# Financial Globalisation and Domestic Investment in Developing Countries: Evidence from Nigeria

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**Abstract**

*Financial globalisation is hypothetically helpful to a country to the extent that capital inflows augment available domestic savings for investment purposes. This may be impossible where a globalised country finds itself experiencing more capital outflows than inflows. In this study, we identified the factors that determine the level or degree of financial globalisation of a country as the nominal exchange rate, the level of financial development as captured by the level of financial deepening of the financial system and trade. Using the Kaopen (Capital opening index) and average exchange rates measures of financial globalisation the paper found that, for Nigeria, the greater the level of financial globalisation, the more Nigeria experienced capital outflows. Export is particularly positively impactful on capital outflows. Capital outflows have depleted available domestic resources and impacted domestic investment negatively. The paper recommends the greater need for autonomous investment to crowd in other investments by implementing policies that encourage investment in the economy. This situation may not improve until there is a proactive and deliberate action from the government to improve investment, especially of infrastructure, in the economy*

**Keywords:** Autonomous investment, Kaopen, Financial savings, External assets

## 1. Introduction

Real investments by governments, business firms and households boost capital formation in any economy and help to increase productivity, employment opportunities and income. A matter of concern however is the level of investment in a country relative to the level of potential or aggregated or financial savings in the domestic financial system. If the level of savings and investment is low, the tendency to undertake external borrowing by both private and public sectors becomes high. In sum, the potential level of income is determined by the amount of capital available. When domestic capital is not available, there is the tendency to resort to external borrowing Ajayi (2000). At most times capital inflows or outflows in the domestic economy has been fostered more by the ability of capital to freely flow from one country to another than by any deliberate monetary policy management. The opening process of the capital account and the liberalisation of the exchange rates regime have somewhat allowed freely flowing capital into hitherto closed economies. Those economies have taken advantage of such capital to maximise investment in the domestic economy.

Capital flows are usually dominated by foreign direct and portfolio investments which are privately powered, highly mobile and essentially return seeking (Bekart 2005). In the last decade, capital flows have been higher than at any other time in history. Such capital flows have been enabled and propelled by financial globalisation and integration among economies of countries of the world (Prasad *et al*, 2003). However, capital that is engaged in real investment in most developing countries is stable, and less return chasing in the immediate term. This category of long-term investment

