

EFFECT OF CAPITAL IMPORTATION ON NIGERIA ECONOMIC GROWTH

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Abstract: Capital importation has been viewed as an important element in reducing the high rate of unemployment and poverty in the country. Since it allows for rapid investment, which helps investors to increase their returns and diversify their risks thereby contributing to economic growth of a country. As such, the study investigated the effect of capital importation on Nigeria economic growth. Secondary Data was used for this study and was collected from Statistical bulletin of Central Bank of Nigeria from 2010 to 2019. VAR was used to test the effect of the dependent variable (Real Gross Domestic Product) on the independent variables (Foreign Direct Investment, Portfolio Investment, Other Financial Investment). The study found that capital importation has positive and insignificant effect on Nigeria economy within the period of the study. The study therefore advocates that government should provide enabling environment for more capital importation which will help complement the local investor's efforts in reducing the rate of unemployment in the country. Insecurity in the country should be tackled by increasing funding on this sector, as worsening security challenges in the country serves as a deterrent to inflow of foreign capital in the country. Nigeria should develop a code of conduct on multinational corporation to curb their restrictive business practice, limit their repatriation of profits from Nigeria and ensure that significant part of their profits are re-invested into the Nigerian economy. Nigeria should ensure a stable government by guaranteeing the sustainability of democratic rule devoid of unwarranted changes and interference in the judiciary and legislative arm of government.

Keywords: Capital Importation

1. INTRODUCTION

The desire for capital by developing countries as complement to domestic savings for growth and development has existed for many decades. This is spurred by the gap between savings and investments required to sustain economic growth and evidenced by the attention given to the drive for foreign capital as an important source of augmenting the saving-investment gap in most resource deficient economies especially in developing countries (Adeola, 2017).

The world all over is evolving into a global village; it is a precept for a nation to be in alliance with other nations. One of the coherent ways to create such alliance is via international trade otherwise known as capital importation. This process allows for the exchange of goods and services cum foster healthy relations among countries irrespective of their level of economic development (Aeez, Dada & Aluko, 2014). A country involved in international trade need not have fear of hegemony or loss of its sovereignty because it is a mutual agreement to engage in trade across their boarder. On the other hand, it is proven that, a nation not participating in international trade is at risk of a slow pace of economic development due to the cogent fact that a country cannot be fully endowed with all the resources essential to be utilized for sustainable economic development.

Historical antecedents indicate that until the First World War, capital to developing countries came directly mainly from Great Britain, France, etc, to their former colonies. By 1950s the United States (US), other industrial nations and multinational agencies started official assistance to less developing countries (LDC's). Shortly after the

Second World War and up to the period of the oil shocks starting from the late 1970s, there was a surge in bank lending to LDCs, particularly to Latin America under Sovereign guarantee. Bank lending dwindled thereafter in the wake of the debt crisis of 1982; and so official assistance and capital flows were re-directed towards developed nations and the securitization of international finance started in developing countries. The upsurge of emerging market economies at the beginning of the 1990s witnessed a revival of private finance in the form of foreign direct investment (FDI) and foreign private investment (FPI) flows. The number of claimants to foreign assistance has increased currently as the World Development Report (WDR, 2018) observed, a substantial increase in the resources for fighting poverty in the poorest countries appears affordable.

Nigeria capital inflow data was reported at 52,654,783.60 USD in Mar 2021. This records an increase from the previous number of 39,787,970.860 USD for Feb 2021. Nigeria capital inflow: Foreign direct investment data is updated monthly, averaging 86,265,175.570USD from Jan 2007 to Mar 2021, with 171 observations. The data reached an all-time high of 824,311,383.680 USD in Jul 2007 and a record low of 1,245,422.000 USD in Aug 2009 (CBN, 2021). Capitals move into a country or region in form of Diasporas or personal remittances from African Migrants; foreign direct investment (acquisition of companies, security trading); official development assistance (funding offered by governments or aid agencies to disadvantaged countries either free of charge or at rates below the market rate), and foreign or external debt (a fallout for borrowing from abroad). Sub-Saharan Africans, sub-regions e.g. ECOWAS and other developing countries harness these funding programmes to bridge their saving-investment and foreign exchange gaps occasioned by inadequate domestic resources and trade imbalances respectively (Anyia, 2017).

Developing African countries leverage more in external capital than any other continent across the globe. Foreign capital inflows if well managed can promote macroeconomic performances of the recipient countries or regions. As a result, this concept is giving rise to concern over the magnitude, causes and consequences of these continuous resource inflows. Nigeria like most developing economies is blessed with both natural and human resources, yet the economy is faced with a lot of serious challenges. Such problems include high poverty and unemployment rate in essence Nigeria, like most less developed countries are entrapped by the vicious circle of poverty. They lack the capital resources and the incomes of the people are very low. Investment level has remained low as a result of low savings ratio via low income. At the same time, due to low incomes, the taxable capacity remains low, that is, government earnings also remain low. In such situations, the less developed countries face savings – investment gap as well as deficit in their balance of payments. This savings-investment gap so experience in most African countries, including Nigeria, can be filled by attracting capital importation via foreign direct, portfolio investment and other financial investment. Capital importation as a major component of economic growth and development in any society is the process of acquiring additional capital stock which is used in productive process. The foundation of capital importation is when some portion of present income is saved and invested in order to augment future output and incomes. The extents to which the level of savings can affect capital importation and growth largely depend on the capacity of the economy to channel the savings into productive use. Over the years, there has not been a major synergy between capital importation and the development activities in Nigeria; this is a case wherein neither savings nor investment is encouraged. Therefore, economic growth is slowed down and economic activities are neglected.

Also studies of Okoro et al. (2019), Ogbonna (2015), Arawoma (2014), Azebi and Dein (2020), shows that capital importation has significant effect on economic growth while the studies of Okeke (2018), Olusanya (2013), Azeez, Dada, and Aluko, (2014), Ogunkola et.al (2006) shows that capital importation has insignificant effect on economic growth. This shows that there are contradictory results on the effect of capital importation on economic growth of Nigeria as such the relationship between the two variables is far from being empirically settled. Thus, studies in these areas appear inconclusive. The different results obtained by the empirical studies do not permit the researchers to draw an unequivocal conclusion on the subject matter thus the need to re-examine the effect of capital importation on economic growth of Nigeria from 2010 to 2019.

