies alongside other financial loopholes contributed to the variations in the Financial Integration Variables.

Data Analysis

Data for the study was analyzed using descriptive statistics and correlation analysis. The results are therefore presented below:

Descriptive Statistics

The study conducted the descriptive statistics of the relevant variables involved. Table 3 clearly illustrates these statistics. The result is therefore presented below:

Table 3: Summary of all Descriptive Statistics

	RGDP	FDI	FPI	TOP	DCPS	REM	INTR	EXCR
Mean	46924.18	7663.298	26589.39	36.22489	12.78607	11948.28	18.37252	142.5559
Median	36873.30	3354.650	5022.649	37.02160	10.11138	16932.14	12.88000	129.3565
Maximum	102543.8	69880.00	149924.6	53.27796	22.75484	41400.00	72.84000	414.0000
Minimum	17082.56	146.3508	23.63116	10.30000	5.806165	56.44840	5.380000	9.909492
Std. Dev.	28549.28	12503.49	44149.64	9.858607	5.782027	11102.38	16.53050	107.1143
Skewness	0.595101	4.153361	1.821488	-0.447770	0.233575	0.399454	2.128207	0.818763
Kurtosis	1.873462	21.16304	4.878653	3.105359	1.304649	2.422482	6.421809	3.078746
Jarque-Bera	3.468989	515.2427	21.70078	1.050243	3.994408	1.255218	38.52504	3.471604
Probability	0.176489	0.000000	0.000019	0.591484	0.135714	0.533867	0.000000	0.176259
Sum	1454650.	237562.2	824271.2	1122.972	396.3683	370396.8	569.5480	4419.233
Sum Sq.	2.45E+10	4.69E+09	5.85E+10	2915.764	1002.955	3.70E+09	8197.719	344204.4

Dev.								
Observations	31	31	31	31	31	31	31	31

Source: Econometric Views version 9 (2022)

Table 3 above reveals the individual characteristics of the variables used in this study highlighting their mean, maximum and minimum values, standard deviation and Jarque-Bera statistics (normality Test). The descriptive results in Table 3 above showed that the data of the study covered 31 observations for all the variables, that is, a time frame of 31 years from 1991 to 2021. The dependent variable which is Real gross domestic product (RGDP) has a mean value of 46924.18 with maximum value of 102543.8 and minimum value of 17082.56. It also recorded a standard deviation of 28549.28 which is lower than its mean. This shows that real gross domestic product recorded slow growth within the period under review. RGDP also recorded a JarqueBera value of 3.4689 with a probability value of 0.176489 which is within the acceptable threshold indicating that RGDP is normally distributed.

Foreign direct investment has a mean value of 7663.298 with maximum value of 69880.00, minimum value of 146.35 and a standard deviation of 12563.49. It also recorded a JarqueBera value of 515.242 with a probability value of 0.00000 which is within the acceptable threshold indicating that foreign direct investment is normally distributed.

Foreign portfolio investment has a mean value of 26589.39 with maximum value of 149924.6, minimum value of 23.63 and a standard deviation of 44149.64. It also recorded a JarqueBera value of 21.70078 with a probability value of 0.000019 which is within the acceptable threshold indicating that foreign portfolio investment is normally distributed.

Trade openness recorded mean value of 36.22489 with maximum value of 53.27796, minimum value of 10.3000 and with a standard deviation value of 9.858607. It recorded Jarque-Bera value of 1.650243 and with its probability value of 0.591484 indicating that trade openness is normally distributed.

Credit to private sector as a percentage of GDP a Proxy for financial deepening has a mean value of 12.78607 with maximum value of 22.75484, minimum value of 5.806165 and a standard deviation of 5.782027. It also recorded a Jarque-Bera value of 3.994408 with a probability value of 0.135714 which is within the acceptable threshold indicating that Credit to private sector as a percentage of GDP is normally distributed.

Remittance has a mean value of 11948.28 with maximum value of 41400.00, minimum value of 56.44840 and a standard deviation of 11102.38. It also recorded a Jarque-Bera value of 1.255218 with a probability value of 0.533867 which is within the acceptable threshold indicating that remittance is normally distributed.

Interest rate recorded mean value of 18.37252 with standard deviation value of 16.53050 respectively. It recorded Jarque-Bera value of 30.60980 with its probability value of 0.00000 indicating that interest rate is normally distributed.

Exchange rate has a mean value of 142.5559 with minimum value of 9.90949 and maximum value of 414.0000 and a standard deviation of 107.1143. It also recorded a Jarque-Bera value of 3.471604 with a probability value of 0.176259 which is within the acceptable threshold indicating that exchange rate is normally distributed.