56 capital is lacking in Nigeria. This is a problem of most developing countries since very little of investment is made for
57 capital formation.
58    The broad objectives of this paper are to find out the relationship, between financial globalisation and domestic
59 investment and to examine the challenges financial globalisation can pose to domestic investment during this era in
60 Nigeria. It specifically finds out the channels through which financial resources are lost in Nigeria and its impacts on
61 financial saving. Hypothetically, it is averred that financial globalisation has not significantly led to loss of capital, thereby
62 reducing investment. The paper is organised as follows: following after the introduction is the review of literature on
63 domestic investment and financial globalisation. Section three deals with the models and methods, section four
64 discusses the results and section five concludes and makes recommendations.
65
66 **2. Domestic Investment**
67
68 *2.1 The Literature*
69
70 Domestic investment is the acquisition of income-producing assets within the economy rather than abroad. Physical
71 assets particularly add to the total capital stock. Boosting economic development requires higher rates of economic
72 growth than domestic savings can provide. The role of domestic savings in the investment process is positive. Long-term
73 relationship between savings and investment tend to be strong, (World Bank, 2007), though countries with the highest
74 investment rates are not necessarily the ones with highest savings rates. While short-term investment is encouraged by
75 external sources of fund, long term investment is driven more by domestic forces. With lower rates of interest, asset
76 values tend to be on the upward swing, which reflects the discounted value of such assets. Such higher asset values
77 increases the rate of acquisition and investment and thereby increasing aggregate demand. Total supply increases in
78 response to greater aggregate demand, and this generates a further increase in demand - forming a virtuous cycle.
79 Investment therefore, is not constrained by aggregate savings but more by domestic interest rates (Monetary Policy
80 Rates) as set by the Central Bank,  who invariably has other objectives apart from maintenance of low inflation and
81 increasing the level of savings in the domestic economy (Moore, 2006). Therefore the new equation of investment is,
82 Investment = (Savings) + (Newly Created Money Available to Deposit Money Banks).
83    Generally, sub-Saharan Africa has lagged behind in saving rates among other regions of the world.  While savings
84 rates have doubled in south East Asian countries and increased in Latin American countries, it has stagnated in sub-
85 Saharan Africa, according to Loayza, Schmidt-Hebbel and Serven (2000). Since savings, investment and economic
86 growth are linked; unsatisfactory or poor performance of one affects the other, and could lead to stagnated growth, which
87 in turn can affect the viability of the BOP (Chete, 1999). Attempts at reducing expenditure have affected investment rates
88 and have led to poor and sluggish growth which has eventually affected savings performance (Khan and Villanueva,
89 1991). The provision of infrastructure in the economy with autonomous investment is more government propelled and
90 powered and may not be generated from savings.
91    Sub-optimal allocation of resources due to governance and political-economy issues in Nigeria is partly
92 responsible for the low rate of domestic investment in Nigeria according to Collins and Bosworth (2003) as cited in
93 UNCTAD (2007). Though no statistics is available to support this, the above-mentioned factor is most-likely, responsible
94 for low Total Factor Productivity (TFP) growth. With Nigeria's low level of savings and investment profile, Nwachkwu and
95 Odigie (2009) recommend the increase in the production base of the economy in order to increase the two variables,
96 increased savings and investment can be achieved by encouraging increase in funding for the diversification efforts away
97 from oil. The use of National Economic Empowerment and Development Strategy (NEEDS) and Micro, Small and
98 Medium Enterprises (MSMEs) to encourage savings and investments rates in the Nigerian economy is important.
99    The real rate of interest is important because the nominal rate cannot encourage financial savings as depositors
100 face purchasing power risk overtime. Where this is overlooked as a result of regulation, the spread between interest rates
101 on savings and lending becomes an issue that must be tackled, if investment and savings must be encouraged in the
102 economy. The spread between deposit and lending rates have remained high, ranging between 10% to 20%, depending
103 on the bank [(The older banks have  a structure of  lower interest rates than the younger banks) CBN, 2009)]. To
104 encourage investment in long-term assets (which increases the capital stock in the economy), the Small and Medium
105 Scale Enterprises can be deepened as enunciated in the Financial System and Strategy 2020 document (Oyelaran–
106 Oyeyinka, 2008). The attitude of Nigerian banks in the savings and investment analysis of Soyibo (1994) raises a great
107 concern as the findings prove that banks' lack of interest in investment lending is basically due to profit motive (the banks
108 were forced to lend to specific sectors before this time)  as earlier alluded to in Ojo (1976). In addition, Soyibo (1994)