The paper is arranged as follows. Section two focuses on literature review, section three focuses on methodology and section four on conclusion and policy implication.

2. LITERATURE REVIEW

Capital importation is defined as the increase in net international indebtedness of the private and the public sectors during a given period of time, and are measured--albeit imprecisely--by the surplus in the capital account of the balance of payments (Zango, 2016). Therefore, except for errors and omissions, the capital account surplus equals the excess of expenditure over income (i.e., the current account deficit) plus the change in official holdings of international reserves. Thus, increases in capital importation are identified with wider current account deficits and/or reserve accumulation.

Capital importation is the influx of external resources into the local of capital resources for the purposes of investment, trade and business production. On the other hand, investment is the funds committed into economic activity with the hope of realizing benefits from future returns over a period of time (Awe, 2017). According to Ikpesu (2019), capital importation refers to the inflow of capital from one country to the other, and they do not relate to the movement of goods or payment for exports and imports between countries. They take place through government, private and international organizations or agencies. Capital importation refers to the movement of money into a country for the purpose of investment, trade, or business operations. Inside of a firm, these include the flow of funds in the form of investment capital, capital spending on operations, and research and development (R&D). On a larger scale, a government directs capital flows from tax receipts into programs and operations and through trade with other nations and currencies. Individual investors direct savings and investment capital into securities, such as stocks, bonds and mutual funds (Ogbonna, 2015).

2.1 Types of Capital Importation

Capital Importation is divided into three main investment types: Foreign Direct Investment (FDI), Portfolio Investment and Other Investments, each comprising various sub-categories.

Foreign Direct Investment: The terms FDI and FPI involve the process of bringing in investors resources (money, material and man) from foreign countries into the local economy for productive purposes. FDI is a foreign investment made so as to acquire a lasting management interest (for instance, 10% of voting stocks) and at least 10% of equity shares in an enterprise operating in another country other than that of investors' country. FDI is the direct transfer of technological know-how and managerial practices to the host country, unlike the Foreign Portfolio Investment (FPI) which is a mere change of ownership. FPI are further split between debt and equity investments and recently „financial derivatives” has been added as part of portfolio investments. In addition, available data suggest that FDI flows tend to be more stable compared to Foreign Portfolio Investment (Shanab, 2017). The reason for this is that FPI has high liquidity and short time horizon because it can be traded in the financial market unlike the FDI that is in real assets. As well, the FDI inflow is hardly affected by the national exchange rate as the FPI.

Portfolio Investment

Portfolio investments are investments made in a group of assets (equity, debt, mutual funds, derivatives, or even bitcoins) instead of a single asset with the objective of earning returns is commensurate with the risk profile of the investor (Oloye, 2020). Portfolio investments might vary from a small segment of one industry to a wide-ranging – entire market. According to (Ahmed, 2017), portfolio investment is a passive or a hands-off investment. With portfolio investment, an investor buys assets with the sole purpose of financial gain, without any involvement in the company's internal decision making. Portfolio investment meaning presupposes that the investor does not actively participate in the management of the company. Foreign portfolio investment is when an investor buys assets in a foreign company.

Portfolio investments can be made into all types of assets, including stocks, government bonds, real estate investment trusts and exchange-traded funds. This type of investment contrasts with direct investment — that is when an investor buys stock with the aim of gaining voting power in the company.

By not getting involved with the company's management, portfolio investments don't require as much attention as direct investments and can provide a steady rate of return, although they are still associated with risk. The composition of an investment portfolio is affected by a number of factors. The most important are

the invested amount, investor's risk tolerance and planning horizon. Depending on various individual characteristics and circumstances, investors may choose different types of investments. Investors with aggressive risk tolerance may be interested in small-cap stocks, international securities, real estate and commodities, while investors with moderate or low risk tolerance could prefer government bonds and blue-chip stocks. An investor's personal goals and available time could also be a factor. For example, a young investor who wants to save money for their retirement and has 30 years ahead of them may feel uncomfortable with high-risk assets like individual stocks. Meanwhile, a more risk-tolerant but much older investor may prefer riskier assets, which may bring high profits faster, as they have almost no time before retirement (Ahmed, 2017). Foreign portfolio investment, or FPI, includes securities or other financial assets held in another country. Together with foreign direct investment, FPI is a popular type of investment in a foreign economy. If an investor is interested in investment opportunities outside of their home country, foreign portfolio investment can be a good starting option.

Portfolio Investments can be in any of the following forms: **Equity investment:** An equity investment is money that is invested in a company by purchasing shares of that company in the stock market. These shares are typically traded on a stock exchange. Equity investors purchase shares of a company with the expectation that they'll rise in value in the form of capital gains, and/or generate capital dividends. If an equity investment rises in value, the investor would receive the monetary difference if they sold their shares, or if the company's assets are liquidated and all its obligations are met. Equities can strengthen a portfolio's asset allocation by adding diversification.. **Bond:** A bond is a fixed income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental). A bond could be thought of as an I.O.U. between the lender and borrower that includes the details of the loan and its payments. Bonds are used by companies, municipalities, states, and sovereign governments to finance projects and operations. Owners of bonds are debt holders, or creditors, of the issuer. Bond details include the end date when the principal of the loan is due to be paid to the bond owner and usually include the terms for variable or fixed interest payments made by the borrower.

The Money Market: Money market basically refers to a section of the financial market where financial instruments with high liquidity and short-term maturities are traded. Money market has become a component of the financial market for buying and selling of securities of short-term maturities, of one year or less, such as treasury bills and commercial papers. Over-the-counter trading is done in the money market and it is a wholesale process. It is used by the participants as a way of borrowing and lending for the short term. Money market instruments includes: treasury bills, treasury certificate, commercial papers, money at call, certificate of deposits, bankers acceptance and unit trust funds.