Unit Root Test

This test tries to examine the property of the variables. It is used to check for the presence of a unit root i.e. whether the variables are stationary. It is also used to ascertain the regression technique to adopt for analysis and testing of hypotheses. This test is carried out using the Augmented Dickey Fuller (ADF) test. The ADF test is carried out using the E-views statistical package and the results from the test are tabulated below:

Table 4.4: Summary of ADF test

ADF AT LEVEL					
Target Variables	Adf Test Statistic	Test Values Critical @ 5% Level	Order Of Integration	P-Value	Decision
RGDP	-0.4715	-2.964	1(0)	0.8835	Non-stationary
FDI INFLOWS	-6.6768	-2.9678	1(0)	0	Stationary
FPI INFLOWS	-1.0122	-2.964	1(0)	0.7359	Non-stationary
TRADE OPENNESS	-2.0892	-2.964	1(0)	0.2501	Non-stationary
FINANCIAL DEEPENING	-1.1372	-2.964	1(0)	0.6876	Non-stationary
FOREIGN REMITTANCES	-0.8987	-2.9678	1(0)	0.994	Non-stationary
INTEREST RATE	-2.0402	-2.964	1(0)	0.2691	Non-stationary
EXCHANGE RATE	-1.9894	-2.964	1(0)	0.9998	Non-stationary
RGDP	-4.3423	-2.9678	1(1)	0.0019	Stationary
FDI INFLOWS	-6.91	-2.9763	1(1)	0	Stationary
FPI INFLOWS	-6.6768	-2.9678	1(1)	0	Stationary
TRADE OPENNESS	-5.7864	-2.9678	1(1)	0	Stationary
FINANCIAL DEEPENING	-5.1656	-2.9719	1(1)	0.0002	Stationary
FOREIGN REMITTANCES	-3.1854	-2.9678	1(1)	0.0313	Stationary
INTEREST RATE	-5.3219	-2.9678	1(1)	0.0002	Stationary
EXCHANGE RATE	-3.3763	-2.9678	1(1)	0.0203	Stationary

Source: Econometric View Version 9.0 (2022)

From the unit root table above, it was observed that all the variables are integrated at 1st difference. Since the decision rule is to reject stationarity if ADF statistics is less than 5% critical value, and accept stationarity when ADF statistics is greater than 5% criteria value, the ADF absolute value of each of these variables is greater than the 5% critical value at their first difference but less than 5% critical value in their level form. Therefore, all the variables are stationary.

Auto-Regressive Distributed Lag (ARDL) Bound Cointegration Test

Bound test is a test used for the ascertainment of either a long run relationship between the independent and the dependent variable or not, by comparing the calculated F-statistics value with the critical upper bound value. Accordingly, wherein the F-statistics value exceeds the critical upper bound value, reject the null hypothesis which supports no long run relationship. Meanwhile, -if the F-statistics value is lower than the critical upper bound value, accept the null hypothesis instead. However, if the F-statistic falls in between the upper and lower bound, the result becomes inconclusive. The ARDL Aound Co-integration test is therefore presented below:

Table 4.5: ARDL Bounds Test
Date: 05/25/22 Time: 22:55
Sample: 1991 2021

Included observations: 30		
Null Hypothesis: No long-run relationships exist		
Test Statistic	Value	k
F-statistic	3.88975	7
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.03	3.13
5%	2.32	3.5
2.50%	2.6	3.84
1%	2.96	4.26

Source: Econometric Views Version 9 (2022)