109  catalogued the problems that have not allowed savings to transform to investments as, inadequate information about
110  investment opportunities, unpredictability of the domestic economic environment, and lack of adequate infrastructure.
111  Further, investment waned as short-termism and preference for high returns and liquidity prevailed. In the banks' lending
112  decisions for investment purposes, ability to repay was significant, followed by the profitability of the sector.
113       The trend assumed by bank-assisted investments in Nigeria reveal that the deposit money banks (DMBs) financed
114  a lot of capital investment before 1976, such bank financing amount to an annual average of 37% of total investment.
115  This proportion dropped until it reached the level of 14.6 % for the period 1996 – 2006. The share of loans to the services
116  sub-sector increased from 0.3% in the seventies to 11 % in the nineties.  Also, these classifications that have a figure of
117  43.3% comprise of other loans i.e. loans for other purposes outside of investment. It is however clear that the financial
118  services is taking the driver seat in propelling investment according to theory (Nnanna *et al*, 2004). CBN (2007), reports
119  that a large portion of credit to the economy went to the miscellaneous sector. Though this has many components but it
120  has continued to increase with consumer credit. The mean credit to the agriculture sector was only 3% during this period,
121  international trade received 2% the productive sectors of the economy (mining 9%, manufacturing 19% and agriculture,
122  3%) received 31% of total credit.
123       The relationship between physical investment and GDP is considered the most important of the factors antecedent
124  to growth (Levine and Renelt, 1992). Liquidity preference is one of the main reasons why investors prefer to invest in
125  financial instruments. A positive correlation has been established between investment and economic growth (Chenery
126  and Strout 1966, Iyoha 1998). Iyoha (1998) was able to use investment-income ratio with data between 1970-1994 to
127  establish that a 10% per cent rise in investment-income ratio will lead to a 3% rise in per capita Gross National Product in
128  the short run and 26% in the long run. Aggregate investment, comprising of both private and public investment, is needed
129  for rapid growth and development of the economy. The investment made in people  (otherwise known as human capital)
130  as well as investment in infrastructure are seen to be the best as they produce multiplier effects in the economy in the
131  long run.
132       Low real interest rates are expected to encourage investment in the economy. While Uchendu (1993) agrees that
133  the low level interest encouraged direct private borrowing for investment purposes, this regime of interest rates has been
134  blamed for retardation in the development of the financial system as it encouraged capital flight and poor loan discipline.
135  Bogunjoko (1998) surmises that though financial savings increased this did not translate to investments. The subsequent
136  autonomy of the financial institutions to determine the interest rates given some bounds produced poor results. Reasons
137  for this are not farfetched: banks avoided long term and became risk-averse, preferring short term loans with good
138  liquidity prospects to development oriented projects and real investments. Public sector spending has been said to be a
139  major contributor to investment in Nigeria, though exaggerated and its effect much lower than acclaimed; especially
140  where some degree of external financing has been involved (Akintoye and Olowolaju, 2008). Akintoye and Olowolaju
141  recommend policies to achieve increases in domestic investment and real output while efforts should be made to
142  promote private domestic investment in the short, and long run.
143
144  *2.2 Sources and Determinants of Domestic Investment*
145
146  Sources of investment could be external or internal and private or public. Tella (1998) employed the Harrod-Dormar
147  growth model in his analysis of this problem. Whereas, Moore (1998) believes that savings does not constrain
148  investment, Tella with the Harrod Dormar model asserts that, given a level of national income, the aggregate spending or
149  consumption will in the long run affect savings, and the only way to encourage investments is to introduce policies that
150  will encourage savings. Domestic sources of capital to finance investments in Nigeria have been empirically determined
151  to be public and private. The financial institutions that provide capital for investment in Nigeria include Deposit Money
152  Banks (DMBs), and Development Finance Institutions (DFIs). The list has been increased by the rapidly-expanding
153  pension funds sub-sector that is accumulating funds at a high rate. The issue of infrastructure showed has up as a
154  recommendation for improving the investment climate in Nigeria (Oyeranti 2003 and Oyelaran–Oyeyinka 2008). The
155  other sources of financing investment are external, made-up of the accumulated savings of other countries, which are
156  accessible through loans, grants and equity participation. External finance could come through foreign portfolio or direct
157  investments; supranational financial institutions have also provided funds for the purpose of investment in Nigeria. The
158  International Development Association (IDA), African Development Bank (AfDB), United Nations Development Program
159  (UNDP) and lately the European Union (EU) have influenced the direction of capital investments in Nigeria.
160       Privatisation of State Owned Enterprises (SOEs) is significant either in encouraging domestic investment by
161  indigenous entrepreneurs or in partnership with foreign partners. Since most foreign investors prefer *brownfields* and

162 cross-border mergers and acquisitions to *greenfields*, the impact of divestment process of government from the State
163 Owned Enterprises (SOEs) becomes important. Soyibo, Olayiwola and Alayande (2003) study shows that the erstwhile
164 SOEs increased their investment profile after being privatised.