Trade Credits: Trade credit means many things but the simplest definition is an arrangement to buy goods and/or services on account without making immediate cash or cheque payments. Trade credit is a helpful tool for growing businesses, when favourable terms are agreed with a business's supplier. This arrangement effectively puts less pressure on cash flow that immediate payment would make. This type of finance is helpful in reducing and managing the capital requirements of a business.

Loan: A loan is a form of debt incurred by an individual or other entity. The lender—usually a corporation, financial institution, or government—advances a sum of money to the borrower. In return, the borrower agrees to a certain set of terms including any finance charge, interest, repayment date, and other conditions. In some cases, the lender may require collateral to secure the loan and ensure repayment. Loans may also take the form of bonds and certificates of deposit (CDs).

Gross Domestic Product (GDP)

GDP measures the monetary value of final goods and services—that is, those that are bought by the final user—produced in a country in a given period of time (say a quarter or a year). It counts all of the output generated within the borders of a country (Bantu, 2017). GDP is composed of goods and services produced for sale in the market and also include some nonmarket production, such as defense or education services provided by the government. An alternative concept, gross national product, or GNP, counts all the output of the residents of a country. So if a German-owned company has a factory in the United States, the output of this factory would not be included in U.S. GDP, but in German GNP.

Theoretically, GDP can be viewed in three different ways: **The production approach** sums the “value-added” at each stage of production, where value-added is defined as total sales less the value of intermediate inputs into the production process. **The expenditure approach** adds up the value of purchases made by final users—for example, the consumption of food, televisions, and medical services by households; the investments in machinery by companies; and the purchases of goods and services by the government and foreigners. **The income approach** sums the incomes generated by production—for example, the compensation employees receive and the operating surplus of companies (roughly sales less costs).

Real GDP: One thing people want to know about an economy is whether its total output of goods and services is growing or shrinking. But because GDP is collected at current, or nominal, prices, one cannot compare two periods without making adjustments for inflation. To determine “real” GDP, its nominal value must be adjusted to take into account price changes to allow us to see whether the value of output has gone up because more is being produced or simply because prices have increased. A statistical tool called the price deflator is used to adjust GDP from nominal to constant prices.

GDP is important because it gives information about the size of the economy and how an economy is performing. The growth rate of real GDP is often used as an indicator of the general health of the economy. In broad terms, an increase in real GDP is interpreted as a sign that the economy is doing well. When real GDP is growing strongly, employment is likely to be increasing as companies hire more workers for their factories and people have more money in their pockets. When GDP is shrinking, as it did in many countries during the recent global economic crisis, employment often declines. In some cases, GDP may be growing, but not fast enough to create a sufficient number of jobs for those seeking them. But real GDP growth does move in cycles over time. Economies are sometimes in periods of boom, and sometimes in periods of slow growth or even recession (with the latter often defined as two consecutive quarters during which output declines).

Challenges of Capital Importation Inflow of capital in Nigeria is hindered by the following factors:

Lack of Economic Diversification:

This lack of economic diversification is a major deterrent for investors and partly plays a role in the capital importation fluctuations tracked by the National Bureau of Statistics. When the price of oil is high, money inflows increase and vice-versa. For instance, the price of oil peaked in 2014, the same year Nigeria recorded its highest capital import this decade, at roughly \$2.7bn. As the price of oil fell, FDI ebbed, as the 2020 figure of \$981mn reflects.

Security Challenges:

The prolonged state of insecurity in Nigeria is another major factor. It does little to attract foreign investors. The country continues to contend with spurts of violence in the middle belt, between herdsmen and communal farmers; threats of secession in the South-East; and insecurity in the Niger Delta and North-East and most recently southeast. Very few foreign companies are willing to jeopardize the lives of their employees and assets in such a volatile and sometimes violent environment.

Poor Investment Climate:

A third key fundamental factor is the poor investment climate characterized by overly stringent government policies, bureaucratic bottlenecks for securing permits, and a weak legal framework. In 2015, MTN, one of the most prominent and successful foreign investors in Nigeria, was sanctioned with a \$5.2 billion fine for failing to disconnect unregistered subscribers. Such draconian punishment cannot be encouraging for prospective investors.

Infrastructure Deficit:

And finally, the nation’s huge infra-structure deficit is another major investment deterrent. The lack of stable power means manufacturers have to rely on expensive alternative energy sources, such as diesel generators. In addition, many investors are fearful that despite a large population, there is no viable market for their products

due to the high rate of poverty and unemployment. Given all of these factors, it is not difficult to see why many potential investors opt for other markets like Morocco, Kenya, and South Africa.

3. THEORETICAL FRAMEWORK

3.1 Neoclassical Growth Theory

This theory was propounded by Robert Solow and Trevor Swan in 1956. The neoclassical growth theory states that short-term equilibrium results from a varying amount of labour and capital in the production function. The theory also argues that technological change has a major influence on the economy. More so, economic growth cannot advance without technology. Neoclassical growth theory outlines three factors necessary for a growing economy such as labor, capital and technology. However, neoclassical growth theory clarifies that temporary equilibrium is different from long term equilibrium, which does not require any of these three factors

The growth theory posits that the accumulation of capital within an economy and how people use that capital is important for growth. Furthermore, the relationship between capital and labour of an economy determines its output. Finally, technology is thought to argument labour productivity and increase the output capabilities of labour. Therefore, the production function of neoclassical growth theory is used to measure the growth and equilibrium of an economy. That function is $Y = AF(K, L)$

Where, Y denotes an economy gross domestic product (GDP)

K represents its share of capital

L describes the number of unskilled labour in an economy

A represents a determinant level of technology

However because of the relationship between labour and technology, an economy's production is often re-written as $Y = F(K, AL)$.

3.2 The Modernization Theory

This theory was propounded by Max Weber in 1864. According to modernization theories capital inflow can enhance growth in less developed countries, this means dependency theory is built on autogenously and neoclassical growth theories. The modernization point of view depends on a major assumption in economics that investment in capital is the key to economic growth. According to the viewpoint of the modernized growth theories, the moving of technology to less developed countries via FDI is particularly critical on the grounds that most developing nations do not have the basic infrastructure particularly in liberalized markets, social and economic soundness, and literate population that are required for novelty to be growth enhancing (Calvo, 2012). As noted by Pradhan and Kumar (2012), aside from capital and technology, FDI generally streams as a bunch of assets, inclusive of managerial and administrative abilities, Market Avenue through the promoting systems of multinational enterprises and showcasing know-how. Accordingly, capital inflow plays a binary capacity by adding to accumulation of capital also by expanding aggregate factor output (Nath, 2015). While the dependency point of view contends that there is a negative relationship on income distribution and economic growth if an economy depends on foreign investment.