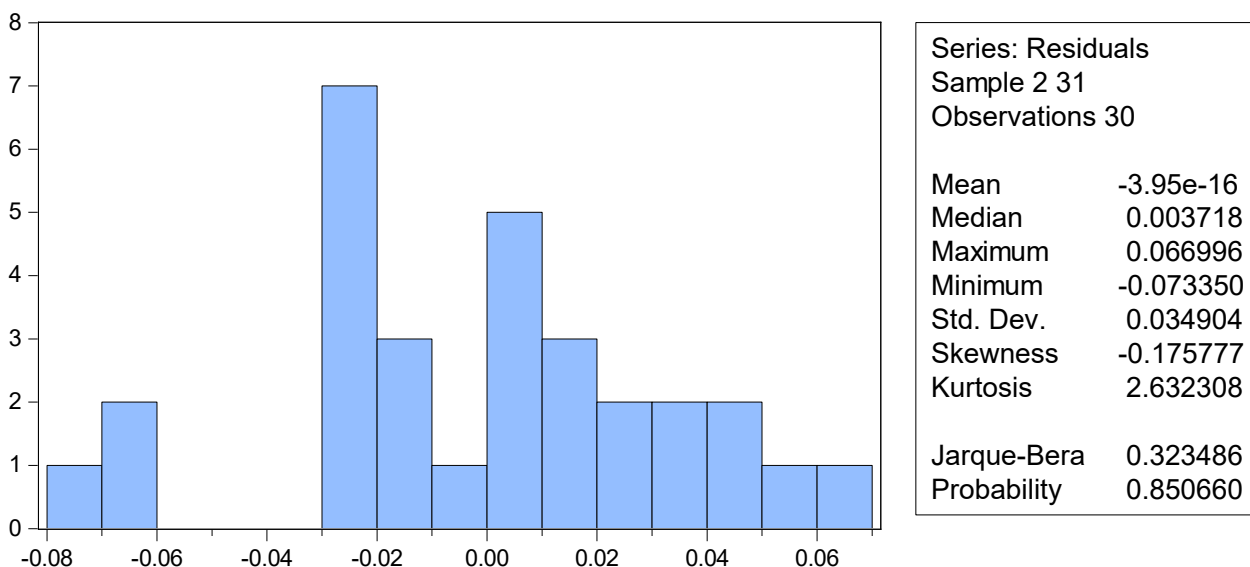
Since the F-statistic estimated 3.889754 is greater than the critical upper bound value at 5% significant (3.5), we therefore concluded that there is long run relationship between the independent variables and the dependent variable. Hence, we conclude that financial integration has a long run effect on economic growth in Nigeria.

Diagnostic Test

To ensure that the model for the study is robust, reliable and amenable for policy formulation the model was subjected to series of robustness test and are presented below:

Normality Test: This is used to check if the model is normally distributed. This ensures that the model is in line with the classical assumption of normal distribution. The decision rule here is that accept the null hypothesis of normal distribution if its p-value is greater than 5% otherwise reject the null hypothesis if its p-value is less than 5%. The result is therefore presented below:

Figure 1 Normality Test



Source: Econometric Views Version 9.0 (2022)

The normal test above clearly revealed that the series are normally distributed since the p-value of Jarque-Bera test is greater than 5%. This further attested to the Best Linear Unbiased Estimate property of the Ordinary Least Square.

Heteroscedasticity Test: Heteroscedasticity (unequal spread) is also a factor commonly associated with time series data. It affects the standard error as well as the t-statistics. The decision rule is to accept that there is no

hetero-skedasticity when the probability value is greater than 5% otherwise accepts that it exists. The result is therefore presented below:

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.74931	Prob. F(8,21)	0.649
Obs*R-squared	6.66192	Prob. Chi-Square(8)	0.5735
Scaled explained SS	2.66421	Prob. Chi-Square(8)	0.9536

Source: Econometric Views Version 9.0 (2022).

For the fact that the probability value is greater than 5%, it is therefore concluded that there is no Heteroskedasticity.

Presentation of Regression Result

The Auto Regressive Distributed Lag Model (ARDL) was adopted for analysis and test of hypotheses based on the premise that the unit root test in table 4.4 was a combination of I(0) and I(1). The result is presented below:

Table 6: Autoregressive Cointegrating and Long Run Form

ARDL Cointegrating And Long Run Form				Sig
Dependent Variable: RGDP				
Selected Model: ARDL(1, 0, 0, 0, 0, 0, 0, 0)				**
Date: 05/25/22 Time: 22:55				***
Sample: 1991 2021				**
Included observations: 30				**
Cointegrating Form				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
DLOG(FDI)	0.00607	0.02385	0.254352	0.8017
DLOG(FPI)	0.45133	0.16033	0.451326	0.0104
DLOG(TOP)	0.02603	0.08531	0.305081	0.7633
DLOG(DCPS)	0.10772	0.03723	2.893547	0.009
DLOG(REM)	0.27423	0.11914	2.301685	0.0317
DLOG(INTR)	-0.1218	0.04199	-2.901005	0.0085
DLOG(EXCR)	-0.0378	0.05033	-0.750555	0.4612
CointEq(-1)	-0.1872	0.06505	-2.877239	0.009
Cointeq = LOGRGDP - (0.0324*LOG(FDI) + 0.2742*LOG(FPI) -0.1391*LOG(TOP) + 0.3084				
*LOG(DCPS) +0.6593*LOG(REM) -0.6508*LOG(INTR) -0.2805*LOG(EXCR) + 3.0878)				
Long Run Coefficients				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(FDI)	0.03241	0.12901	0.251235	0.8041
LOG(FPI)	0.61688	0.11914	2.447791	0.0419
LOG(TOP)	0.13906	0.44107	0.315276	0.7557
LOG(DCPS)	0.65938	0.30427	2.167063	0.0413
LOG(REM)	0.41594	0.14335	3.25832	0.0173
LOG(INTR)	-0.2805	0.11442	-2.451364	0.0226
LOG(EXCR)	-0.2018	0.28284	-0.713613	0.4833

