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Foreign Capital Flows and Economic Performance in Nigeria (1990-2021)

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Abstract: This study investigated the effect of foreign capital flows on economic performance in Nigeria. The objective of the study was to examine the effect of foreign capital inflows, foreign capital outflows and net flows on the manufacturing output in Nigeria. Explanatory research design was adopted, and data was collected quantitatively from Central Bank of Nigeria (CBN) Statistical Bulletin of 2021. The data collected was analysed using multiple regression technique and granger causality method. From the result it was established that foreign capital inflow and foreign capital outflow has positive effect on manufacturing output in Nigeria , while net flows have negative effect on the manufacturing output in Nigeria. Also, it was found that uni-directional causality relationship exists between foreign capital inflows and manufacturing output, and in the case of foreign capital outflows, it is a bi-directional causality. It was concluded that foreign capital flows has a positive and causality effect on economic performance in Nigeria. Based on this, recommendations made include that government should sustain their efforts are promote Nigeria on the international stage in order to facilitate the inflows of foreign capital, and that there id need for government to continue to ensure that the Nigerian economy enjoys more foreign capital inflows than outflows to enhance economic performance in Nigeria.

Keywords: Foreign Capital Inflow, Foreign Capital Outflows, Net flows, Gross Domestic Product

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1. INTRODUCTION

Every country in the world is open to several forms of inflows and outflows including trade, financial, technological and even cultural. It is through these flows that goods, capital, technological resources, and even human resources are transferred and exchanged between countries. Several countries even enter into several trade, bilateral and even multilateral agreements or pacts to facilitate these inflows and outflows. These floes across countries can originate from an advanced country, and end up in a less advanced or developing country in the form of Direct Foreign Investments (DFIs), portfolio investments, grants and donations, foreign remittances and even loans. On the other hand, it can originate from one of the less developed, developing or emerging economies to governments and institutions in developed economies or international multinational companies in the form of repatriated profits, debt servicing, donations and funds returned to foreign remitters. Additionally, these capital outflows can be through payments for imports, Joint Venture Company (JVC) cash calls, and even payments to international organizations and embassies.

Several countries in a bid to attract foreign capital inflows while limiting capital outflows enunciate several policies and empower several government institutions and agencies and consultants to market the county to or lobby foreign nationals, multinational corporations, investors and even international organisations to invest in local industries, and grant or donate towards the development of the country. Apart from these efforts on the part of the government, several indigenous companies and other private concerns through both local and international exhibitions, conferences, and fairs also position themselves for possible access to foreign capital through direct and indirect investments, venture capital or even loans. These, regardless of where or who originates it are all aimed at attracting the inflow of foreign capital, which invariably if it comes in the form of loans and investments may elicit capital outflows in the form of principal and interest repayments, dividends and profits.

In Nigeria, a developing country with vast oil and other mineral resources, each successive government is known to pursue the implementation of policies that promote the inflows of capital into various sectors of the economy. This is even supported with several foreign trips associated or aimed at positioning the country as an investment haven, as well as ne that requires the injection of foreign capital of different genre to stimulate economic growth and development. These often involve collaborations with the Organised Private Sector (OPS). Through

this, multiples of millions in United States Dollars have flowed into several sectors of the Nigerian economy in the form of direct and indirect investments, loans, and grants. Recently, it was reported that in the past ten (10) years, Nigeria is among the top two destinations for foreign investments, loans and grants in Sun Saharan Africa (Ehigamusoe and Lean, 2019). In 2021, $6.7 billion was recorded as foreign capital inflows into Nigeria, while in the second quarter (Q2) of 2022, the capital inflow increased by $1.54 billion when compared to the same quarter in 2021 (BusinessDay, 2022; Onyekanmi, 2022). Similarly, the foreign capital inflow into Nigeria's production sector increased by 83% year-on-year (yoy) to $457 million in the first half of 2022.