3.3 Empirical Review

Azebi and Dein (2020), Foreign capital flows and capital market growth in Nigeria. Using annual data from 1994 to 2018, the paper examines the impact of foreign capital flows on capital market growth in Nigeria. It also investigates the causal relationship between the dependent variable, market capitalization which serves as proxy for capital market growth and the independent variables foreign portfolio investment, foreign direct investment, real exchange rate and degree of openness. The ordinary least square regression analysis was employed in the study. The Augmented Dickey-Fuller unit root test reveals that all the variables became stationary after first difference, while the Johansen co integration test result revealed that a long run relationship exists between the variables. Findings from the regression estimates show that foreign portfolio investment, real exchange rate and degree of openness all have positive and statistically significant impact on Nigeria's capital market growth in the long run. A 1 percent increase in FPI, EXCR and DOP improves Nigeria's capital market growth by 0.003, 12 and 5.9 percent respectively. Foreign direct investment has a positive but statistically insignificant impact on Nigeria's capital market growth in the long run. The granger

causality test reveals a unidirectional relationship between all the variables except for FPI and FDI that have a bi-directional relationship. The study thus concludes that foreign capital flows have a long run positive impact on capital market growth in Nigeria.

Arawomo (2014) examined the nexus of capital goods import and economic growth: Evidence from panel ARDL model for WAMZ. The panel ARDL that allow for rich dynamics in a way that the dependent variable adjusts to changes in the independent variables was used. The Mean Group (MG), Pooled Mean Group (PMG), and Dynamic Fixed-Effect (DFE) were estimated. The Hausman test informed the choice of PMG. The results indicated that capital import has positive significant impact on economic growth in both short-run and long-run, although the magnitude of coefficient is higher in the long-run. Crude products have negative insignificant impact on economic growth in the short-run, although it was insignificant in the long-run. The impact of domestic investment on economic growth is negative but insignificant although it was significant in the long-run. Same in the long-run, budget deficit, political instability and inflation have negative significant impact on economic growth.

Okeke (2018) conducted a study which investigates specifically the effect of Imports and Exports on Balance of Foreign Trade in Nigeria (GDP). Data were collected for period 2007 – 2016. Multiple Regressions Approach and Correlation Analysis were used, defining Imports, Exports and Openness as independent variables and Gross Domestic Product (GDP) as dependent variable. From the analysis, Imports, Exports and Openness contribute immensely to the Nigeria Gross Domestic Product (GDP). Contrary, Imports is positively and significant on Balance of Foreign Trade in Nigeria (GDP), Exports has positively and insignificant on Balance of Foreign Trade in Nigeria (GDP) and Openness has positively and insignificant on Balance of Foreign Trade in Nigeria (GDP). Also, there is a perfect positive association on gross domestic product between imports on the balance of foreign trade in Nigeria and it is significant, with a perfect positive association on gross domestic product and imports between exports on the balance of foreign trade in Nigeria and it is significant and there is a negative moderate association on gross domestic product, imports and exports between openness on the balance of foreign trade in Nigeria and it is insignificant.

Azeez, Dada, & Aluko, (2014) conducted a study on the effect of international trade on the economic growth of Nigeria in the 21st century. The model specified economic growth measured by gross domestic product as dependent on international trade proxy by imports, exports, and trade openness. Annual time-series data from 2000-2012 was sourced and analysed using Ordinary Least Square (OLS) estimation technique. It was evidenced that international trade has a significant positive impact on economic growth. Imports, Exports, and Trade Openness have significant effect on the economy.

Aisen and Abraham (2020), examined capital goods import and manufacturing sector's output in Nigeria: Evidence from ARDL bounds testing procedure. The study examined the impact of capital goods import on manufacturing sector output in Nigeria using annual time series data for the period 1981 – 2017. The Autoregressive Distributed Lag (ARDL) modelling procedure and the bounds testing approach to co-integration were adopted to examine the short run and the long run relationship between the manufacturing sector output and its selected determinants. The empirical results revealed that importation of capital goods has a positive impact on the manufacturing sector output in Nigeria. However, the impact was statistically significant only in the long run. In the short run, though the impact of importation of capital goods was positive, it was not statistically different from zero. Also, devaluation / depreciation of the naira was found to have a significant but negative impact on manufacturing sector output in Nigeria, both in the short run and long run.

Okpara (2010) investigated the most critical sources of investment finance in Nigeria. To do this, factor analysis technique and the multiple regression analysis were used as alternate methods. The two techniques were used for the ascertainment of the authenticity or validity of the results. The empirical results from both methods revealed that savings and private sector credits are the most crucial sources of investment finance in Nigeria. In the light of this finding, the researcher recommends that government should set a conducive financial and political atmosphere that will be attractive enough to foreign investors if foreign direct investment and capital market activities should be made good predictors of investment finance in Nigeria.

Weheed (2004) studied foreign capital inflows and economic growth of developing countries: A critical survey of selected empirical studies. Economists have always considered capital as the central element of the process of

economic development. The straightforward view of development economists is that capital is essential for the growth and its origin does not matter. Based on this view, the capital –deficient countries heavily resorted to foreign capital as the primary means to achieve rapid economic growth. Unfortunately, the growth experience of many of these countries has not been very satisfactory and, as a result, they accumulated a large external debt and are now facing serious debt servicing problems. This survey attempts to integrate major empirical studies on the macroeconomics effects of foreign capital inflows. It concludes that the results of previous studies have largely been controversial, mainly due to methodological problems and data limitations. Since most of the previous studies are cross-sectional in nature, there is a need for more country-specific case studies, due to the unique characteristics of each country and the stringent conditional ties of debt relief initiatives.