166 *2.3 Financial Globalisation and Financial Development*

168 Itto and Chinn (2007) constructed a financial globalisation index for many countries which included Nigeria from where
169 one can conclude that Nigeria is not financially globalized. Financial deepening is perhaps the most important of the
170 variables of financial development. The others are money supply and credit to the private sector. Adegbite (2007) is
171 replete with the different measurements of financial globalisation. Trade is seen as the most important of all the
172 measures of financial globalisation as there would be no financial flows without the exchange of goods and services
173 across countries. Trade is also indicative of the level of real flow inter-relation between the domestic economy and the
174 rest of the world. However, basic approaches to measuring financial globalisation have been on the level of *relaxation* of
175 *restrictions* and generally the relative *level of financial flows*, each being measured from different angles. Chinn and Ito
176 (2007) index is, exchange rate and regulatory environment based and is also a measure of financial openness. From all
177 indications, the *de facto* measure, which should be superior, could be illegitimate in most developing and emerging
178 economies as is the case of Nigeria. The Uncovered Interest Parity model uses a price-based measurement rather than
179 asset and liability based approach adopted by Lane and Milesi-Ferretti (2008).
180 However, Klein and Olivei (1999) and Levine (2001) show that financial liberalisation promotes financial
181 development while Beck *et al* (2000) prove that financial liberalization fosters productivity more than capital
182 accumulation. Bonfiglioli (2007) proves that the stage of development of the country is fundamental to the ability of a
183 country to transmute capital inflows into real and financial development as developing countries spend lot more on
184 investment i.e. higher aggregate expenditure on physical capital and development of infrastructure at lower levels of
185 economic development with direct positive effect on productivity.
186 Nigeria's experience on the financial globalisation terrain may not have been documented (as this study found
187 out). However, a sociological perspective of economic globalisation indicates that the experience has not been salutary,
188 as it appears to have been foisted on most developing countries as part of the debt-settling programme. On the balance
189 Olikoshi (1998) and Onyenoru (2003) report the dismal performance of the real sector of developing countries since the
190 onset of globalisation. Globalisation seems to have benefited the multinational firms and the developed countries but not
191 the developing countries. Furthermore, the inflow of capital needs to be complemented with adequate structures and
192 infrastructure on ground before it can yield the expected and theorised dividends. The *de jure* index of financial
193 globalisation is more explicit and has been improving gradually, with the process of adjustment programmes Nigeria
194 undertook since the mid 1980s. The index has a maximum of 2.543 for completely open and floating exchange rates.
195 Index for Nigeria moved from -1.12942 in the seventies to -0.45086 as at year 2007 and has dropped further with current
196 practices.

198 **3. Models and Data Sources**

200 The study adopts a modified version of Heim (2008) model of domestic investment. For this study on Nigeria, Investment
201 is a function of average exchange rate, financial savings, public sector borrowing requirements, all share price index and
202 real gross domestic product in the economy.
203 Specifically,
204 $Invt = f(\alpha_0 t\ \beta_i\ X_i\ \beta_2 X_2\ \beta_3\ X_3...\beta_n X_n)$.......................................................................... (1)
205 $INVT = (AVEXRATE, FSAVS, PSBR, RGDP, ALSI)$,..................................................... (2)
206 $INVT = \alpha + \beta_1 AVEXRATE + \beta_2 FSAVS + \beta_3 PSBR + \beta_4 RGDP + \beta_5 ALSI + \beta_6 CAPUTIL + \varepsilon$....... (3)
207 Where: INVT = Investment, AVEXRATE = Average Exchange Rate, FSAVS = Financial Savings, PSBR = Public
208 Sector Borrowing, RGDP = Real Gross Domestic Product, ALSI = All Share Price Index, CAPUTIL= Industrial
209 Capacity utilisation, $\alpha$, $\beta_i$ ----- $\beta_5$ = Parameters, $\varepsilon$ = Error Term
210 While the financial globalisation determinant are modelled as below
211 $FA = \alpha + \beta avexrate + \beta tradeopeness + \beta findeepn + \beta gdppc + \beta pop + export + \beta kaopen + \varepsilon$... (4a)
212 $FL = \alpha + \beta avexrate + \beta tradeopeness + \beta findeepn + \beta gdppc + \beta pop + import + \beta kaopen + \varepsilon$..., (4b)
213 Where *FA* and *FL* are the alternate dependent variables for external financial assets or liabilities, *Avexrate* is the
214 average rate of exchange; *findeepn* represents financial deepening i.e. M2/GDP. *GDPPC* is per capita output. *POP*