Regardless of these massive capital inflows, the country's attraction of Foreign Direct Investments (FDIs) was reported to have dwindled in the past ten (10) years, and there was also massive repatriation of funds by investors and multinational companies, especially with increasing security challenges in the country (National Bureau of Statistics, 2022). In addition to these, the country has witnessed triple recessionary economy in the past six years, and the level of economic distortions appears to paint gloomy economic performance indices such as high unemployment rate, unstable manufacturing output and low domestic output, debilitating price instability, and domestic currency depreciation. Also, there is high poverty levels as indicated by the high ranking of the country in the Multidimensional Poverty Index (MPI), decreasing levels of external reserves, and stunted growth of the Gross Domestic Product (GDP) in the country.

Concerning these economic performance dislocations, and the humongous inflows and outflows recorded in the country, this study aims at examining the effect of foreign capital inflows, foreign capital outflows, and net flows on the manufacturing output in the Nigerian economy from 1990 to 2021. In addition to this, the study examined the trend of capital outflows in Nigeria from 1990 to 2021, and the extent of the causal relationship between the components of foreign capital flows and manufacturing output in Nigeria from 1990 to 2021. This is carried out under five sections-introduction, literature review, methodology and design, analysis of data and discussion of findings, and conclusion and recommendations.

2. LITERATURE REVIEW

2.1. Foreign Capital Flows

Foreign capital flows refers to the movement or transfer of financial resources from one country to the other based on the needs to stimulate the economy

of the countries involved (Oke and David, 2021). By this, foreign capital flows refer to the movement of capital in and outside the shores of a country. As such, the difference between capital inflows and outflows lies in whether capital is being exported or received (Igwemma, Egbulonu and Nneji, 2018). Based on this, foreign capital flows encompasses different kinds of financial transactions such as; lending by governments, and international organizations; bank lending, short- and long-term investments in public or private bonds; investment in equities; and direct investment in productive sectors of the economy (Obadan, 2004). Each of these has different effect on economic growth, as well as on external reserves and balance of payments.

Generally, foreign capital inflows is contingent upon a variety of features of the host economy which include among others; its market size, level of education, institutional environment, tax laws, and overall macroeconomic and political environment (Aurangzeb and UIHaq, 2012). Accordingly, it is noted that though inflows of foreign capital, economic development could result, and if it is not properly managed, may result into economic depression, domestic currency devaluation (International Monetary Fund, 2019). This may eventually lead to large foreign capital outflows.

Several experts have denoted that foreign capital outflows have both legal and illegal manifestations (Obadan, 2004). The legal component is generally after-tax money, properly documented and remaining on the books of the entity from which it was transferred. There is empirical evidence that such flows broadly enhance economic growth (Acquah and Ibrahim, 2020). This results from free-market operations which when accepted provides benefits to investment, trade and development, leaving aside the question of the utility of short-term capital controls (Olatunji and Oloye, 2015). Hence, capital outflows are viewed here as the movement of capital abroad through legal means. Conversely, the illegal manifestations result from abnormal or illicit capital outflows, which present in the illicit movement of huge financial assets and capital from one country to another. This illegal component is usually improperly documented or linked to preceding falsified transactions, which then disintegrate from any record in the country of origin. The destructiveness of this flow for both originating and receiving countries is said to have gained a long-overdue action (World Investment Report, 2019).

2.2. Economic Performance

Performance generally refers to a situation in which the actual outcomes exceed the expected outcomes. In many other instances, it portends the extent to

which the available resources are maximized for the purpose of providing higher than expected output. By this, the ratio of inputs to outputs is an indication of resources or raw materials optimization. In other instances, economic growth has been referred or indicated as a situation of economic growth or economic development. Economic growth refers to the extent to which a country is able to experience outstanding growth in gross domestic product and national income over a period of time (World Investment Report, 2019), while economic development refers to sustained periods of economic growth characterized by changes in infrastructural, technological, and domestic output levels. In this study, economic performance was not considered in line with the position of the real Gross Domestic Product (GDP) but in line with the capacity of the economy to produce, hence it is measured or indicated by the manufacturing output in the economy. This is because manufacturing output reflects the utilisation of available resources and technology for the production of goods and services in the country. Though real gross domestic product is a global measure for gauging the prosperity or performance of countries, manufacturing output was adopted since much of the capital flows in Nigeria are received in the productive sectors of the economy.