C	3.08776	1.89059	1.633221	0.1173
R-squared	0.983888	Mean dependent var	4.590493	
Adjusted R-squared	0.977751	S.D. dependent var	0.274986	
S.E. of regression	0.041018	Akaike info criterion	-3.306307	
Sum squared resid	0.035331	Schwarz criterion	-2.885948	
Log likelihood	58.59461	Hannan-Quinn criter.	-3.171831	
F-statistic	160.3009	Durbin-Watson stat	2.015941	
Prob(F-statistic)	0			

Source: Econometric Views Version 9.0 (2022)

Test of Hypothesis

The test of hypothesis was carried out as follows:

Test of Hypothesis One

H0₁: Foreign direct investment inflow has no significant effect on economic growth in Nigeria.

Given the decision criteria to reject H0₁ if the probability value is < 0.05 . Table 6 shows a probability of $0.8017 > 0.05$ and $0.8041 > 0.05$. In view of this, we accepted the null hypothesis (H0₁) and conclude that Foreign Direct Investment (FDI) has no significant effect on economic growth in Nigeria, both on the short and long run.

Test of Hypothesis Two

H0₂: Foreign Portfolio Investment inflow has no significant effect on economic growth in Nigeria.

Given the decision criteria to reject H0₂ if the probability value is < 0.05 . Table 6 shows a probability of $0.0104 < 0.05$ and $0.0419 < 0.05$. In view of this, we rejected the null hypothesis (H0₂) and conclude that Foreign Portfolio Investment (FPI) has a significant effect on economic growth in Nigeria, both on the short and long run.

Test of Hypothesis Three

H0₃: Trade Openness has no significant effect on economic growth in Nigeria.

Given the decision criteria to reject H0₃ if the probability value is < 0.05 . Table 6 shows a probability of $0.7633 > 0.05$ and $0.7557 > 0.05$. In view of this, we accepted the null hypothesis (H0₃) and conclude that Trade Openness has no significant effect on economic growth in Nigeria, both on the short and long run.

Test of Hypothesis Four

H0₄: Financial Deepening (CPS/GDP) has no significant effect on economic growth in Nigeria.

Given the decision criteria to reject H0₄ if the probability value is < 0.05 . Table 6 shows a probability of $0.0090 < 0.05$ and $0.0413 < 0.05$. In view of this, we rejected the null hypothesis (H0₄) and conclude that Financial deepening has a significant effect on Economic growth in Nigeria, both on the short run and the Long run.

Test of Hypothesis Five

H0₅: Foreign Remittances have no significant effect on economic growth in Nigeria.

Given the decision criteria to reject H0₅ if the probability value is < 0.05 . Table 6 shows a probability of

$0.0319 < 0.05$ and $0.0173 < 0.05$. In view of this, we rejected the null hypothesis (H_0) and conclude that Foreign Remittances have a significant effect on economic growth in Nigeria, both on the short and long run.

DISCUSSION OF RESULTS

It was discovered that Foreign Direct Investment has a positive, statistical insignificant effect on economic growth (real gross domestic product) in Nigeria both on the short and long run. This result agrees with the findings of Biplab and Inder (2021) that inflows of foreign direct investment facilitate higher output in the economy. It also agrees with the findings of Duc, Anh and Chi (2020), Kouki and Rezgui (2017) and Kanu (2016).

The ARDL test result above revealed that Foreign Portfolio Investment exerted a positive, significant effect on economic growth in Nigeria both on the short and long run with a reported coefficient estimates which stood at 0.451326 and 0.616878 respectively. This Implies that foreign portfolio inflows contribute significantly on economic growth in Nigeria within the period under review. The inflow of foreign capital is a factor likely to lead to a transfer of technology, specialization in production, allocation of capital and consequently stimulates economic growth.

This result agrees with the findings of Abdulaziz (2020); Ezeanyej and Ifeako (2019); Iriobe, Obamuyi and Abayomi (2018); Wambugu (2018); Ibrahim and Akinbobola (2017); Mahajan and Verma (2016) and Sethi (2016). These studies found that foreign portfolio investment inflows contribute positively and significantly to economic growth.