215 represents the population. The use or *IMPORT/EXPORT* is adopted for financial liabilities and assets respectively and
216 *Kaopen* represent the index of capital account opening and $\varepsilon$ for error term. *KAOPEN* measures the intensity of the
217 openness of the capital account of the BOP. *GDPPC* is used to represent per capita Gross Domestic product measures
218 the GDP per member of the population and product and services. The measure of trade openness is the sum of export
219 and import divided by the Gross Domestic Product of the economy. Openness to trade is more propelled by the
220 liberalisation of the current account, which is where real values are transacted. *TRADEOPEN* is used in the regression
221 process. It is denoted thus *(X +M)/GDP*. Capacity utilisation is adopted to measure impact of industrial production on
222 investment, since the expenditure on machinery and equipment have multiple effect on output and production.
223     *FINDEEPEN* (financial deepening) is used as s proxy for financial development. The process of becoming a
224 financial centre can be more propelled by financial deepening and it is operationally defined as *the availability of more*
225 *financial services and products from both the bank and non-banking financial institutions which results in higher*
226 *circulation of money in the financial system.* The other variables adopted for the estimation of the *de facto* financial
227 globalisation of Nigeria are *imports* and *exports*. The two are adopted here to measure the impacts in the globalisation
228 process and in the asset and liability acquisition of the Nigerian units externally. Exports are included in the asset
229 acquisition, while imports can lead to liability acquisitions. The *avexrate* is the rate of exchange which is important in the
230 process of foreign investment.
231     Data sources are from the International Financial Statistics, (IFS) of the IMF for external assets and liabilities, per
232 capita income real gross domestic product. Exchange rates and trade variables are from Direction of Trade (DOT). Public
233 sector borrowing and share index values, savings and investment were obtained from the Central Bank of Nigeria (CBN)
234 Statistical Bulletin. Data is from 1970 to 2007, all in nominal form.
235
236 **4. Discussion of Results and Observations**
237
238 Dollar translated investments have dwindled sharply and domestic investment is insufficient to match-up external assets
239 acquisition in the post globalisation period. The Public Sector Borrowing Requirement (*PSBR*) was initially significant;
240 however it eventually tapers off showing the trend of reduced government reliance on banking resources to finance
241 investments in the country. Table 1 shows the descriptives of the equality test of the variables of *INVT*, *DINVT* (dollar
242 translated investment) and *FSAVS* under the pre and post periods of financial globalisation. *DINVT* shows that the
243 country is not making enough investment to match the pre globalisation period, though the nominal figures of the *INVT*
244 shows that the investment is higher. The impact of high exchange rate has reduced the *DINVT*, while the *FSAV* has
245 increased tremendously, it has not impacted *DINVT*. Capital that would otherwise have been used for domestic
246 investment has escaped from the country and resources have been lost.
247
248 **Table1.** Test of Equality between the Series of Variables
249

| Measures | Globalisation Status | DINVT ($) | FSAV (₦) | INVT (₦) |
|---|---|---|---|---|
| Mean | Pre Globalisation | 9805.16 | 4.34506 | 6467.61 |
| | Post Globalisation | 3194.58 | 433.7 | 189461 |
| Maximum | Pre Globalisation | 18152 | 12.51 | 12215 |
| | Post Globalisation | 6203.9 | 2693.3 | 512450 |
| Minimum | Pre Globalisation | 1231.9 | 3410 | 880 |
| | Post Globalisation | 1353.54 | 13.93 | 5573 |
| Standard Deviation | Pre Globalisation | 6133.04 | 4.00773 | 3786.84 |
| | Post Globalisation | 933.652 | 663.909 | 179506 |

250 **Source.** Descriptives of selected Variables
251
252 The *GDPPC* of the country in the financial globalisation process shows that the variable does not significantly affect
253 financial globalisation. External assets acquisition by entities in Nigeria as means of asset diversification has yet to reach
254 a significant proportion. The market determined exchange rate is positively related to domestic investment. This is also
255 noticeable in the *de facto* financial globalisation determinants in both asset and liability acquisition in the country.
256 Therefore, the exchange rate management process is important to the resolution of the problem. The situation can be
257 more worrisome where there is preponderance of financial investment over real investments as represented by the
258 significance of *ALSI* in Table 2. Portfolio investment can quickly flow out as it has flown in.