Okoro, Nzotta and Alajekwu (2019) examined the effect of international capital inflows on economic growth of Nigeria for the periods, 1986 to 2016. The study employed four core channels of international capital inflows which includes foreign direct investment (FDI), official development assistance (ODA), personal remittances (REM), and external debt stock (EXTDS) into Nigeria as the explanatory variables and GDP growth rate as the dependent variable. The model of the study was hinged on the Harrod-Domar growth model and employed Johansen co integration and Ordinary Least Square (OLS) techniques for data analyses. The result showed that international capital inflows have long run effect on economic growth of Nigeria. Specifically, the OLS revealed that FDI and REM had significant positive effects on economic growth. However, EXTDS and ODA had no significant effects on economic growth. The study further showed that international capital is a powerful tool for boosting economic growth of Nigeria(R-square = 71%).

Leonard and Ihensekhien (2020) investigated the effect of of International Capital Inflows on Economic Growth of Nigeria using Harrod-Domar growth model. The variables of the study included OLS $GDP_r = f(FDI, ODA, REM, EXTDS, EXR)$ $GDP_r =$ Growth rate of real Gross Domestic Product. FDI = Foreign Direct Investment inflows. ODA = Official development assistance. REM = Personal remittances. EXTDS = Total external debt. The study found a positive and significant relationship between international capital flow and economic growth.

Ikpesu, (2019) carried out a study on the Growth Effect of Capital Inflows and Investment in Nigeria. The study employed the two-gap model developed by Chenery and Strout. The study found that capital inflow and economic growth has significant positive direction.

Azeez, Dada, and Aluko, (2014) carried out a study on effect of exchange rate deregulation on industrial produce/manufacturing output in the Nigerian economy. The study was anchored on monetary theory. The Ordinary Least Square (OLS) method found Negative and insignificant between the variables.

Ogbonna,. (2015) studied disaggregated imports and economic growth in Nigeria using the Neoclassical models. The methodology employed was the augmented model and the study found the relationship between import and economic growth to be Significant.

Olusanya, (2013) through his study Impact of foreign direct investment inflow on economic growth in a pre and post deregulated Nigeria economy found No causality relationship between FDI and GDP by employing granger causality test.

Ogunkola, Bankole, and Adewuyi, (2006) evaluated the impact of Nigeria's trade and investment policy reforms. The study was anchored on Endogenous growth model. Using Ordinary Least Square (OLS) method the study found that trade and investment policies have significantly impacted on the economic growth in Nigeria.

Anidiobu et.al (2020) assessed the impact of external finance (proxied by external debt) on economic growth (measured by real GPD growth rate) in Economic Community of West African States (ECOWAS) sub-region. Annualized panel data for 32 years (1986-2017) were obtained from World Development Indicators (WDI). Ex-post facto design was adopted because our data were secondary in nature. Individual characteristic of the series were ascertained with descriptive statistics. The stationarity of our variables was tested using five test criteria, namely: Levin, Lin & Chu t; Breitung t-stat; Im, Pesaran and Shin W-stat; ADF-Fisher Chi-square, and PP-Fisher Chi-square. The panel series became stationary when differenced at first [i.e. at order one I(1)], which proved that our panel series did not have unit root. Panel least square (PLS) estimation process was used to analyze our modified models. The model were further analyzed with both fixed and random effect panel regression estimators, using the Hausman test to ascertain the best and appropriate choice between the two. Thus, our

analysis was based on the random effect (RE) estimator. A 5% error tolerance level was allowed for this study. The outcomes showed external debt had a negative, but significant effect on real GDP growth rate. The implication was that external debt did not enhance economic growth in the sub-region during the sample period. This outcome was attributed to ineffective fiscal policy implementations and lack of budget discipline. Since external debt is noteworthy debt instrument that can help boost the economies of ECOWAS countries, governments of the sub-region must adopt fiscal adjustment mechanisms that can enhance their revenue profiles through improved taxes rather than borrowing to finance deficit and total reliance on primary commodities (usually unprocessed e.g. crude oil, cocoa) for revenue. The major contribution of this study to knowledge was that it made comparative analysis using outcomes of the sub-regional study and the country specific outcomes of the 15 member countries of ECOWAS employing modified panel regression models to analyze the research objective.

Anya (2017) studied the effect of International Capital Inflows on Economic Growth by employing Modern growth theory. Johansen Co integration test was used to test the hypothesis and the study found a significant and positive relationship between capital inflow and gross domestic product.

Ikpefan (2013) studied the effect of exchange rate deregulation on industrial produce/manufacturing output in the Nigerian economy using Theory of Capital Movement as the anchor theory of the study. The study employed The panel ARDL (autoregressive distributed lag). The study revealed that there is an insignificant positive relationship between exchange rate deregulation and economic growth.

Chigbu et.al (2015) examined the impact of capital inflows on economic growth of developing economies; the case of Nigeria, Ghana and India from 1986-2012. This is necessitated by the doubts being raised as whether the huge inflows of foreign capital in developing economies over the years have transmitted to real economic growth. Augmented Dickey Fuller unit root test was employed to evaluate the stationarity of the data, while Johansen Co-integration was used to estimate the long-run equilibrium relationship among the variables. The casual relationship was tested using Granger Causality, and Ordinary Least Square method was used to estimate the model. The findings reveals that capital inflows have significant impact on the economic growth of the three countries. In Nigeria and Ghana, foreign direct and portfolio investment as well as foreign borrowings have significant and positive impact on economic growth. Workers’ remittances significantly and positively related to the economic growth of the three countries. The enabling environment should be created in the developing countries to encourage more inflow of foreign investments and workers remittances. This will help in closing the savings-investment gap and encourage economic growth in these countries. The study signifies that capital inflows is indispensable in closing the savings-investment gap required for economic growth of developing countries.

4. METHODOLOGY

The study used historical data sourced from Central Bank of Nigeria Statistical Bulletin from 2010 to 2019. Vector Autoregressive Estimates (VAR) model was used to determine the effect of capital importation on Nigeria economic growth.

In order to achieve the objective of the study, the study adopted and modified model of .