It was discovered that Trade Openness has a positive, statistical insignificant effect on economic growth (real gross domestic product) in Nigeria both on the short and long run due to the fact that its beta coefficient values (0.026027 and 0.139059) are positive, while its p-statistics values estimated at 0.7633 and 0.7557 are more than 5%. The implication of the positive result is that 1% increase in Trade openness will increase economic growth on the short and long run by 0.026027 and 0.139059 respectively. Meanwhile, the implication of the insignificant relationship it exerted on economic growth is that Trade openness does not engender the growth of Nigeria's Economy to a large extent. This is majorly because of the presence of market imperfections, asymmetric context of trading patterns, weak trade policies especially for developing countries like Nigeria. This result is in line with the findings of Biplab and Inder (2021); Abdulaziz (2020); Keho and Wang (2017); Wafa and Saoussen (2019); Ahmed (2018); Ekwe and Inyama (2018) also found that the trade openness of the economy had a positive and yet insignificant effect on the GDP.

The ARDL test result above revealed that Financial Deepening exerted a positive, significant effect on economic growth in Nigeria both on the short and long run with a reported coefficient estimates which stood at 0.107717 and 0.659380 respectively. Further, their respective p-values (0.0090 and 0.0413) are less than 5% significant level. This revealed that Financial Deepening has significant effect on economic growth in Nigeria. This Implies that Financial Deepening contribute significantly on economic growth in Nigeria within the period under review. This result agrees with the findings of Okafor, Bowale, Onabote and Adedeji (2021); Zebedee and Akhamie (2020) Karimo and Ogbonna (2017) who reported a positive and significant effect of financial deepening and economic growth. However, this result contradicts the studies of Nwakobi, Oleka and Ananwude (2020); Samuel-Hope, Ehimare and Osuma (2020) and Igwe and Edeh (2016) whose findings revealed that financial deepening indicators exert a negative and insignificant effect on economic growth in Nigeria.

The ARDL test result above revealed that Foreign Remittances exerted a positive, significant effect on economic growth in Nigeria both on the short and long run with a reported coefficient estimates which stood at 0.274230 and 0.415940 respectively. Further, their respective p-values (0.0317 and 0.0173) are less than 5% significant level. This revealed that Foreign Remittances have a significant effect on economic growth in Nigeria. This Implies that Financial Deepening contribute significantly on economic growth in Nigeria within the period under review. This result is in line with the findings of Dekpen, Niksic, Paleka (2021); Oladipo (2020); Olayungbo and Quadri (2019); Meyer and Shera (2017) who reported a positive effect of foreign remittances on Economic growth. However, this result deviates sharply from the findings of Obriki (2021);

Anetor (2019); Loto and Alao (2017) who reported a negative relationship between foreign remittances and Economic Growth.

CONCLUSION

The current study examined experimentally the influence of financial integration on the expansion of the Nigerian economy from 1991 to 2021. The findings indicated that while foreign portfolio investment inflows, financial deepening, and foreign remittances have a positive and significant impact on economic growth in Nigeria during the review period, foreign direct investment inflows and trade openness have a positive but insignificant impact on economic growth. Based on the aforementioned, the study draws the conclusion that financial integration significantly boosts economic growth in Nigeria throughout the time period under consideration.

Therefore, by emphasising financial integration, economic growth is provided a very good promotion. Financial integration methods involve opening up financial institutions and markets to international investors as well as allowing domestic market participants to make investments abroad.

RECOMMENDATIONS

The following recommendations are made for this study:

1. To maintain economic growth and development, the government must set up the necessary macroeconomic institutions and policies that will fuel the advantages of financial integration. The government and monetary authority should utilise monetary tools that will stabilise the macroeconomic environment in order to achieve successful financial integration. This will foster a climate that encourages the mobilisation of savings and financial depth.
2. Government should avoid making drastic policy changes in order to maintain the benefits of the reform programs. Instead, it should focus on fine-tuning the current policy measures, which will encourage all economic agents to save money and force caution on the part of the major players in the financial market. This will significantly improve the country's ability to mobilise funds.
3. Government should create a business environment that encourages entrepreneurship and private sector growth, as well as a comprehensive national training programme in managerial and technical skills related to financial operations, the use of proper accounting procedures, adequate auditing, and the dissemination of financial data.
4. To secure the inflow of foreign portfolio investment, the government should implement policies that will encourage the long-term expansion of the capital market and subsequently the economy as a whole. In order to channel additional investments into the economy through foreign portfolio investment and so accelerate industrialization and economic growth, regulatory authorities should deepen the equity stocks of the market and encourage more enterprises to get listed on the Nigerian Stock Exchange.
5. The government should implement policies that encourage lending at reasonable rates in order to strengthen the financial sector, which then fosters economic growth.

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