2.3. Theoretical Framework

Two important theories are associated with the relationship between foreign capital flows and economic performance. These are the Investment Diversion Theory and the Lucas Paradox theory with this study anchored on them.

2.3.1. The Investment Diversion Theory

This theory was initiated by Pastor (1989) and, subsequently by Ajayi (1992) and focuses on capital flight in an economy. This theory posits that due to macroeconomic uncertainties (especially in underdeveloped countries) and positive investment options in advanced countries, some unscrupulous representatives and bureaucrats (government officials) would unduly capture the situation to divert funds. Consequently, these funds become inaccessible for investment at home, leading to decreasing economic outputs and increasing economic dislocations leading to increased unemployment, rising poverty, increasing dependency ratios, and short life expectancy. These negative macroeconomic consequences on the economy often require external borrowing for the purpose of domestic industry resuscitation. As is always the case in many countries, the borrowed funds are again looted, leaving the

country in persistent external borrowing and external capital dependence. If the government operates a floating exchange rate, the liquidity restriction or 'crowding-out' effect may cause local currency value decline (Ajayi, 1992). When this point is reached, an attempt to preserve the external exchange rate plummets in the loss of capital inflows (Pastor, 1989). Through this, the negative capitulations of capital outflows on the countries in this situation, lead to manifestations of investment diversions.

This theory indicates that there are countries that have been condemned to consistent access to foreign capital flows which are incessantly diverted or looted without the accomplishment of what they were meant for. In this case, the economy remains unaffected by capital inflows, and rather than perform well, it manifests the idiosyncrasies of economic distortions. Thus, since theory explained that it is only when the foreign capital flows are utilized adequate rather than used in the lining of the deep pockets of politicians that it can positively affect an economy, this theory is relevant.

2.3.2. Lucas Paradox Capital Flight theory

This theory explained that in the context of foreign capital flows, that it is expected that capital should flow from upstream (advanced) countries to downstream (poor) countries. However, according to this theory, in reality, this is a mirage because money actually flows from developing to developed countries (Qolbi and Kurnia, 2015). This theory deposits that in actual cases, it is the foreign capital outflows that outweighs the foreign capital inflows in countries especially the developing countries. Because of this, according to the theory, there are impossibilities for consistence or stage economic growth and performance. The focus of this study is Nigeria, a developing country that witnesses huge capital outflows and inflows, amidst economic underdevelopment, making this theory relevant.

2.4. Empirical Review

Oke and David (2021) examined the effect of foreign capital flow on economic growth in Nigeria from 1999 to 2020. The independent variables were foreign capital flows measured by foreign debt inflows and foreign remittance inflows), foreign medical services and education and foreign direct investment outflows, while the dependent variable was economic growth measured by real gross domestic product per capita growth rate. Data in the study were from Central Bank of Nigeria (CBN) Statistical Bulletin, World Bank Data Bank, and the

International Monetary Fund (2020). The researchers adopted the Ordinary Least Square regression techniques through the instrumentality of EViews version 9.0. Specific results from the analysis show that both foreign debt inflows and foreign medical services and education have a significant negative effect on economic growth. Additionally, foreign remittance inflows exerted a significant positive effect on economic growth in Nigeria, while foreign direct investment outflows exerted a positive effect on economic growth but were not statistically significant. The researchers concluded that foreign remittance inflows are instrumental to economic growth, especially if the foreign debt is well utilized and that foreign direct investment outflows and expenses on foreign Education and Health are well accounted for. Recommendations made include that the Nigerian government must ensure that borrowed funds are used for the purpose for which it was borrowed, and that the Nigerian government should track all forms of illegalities arising from foreign remittance inflows and expenses on Foreign Education and Health