Chigbu, Ubah, and Chigbu (2015) who did a study on Impact of capital inflows on economic growth of developing countries. Their model was expressed thus;

$$RGDP=f(FDPI,FA,WRT, FB) \dots\dots\dots(1)$$

Where: RGDP = Real Gross Domestic Product; FDPI=Foreign Direct and Portfolio Investment; FA= Foreign Aids; WRT= Workers’ Remittances; FB= Foreign Borrowings

This study replaced foreign aids, workers’ remittances and foreign borrowings with other financial investment; this shows that the study decomposed capital importation into foreign direct investment, portfolio investment and other financial investment which are mentioned earlier, while maintaining real GDP as the dependent variable. Central Bank of Nigeria started publishing the breakdown of capital importation from 2010 which comprises foreign direct investment which consist of (equity and other investment), portfolio investment (equity, bonds and

money market instruments) and other investment (trade credits, loans, currency deposits and claims)

The modified model is shown below as; $RGDP=f(FDI, POI, OIN).....(2)$

$$RGDP = a_0 + b_0 FDI + b_1 POI + b_2 OIN + Ut (3)$$

Where: FDI=Foreign Direct Investment; POI= Portfolio Investment; OFI=Other Financial Investment, RGDP=Gross Domestic Product; a_0 = Intercept; b =Coefficient parameter ; U_t = stochastic error term.

The first step in this analysis is to describe the variables used in the study before we proceed to carry out stationarity test. Stationarity test was conducted using ADF test and PP test. The result of the ADF and PP test is shown in Table 2 to 5.

5. RESULTS AND DISCUSSION

Descriptive statistics was used to explain the characteristics of the variables in the model. The mean and the standard deviation of any given set of data are usually reported together, though standard deviation in most cases is a measure of uncertainty .They measure how spread out a trend is in a set of data. A high standard deviation of any given set of data indicates that the data points are far from the mean and a low standard deviation indicates that the data points tend to be very close to the mean. Table 1 shows the summary of descriptive statistics used in the analysis. The mean value was shown to be 634635.0 for RGDP, 1430.562 for FDI, 9653.720 for POI and 2959.974 for OIN. The median value was shown to be 97817.23 for RGDP, 1383.605 for FDI, 9799.330 for POI and 2612.06 for OIN. The standard deviation for RGDP, FDI, POI and OIN were 1696075, 512.8465, 5616.693 and 1572.255 respectively.

Table 1: Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std.Dev	Obs
RGDP	634635.0	1696075	5461226	62980.40	1696075	10
FDI	1430.562	512.8465	2305.500	728.9400	512.8465	10
POI	9653.720	5616.693	18075.15	1882.800	5616.693	10
OIN	2959.974	1572.255	6406.180	1229.520	1572.255	10

Source: Author’s Computation

4.3 Unit Root Test

Augmented Dickey-Fuller (ADF)

Augmented Dickey-Fuller (ADF) and Phillips Perron (PP) unit root test was conducted in order to determine whether there are unit roots or stationary series. In conducting this test, the Phillips-Perron (PP) and the Augmented Dickey-Fuller (ADF) unit root test with intercept and none would be employed to determine the stationarity of data.

Table 2: ADF Test Result at Level: Intercept and none

Variables	ADF Statistic	Test Value at 1%	Test Value at 5%	Critical Value	Remarks
RGDP	-206.7382 (0.00)	-4.420595	-3.259808		Stationary
FDI	-2.130934 (0.23)	-4.420595	-3.259808		Not Stationary
OIN	1.343383 (0.94)	-2.847250	-1.988198		Not Stationary
POI	-0.026530 (0.64)	-2.847250	-1.988198		Not Stationary

Source: Output Data via E-views 9.0

Table 3: ADF Test Result at 1st DIFF: Intercept and none

Variables	ADF Statistic	Test Value at 1%	Critical Value at 5%	Remarks
RGDP	-1258.273 (1.00)	-4.582648	-3.320969	Not Stationary
FDI	-3.435230 (0.04)	-4.582648	-3.320969	Stationary
OIN	-2.073066(0.04)	-2.886101	-1.995865	Stationary
POI	-1.575545 (0.10)	-2.886101	-1.995865	Not Stationary

Source: Output Data via E-views 9.0

Table 4: ADF Test Result at 2nd DIFF: Intercept and none

Variables	ADF Statistic	Test Value at 1%	Critical Value at 5%	Remarks
RGDP	-1721.343 (1.00)	-4.803492	-3.403313	Not Stationary
FDI	-3.964382 (0.02)	-4.803492	-3.403313	Stationary
OIN	-3.518826(0.00)	-2.937216	-2.006292	Stationary
POI	-2.499146 (0.02)	-2.937216	-2.006292	Stationary

Source: Output Data via E-views 9.0

Unit root test in Table 2 to 4 shows that only RGDP was stationary at level while FDI and OIN was stationary at 1st Diff hence the need to difference the variables further. RGDP was only stationary at order one while POI was only stationary at one two. In order to confirm the stationarity of the variables Phillips Perron (PP) unit root test was conducted.

Phillips Perron (PP) Test

The result of the Phillips Perron (PP) unit root test in Tables 5 to 7 further affirmation of the ADF test in Tables 2 to 4 that the data were stationary at level, first difference and second difference. The stationarity of the data based on the unit root test conducted allows for testing the short run relationship between capital importation and economic growth of Nigeria.