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259 **Table 2.** Regression Estimates (Dependent Variable – Domestic Investment)
260

| | All Periods | Pre Globalisation period (1970-1985) | Post Globalisation (1985-2007) |
|---|---|---|---|
| Constant | -82330.45 | -14160.27 | -31809.48 |
| | (-1.18975) | (-0.2181) | 37062.07 |
| Finsavings | 162.517 | 687.146 | 192.5335 |
| | (37.18)** | (8.426)*** | (46.035)*** |
| Avexrate | 2052.25 | 679.0332 | 1676.837 |
| | (195.072)*** | (4.4135)*** | (266.765)*** |
| PSBR | 1.239 | -4.7800 | 2.226 |
| | (0.488)** | (-2.7034)** | 0.7586*** |
| RGDP | -0.0379 | 0.2447 | -0.0522 |
| | (0.0208)** | (0.1055) | (0.0252)** |
| ALSI | 0.0360 | - | 0.0496 |
| | (2.2606)** | - | (0.0184)*** |
| Caputili | | 116.4 | -583.302 |
| | | 60.53* | (930.29) |
| R Squared | .976 | .98 | .98 |
| Adjus. R Squared | .970 | .98 | 97 |
| F Statistics | 276.72 | 378 | 124. |
| Durbin Watson | 2.22 | 1.94 | 2.09 |
| Observations | 37 | 14 | 23 |

261 **Note:** OLS estimates. Standard errors are in parentheses. ***, **, * denote significance at 1, 5 and 10 percent levels respectively
262

263 The result indicates that *CAPUTIL* has steadily worsened from a significant level in the pre-globalisation estimates to
264 showing no significance in the post-globalisation period. *ALSI* shows that it is highly significant for the post-globalisation
265 period rather than the pre-globalisation period showing higher interest to invest in liquid and financial instruments rather
266 than real investment – a loss to capital formation in the economy. The use to which Nigeria has employed the global
267 financial market in the sourcing and usage of funds and the direct linkages with international financial centres is
268 measured by the *de facto* determinants. For the rate of exchange *(avexrate)*, financial asset is significant beyond *0.05*
269 *level* indicating the tendency of lower exchange rates at encouraging the acquisition of liabilities by Nigerians abroad at
270 the pre globalisation period.

271 *Export* as an independent variable was more significant in acquiring financial assets outside Nigeria than import
272 was in acquiring liabilities. The indication here is that Nigerians have significantly used export proceeds to acquire foreign
273 assets and most probably engaged in capital flight, and this at *0.01* level of significance. For both periods of pre and
274 post-globalisation, the feature is the same as the foreign assets are higher than foreign liabilities. The *Kaopen* measure
275 that has not been significant in some of the countries is significant in the pooled data at *0.10*. Going by this analyses
276 Nigeria is can be said to have achieved a level of financial globalisation. One can conclude that the financial globalisation
277 process has increased the interest of Nigerians to acquire assets externally resulting in loss of capital.
278

279 **Table 3.** Regression Estimates of Nigeria Financial Globalisation
280

| Variables | Financial Assets (a) | Financial Liabilities (b) | Pre Globalisation Financial Assets (a) | Post Globalisation Financial Asset (b) |
|---|---|---|---|---|
| Constant | 23999.53 | -99451.83 | -1281.549 | -164872. |
| | (2.548) | (-0.84878) | (922.122) | (-10065) |
| AvexRate | -3192.14 | 1429.81 | 447.00 | 2444.13 |
| | (-0.4899) | (1.96685)** | (248.32) | (1.1905) |
| Kaopen | 835771.6 | -22977.99 | -850.54 | 3480 |
| | (3.8271)*** | (-0.952264) | (656.99) | (2.1608)** |
| GDPP Capita | 58.2135 | -5.556 | 0.008 | 3.147 |
| | (0.895975) | (0.429) | (0.0119) | (0.1903) |
| FinDeepn | -41965.68 | 2918.39 | -6.746 | 0.0111 |