Azebi and Dein (2020) examined the impact of foreign capital flows on capital market growth in Nigeria using annual data from 1994 to 2018. The researcher also investigated 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 revealed that all the variables became stationary after first difference, while the Johansen cointegration test result revealed that a long run relationship exists between the variables. Findings from the regression estimates showed 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. Also, 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 foreign portfolio investments (FPI), and foreign direct investments (FDI) that have a bi-directional relationship. The researchers concluded that foreign capital flows have a long run positive impact on capital market growth in Nigeria. They researchers recommended that trade be further liberalised in order to allow free flow of foreign capital and that expansion of the capital market is necessary to attract more foreign capital.

Again, Balogun, Okafor and Ihayere (2019) examines the impact of capital flows on economic growth in Nigeria using data covering the period 1981 to 2016. The data was sourced from the Central Bank of Nigeria. The method of error correction model framework and autoregressive distributed lag was adopted in estimating our specified model. Findings from the estimated model revealed that capital flows significantly affect economic growth in Nigeria. The researchers recommended that, sound, robust and vigorous economic policies be formulated with the sole purpose of attracting and drawing capital flows into the country that helps to bridge the needed capital for economic growth and development in Nigeria.

Nkoro and Uko (2018) examined the nature of causality between foreign capital inflows components and real GDP (economic growth) and the impact of foreign capital inflows on economic growth in Nigeria. The dynamic interaction among aid, remittance, foreign direct investment (FDI) and external debt and growth of the Nigerian economy was examined using the concept of cointegration, variance decomposition and impulse response analysis and block exogeneity tests. The results of the cointegration test revealed that causal relationship exists between foreign capital inflows and economic growth in Nigeria. The variance decomposition result supported that of cointegration analysis of causality which revealed that, causality runs from foreign aid, remittance (RMC), external debt (TED) and foreign direct investment (FDI) to real GDP (growth). The granger causality runs from remittance (RMC) and external debt (TED) to real GDP (growth) only. Only remittance (RMC) and external debt (TED) are significant. However, the result of the error correction model shows that there is a significant positive, negative, positive and negative effect of foreign aid, remittance, FDI and external debt on real GDP respectively.

Ekwe and Inyiama (2014) through an empirical study attempted to determine the extent to which foreign capital flows have impacted on the growth performance of the Nigeria economy from 1982–2012. Data were drawn from the publications of the National Bureau of Statistics (NBS), the Central Bank of Nigeria (CBN) and the World Bank report. The multiple regression analysis method was adopted for the test of the hypotheses. The SPSS statistical software (version 17.0) was used for the data analysis. From the results of the analysis, it was revealed that Foreign Capital Inflows had a positive and significant effect on economic growth as proxied by the GDP, which is an indication that foreign capital inflows exerting considerable influence as a key fiscal policy instrument of economic growth over the stated period. Also the Foreign Capital Outflow had a positive and significant effect on the GDP, which is another indication that

it exerted considerable influence as a key fiscal policy instrument of economic growth over the stated period. Furthermore, the Openness of the economy, which was another explanatory variables used to ascertain the growth performance of the economy, had a positive and significant effect on the GDP. On the other hand, the Human Capital Development had a negative and insignificant effect on the GDP. Finally, the inflation rate had a positive sign with GDP. It was however; statistically insignificant which points to the severity of the inflationary pressure brought to bear on the economy over the stated period. The researchers concluded that policy on foreign capital flows should be vigorously pursued and enhanced to provide a buffer to the country's falling revenue.