Table 5: PP Test Result at Level: Intercept and none

Variables	Phillips-Perron Statistic	Test Critical Value at 1%	Test Critical Value at 5%	Remarks
RGDP	-148.6166(0.00)	-4.420595	-3.259808	Stationary
FDI	-2.197863(0.21)	-4.420595	-3.259808	Not Stationary
OIN	3.997935 (0.99)	-2.847250	-1.600140	Not Stationary
POI	-0.297674 (0.54)	-2.847250	-1.988198	Not Stationary

Source: Output Data via E-views 9.0

Table 6: PP Test Result at 1st Diff: Intercept and none

Variables	Phillips-Perron Statistic	Test Critical Value at 1%	Test Critical Value at 5%	Remarks
RGDP	-1023.241(1.00)	-4.582648	-3.320969	Stationary
FDI	-4.452560 (0.01)	-4.582648	-3.320969	Stationary
OIN	-2.073066 (0.04)	-2.886101	-1.995865	Stationary
POI	-1.614922 (0.09)	-2.886101	-1.995865	Not Stationary

Source: Output Data via E-views 9.0

Table 7: PP Test Result at 2nd Diff: Intercept and none

Variables	Phillips-Perron Statistic	Test Critical Value at 1%	Test Critical Value at 5%	Remarks
RGDP	-1964.571(1.00)	-4.803492	-3.403313	Not Stationary
FDI	-6.219585 (0.00)	-4.803492	-3.403313	Stationary
OIN	-4.340514 (0.00)	-2.937216	-2.006292	Stationary
POI	-2.499146 (0.02)	-2.937216	-2.006292	Stationary

Source: Output Data via E-views 9.0

4.4 Diagnostic Test

Normality Test

The normality test was done using the Jarque-Bera Normality test, which requires that for a series to be normally distributed; the Jarque-Bera statistics would not be significant. This implies that the p-value given at the bottom of the normality test table should be greater than the chosen level of significance to accept the Null hypothesis, that the series is normally distributed.

Table 8 Normality Test

Component	Jarque-Bera	df	Prob.
1	0.359710	2	0.8354
2	0.011207	2	0.9944
3	1.610150	2	0.4471
4	0.651129	2	0.7221
Joint	2.632197	8	0.9553

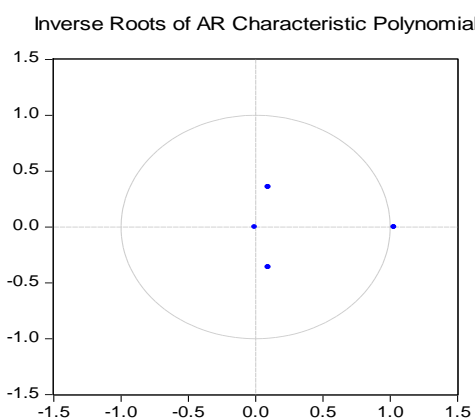
Source: Output Data via E-views 9.0

Normality test in Table 8 shows that the probability value for each of the variables RGDP, FDI, OIN and POI are 0.8354, 0.9944, 0.4471 and 0.7221 are greater than 5% level of significant which indicates that the variables are normally distributed. Also jointly or when all the variables are combine together the probability value is 0.9553 which indicates that all the variables are normally distributed.

Stability Test

The stability of the VAR model was investigated using the inverse roots of AR characteristic polynomial presented in figure 1.

Figure 1: Inverse Root of AR Characteristics Polynomial



Source: Graphs Using E-view Statistical Package, Version 10

Table 11 Pair wise granger causality test on input variables

VAR Granger Causality/Block Exogeneity Wald Tests			
Dependent variable: RGDP			
Excluded	Chi-sq	df	Prob.
FDI	3.675474	1	0.0552
POI	0.034454	1	0.8527
OIN	6.511201	1	0.0107

Source: Output Data via E-views 9.0

Null Hypothesis

H_{01} : FDI (lag1) can not cause RGDP, H_{02} : POI (Lag 1) can not cause RGDP

H_{03} : OIN (lag1) can not cause RGDP

Probability value in hypothesis one is 0.0552 that is 5.52% which is more than 5% level significance. Hence the acceptance of null hypothesis and rejection of the alternative, that Foreign Direct Investment cannot cause Real Gross Domestic Product.

Hypothesis two indicates that the probability value of Portfolio Investment is 0.8527 which is 85.27% and is more than 5%. Hence the acceptance of null hypothesis and rejection of the alternative hypothesis that Portfolio Investment cannot cause Real Gross Domestic Product.

Hypothesis three indicates that the probability value of Other Investment is 0.0107 which is 1.07% and is less than 5%. Hence the acceptance of alternative hypothesis and rejection of the null hypothesis that Other Investment causes Real Gross Domestic Product.