| | (-2,0602)** | (1.4302) | (4.457) | (0.0264) |
|---|---|---|---|---|
| Export | 94.732 | | -0.0015 | 59.004 |
| | (7.224)*** | | (0.003) | (2.548)*** |
| Population | -13066.46 | 256.36 | | 16636.8 |
| | (0.8874) | (0.15) | | (0.9791) |
| Import | | -1.759 | | |
| | | (-0.6) | | |
| Tradeopenesss | -2159.77 | 90.516 | 0.294 | 0.0001 |
| | (-2.8248)*** | (1.0119) | (0.117)** | (0.0004) |
| | | | | |
| D Watson | 1.73 | 1.71 | 1.62 | 2.06 |
| R² | .92 | 0.62 | 0.73 | 0.97 |
| Adj. R² | 0.90 | 0.53 | 0.56 | 0.95 |
| F Statistic | 49.83 | 6.77 | 4.45 | 67.74 |
| Observations | 37 | 37 | 17 | 20 |

Note: OLS estimates. *t* statistics are in parentheses. ***, **, * denote significance at 1, 5 and 10 percent levels respectively

It is evident that the country is yet to be able to align itself with the reality of financial globalisation. This means that opening up more could be dangerous for the country, leading to serious outflow of resources unless investments are made to pull the resources back. If assets have been acquired by Nigerians externally, it shows that the economy had not benefitted from available savings needed for investment in the economy. It also indicates that Nigerians prefer to invest their capital outside the country to the disadvantage of the domestic economy consequently leading to loss of domestic savings in the process. Table 3 shows results that indicate *FinDeepn* is no longer significant after being so initially.

## 5. Findings, Conclusion and Recommendation

### 5.1 Findings and significance

The following major findings can be deciphered from the study:

1. Government have funded most of its public expenditure through borrowing from banks, such bank funds could have been lent to the private sector for investment purposes which would have had multiplier effects on economic growth. The implication is that government borrowing crowds out domestic private sector investment.
2. Financial savings that enable banks to have resources for investment is shallow and can hardly support any meaningful real investment in Nigeria. The implication of this is that foreign direct investment inflow can be discouraged since good investment environment is lacking in Nigeria.
3. The preponderance and *skewness* of the financial system towards short-term investments which is little benefit (if any) and cannot encourage growth in Nigeria.
4. Investments are not being made in the real sector somehow, and those that have been made are in liquid assets.

### 5.2 Recommendations and Conclusions

It is recommended that Nigerian banks and other firms begin their financial globalisation and integration efforts from the Economic Community of West African States (ECOWAS) sub-region, since it is a dominant economy and the forces of financial centre should normally gravitate towards the country. Financial savings must be invested within the region.
Policymakers should encourage real investments in the economy, and crowd in other investments and make the environment more investment friendly for both foreign and domestic investors. This can be done by using fiscal incentives to encourage investment.
In addition, policymakers must work on the investment environment to create enabling environment for further investment in the economy and encourage inflow of foreign direct investment by providing infrastructure. In the current era of reduced investment of the government on infrastructure, (the main situate of autonomous investment), it is important that the government through Public Private Partnership (PPP) encourage further investment in the economy.

320      Banks should be encouraged to provide other investment outlets that yield higher than money market returns with
321 a guarantee fund or insurance by the government to investors of a significant value. These would reduce the rate of
322 resident capital outflows out of Nigeria. Further deepening of the financial system to be more innovative in creation of
323 products that meet the desires of high profile clients would assist in ensuring that capital is invested domestically rather
324 than taken out of the economy. The monetary authorities would have to make conscious and deliberate efforts to infuse
325 confidence in the banking system in order to sustain domestic investors' interest. Also, the confidence of foreign
326 investors should be assured through good management of the rates of exchange. Market-determined rates would help in
327 adequate evaluation of incoming resources.

328      This paper has studied the impact of financial globalisation on domestic investment in Nigeria. The paper has
329 found out that rather than the country benefiting from financial globalisation as theory suggest, the current level of
330 financial globalisation achieved by Nigeria is not beneficial as financial resources are being lost. In addition, the need for
331 market determined exchange rates to further engender inflows of capital is important, while the exports should be
332 intensified while the repatriation of proceeds should be encouraged. Banks should play proactive role in the financial
333 globalisation process.

334

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