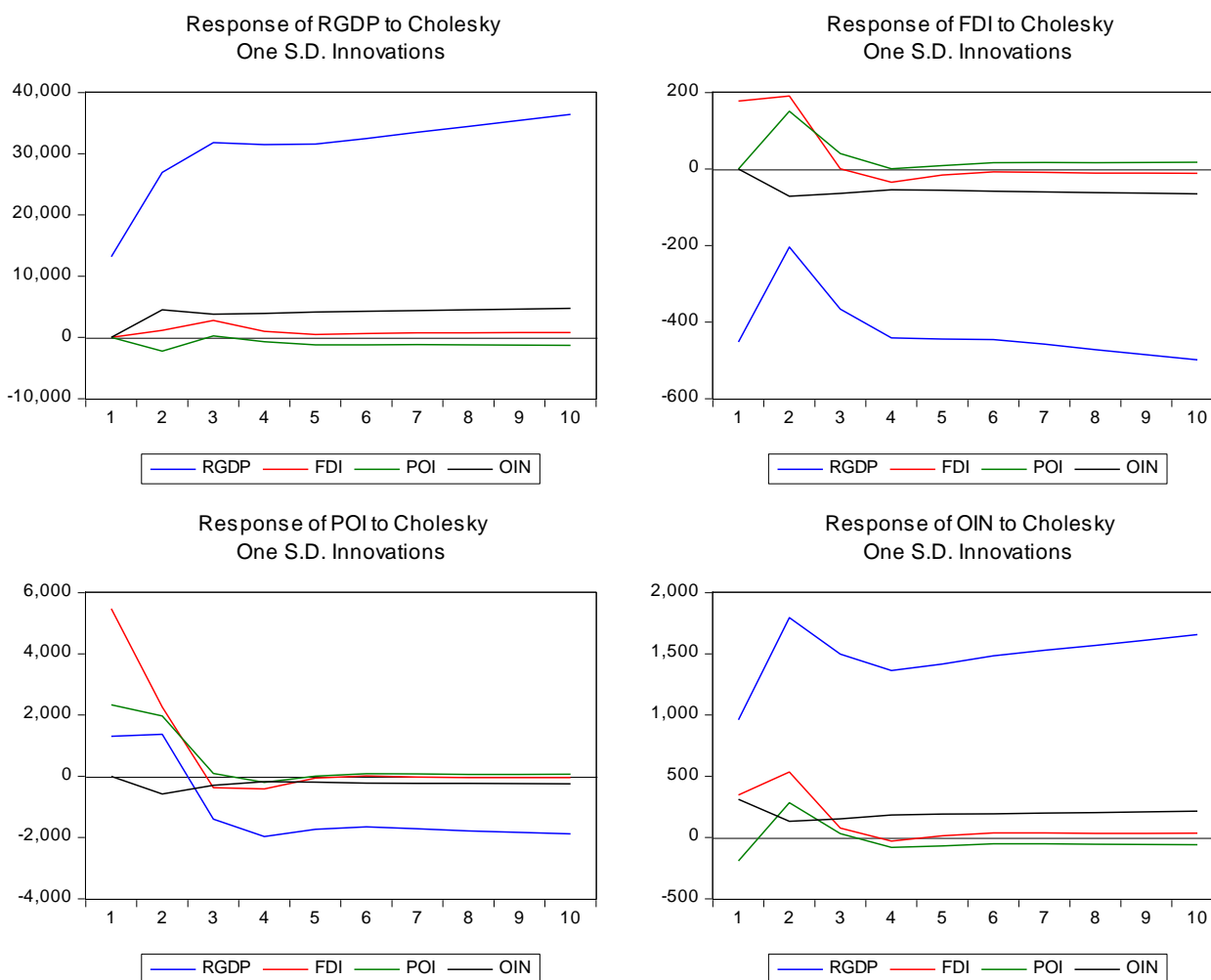
4.6 Variance Decomposition

Variance decomposition was used in this study to determine which of the capital importation variables (FDI, POI and OIN) that most influences economic growth in Nigeria. The outcome of variance decomposition estimates of RGDP in Table 12 shows that other financial investment (trade credits, loans, currency deposits and claims) shocks explain about 2.1% of the variation in RGDP in the second period. This is followed by portfolio investment and foreign direct investment which explain about 0.54% and 0.45% changes in RGDP in the 2nd and 3rd period respectively while about 97% of future changes in RGDP are explained by present RGDP.

Table 12. Variance decomposition of RGDP

Period	S.E.	RGDP	FDI	POI	OIN
1	13185.58	100.0000	0.000000	0.000000	0.000000
2	30452.77	97.12041	0.140395	0.546199	2.192995
3	44288.59	97.51555	0.457990	0.261017	1.765444
4	54496.50	97.79612	0.335157	0.188876	1.679847
5	63136.38	97.88607	0.254975	0.178948	1.680009
6	71147.17	97.93765	0.208514	0.171063	1.682772
7	78779.44	97.97762	0.179082	0.162437	1.680866
8	86120.41	98.00772	0.157788	0.155869	1.678623
9	93248.19	98.03015	0.141475	0.151187	1.677184
10	100230.2	98.04748	0.128711	0.147615	1.676196

Source: Extracted from e-views 9 output data on variables of study



4.3 Impulse Response Function

Impulse response function is used to describe the evolution of the dependent variables of interest along a specified time horizon after a shock from all the explanatory variables. Fig. 1 shows that foreign direct investment and other financial investment have the highest shock impact on real gross domestic product among the variables.

The effect of foreign direct investment impulses is positive on RGDP from 1th to 10th period while making its full impact on the fourth and tenth period. Accumulated impulse response functions shows that other financial investment and portfolio investment impact the highest shock on RGDP among the other variables making its full impact from the seventh period to the tenth period. Portfolio investment has a negative impact from second to the tenth period while foreign direct investment has positive impact from first to last period.

6. CONCLUSION AND POLICY IMPLICATION

Capital importation is the influx of external resources or inflow of capital from one country to another for the purposes of investment, trade and business production (Awe, 2017). Capital importation is expected to help in the economic growth and development of the country by providing jobs and improving the technological advancement of the country. In essence capital importation creates new jobs and more opportunities as investors build new companies in foreign countries. This can lead to an increase in income and more purchasing power to locals which in turn leads to an overall boost in the economy.

Various studies have been carried out on the effect of capital importation on Nigeria economic growth. Results from these studies are conflicting as such the study tends to find out the effect of capital importation on Nigeria economic growth from 2010 to 2019. The study adopted an econometric method of analysis and data were sourced from the Central Bank of Nigeria statistical bulletin. Descriptive statistical analysis was carried out on the

data to establish the characteristics and/or attributes of our datasets, thereafter that the unit root status of the variables was established and was discovered to be intergrated at order I(0), I(1) and I(2). This necessitated the use of Vector Autoregressive Estimates (VAR) models in the study. The result of the analysis shows that capital importation has positive but insignificant effect on Nigeria economic growth within the period of the study. The result is consistent with the study of Okeke (2018), Aisen and Abraham (2020), Azeez, Dada, and Aluko, (2014) and Ogunkola et.al (2006). The study therefore agrees that capital importation will help reduce high unemployment and poverty rate in the country by creating jobs for our teeming population. Increase in capital importation will help in the industrialization of the country which will help provide jobs to our unemployed youths. Despite the importance of capital importation in the country yet government actions and inactions are encouraging mass exodus of companies in Nigeria.

Security situation on the other hand has discouraged foreign investors even local investors in investing in Nigeria as such the study makes the following recommendations; Nigeria should tackle the insecurity in the country by increasing its funding on the sector while investing in security hardware and intelligent gathering as worsening security challenges in the country serves as a deterrent to inflow of foreign capital in the country. Nigeria should develop a code of conduct on multinational corporation to curb their restrictive business practice, limit their repatriation of profits from Nigeria and ensure that significant part of their profits are re-invested into the Nigerian economy. Nigeria should ensure a stable government by guaranteeing the sustainability of democratic rule devoid of unwarranted changes and interference in the judiciary and legislative arm of government. Government should ensure stable macroeconomic policies as a stabilization tool to propel the attraction of more FDI into Nigeria. Also, government should increase its expenditure in the area of infrastructural development as ways to accelerate the growth of Nigerian economy. The government should create an enabling environment by providing needed infrastructural facilities in a bid to attract foreign investors and encouraging domestic investment in the country.

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