METHODOLOGY AND DESIGN

Explanatory research design will be adopted in this study for the purpose of examining the effect of foreign capital inflows, outflows and net flows on the manufacturing output in Nigeria from 1990 to 2021. The area covered in the study included the manufacturing output, foreign capital inflows, outflows and net flows in Nigeria. The study was hinged on secondary data, and the data was collected from the Central Bank of Nigeria (CBN) Statistical Bulletin 2021. Other necessary data for this study were obtained from the World Bank's World Development Indicators, and the International Monetary Fund (IMF) World Economic Outlook (WEO) of various years.

Based on the examined effect of foreign capital flows and economic performance in Nigeria, the following empirical model is specified.

Economic Performance = f(Foreign Capital Flows)

Manufacturing Profit = f(Foreign Capital Inflows, Foreign Capital Outflows, Net Flows)

$$MANO = f(FCI, FCO, NET) \quad \text{Equation 1}$$

$$MANO = \alpha_0 + \beta_1 FCI + \beta_2 FCO + \beta_3 NET + \mu_1 \quad \text{Equation 2}$$

Where:
MANO is Manufacturing Output
FCI is Foreign Capital Inflows
FCO is Foreign Capital Outflows
NET is Net flows
$\beta_1\ \beta_2\ \beta_3$ are the estimators of the explanatory variables.
α_0 is the regression constant
μ_1 is the stochastic term

Method for the Analysis of Data

Multiple regression technique was used in the analysis of the effect relationship between foreign capital flows and economic performance in Nigeria. In addition, econometric methods such as unit root, and cointegration techniques were adopted to establish data adequacy in the distribution of the data. Finally, Granger causality technique was used to establish whether there is a causal relationship between variables of foreign capital flows and economic performance in Nigeria as indicated by manufacturing output. In testing the statistical significance of the explanatory variable, and in testing hypotheses in the study, the decision rule was to reject the null hypothesis if the computed F-statistic value of is greater than the critical value, and if the probability value is less than 0.05 at 95% level of significance. Also, an explanatory variable is statistically significant if the computed t-statistic is greater than the critical value, and the probability value is less than 0.05.

4. DATA ANALYSIS AND DISCUSSION OF FINDINGS

The data for this study include Foreign Capital Inflows (FCI), Foreign Capital Outflows (FCO), Net Flows (NET) and Manufacturing Output (MANO) in Nigeria from 1990 to 2021. This data is presented in Table 1 in Appendix A.

The data were analysed using descriptive statistics and trend analysis as follows:

4.1. Descriptive Statistics Analysis

	MANO	*FCI*	*FCO*	*NET*
Mean	4290.255	58464.55	26242.32	44653.22
Median	3585.022	54975.78	24853.99	32376.30
Maximum	6684.218	146274.3	65417.05	332994.4
Minimum	2898.474	3988.500	1560.000	-464.3000
Std. Dev.	1407.532	47076.33	20246.93	60643.71
Skewness	0.703128	0.293801	0.396381	3.499683
Kurtosis	1.794113	1.671376	1.937445	17.18623
Jarque-Bera	4.575624	2.814022	2.343327	333.6537
Probability	0.101488	0.244874	0.309851	0.000000
Sum	137288.1	1870866.	839754.3	1428903.
Sum Sq. Dev.	61415552	6.87E+10	1.27E+10	1.14E+11
Observations	32	32	32	32

Source: Researcher's Computation

Table 2 shows that the distribution of the variables manufacturing output (MANO), foreign capital inflows (FCI), foreign capital outflows (FCO) and net flows (NET) were shown to be fairly skewed to the right, an indication that for all the variables the average or mean obtained was greater than the median. All the variables but NET was shown to be platykurtic with kurtosis values of 1.79, 1.67 and 1.94 respectively. By this the distribution of net flow is leptokurtic with kurtosis value of 17.86. IN general, the distribution of the variables appears to have high level of variability, going by the standard deviation values. This is an indication of the changes in the distribution for these variables.

4.2. Trend Analysis

This is presented in Figure 1.

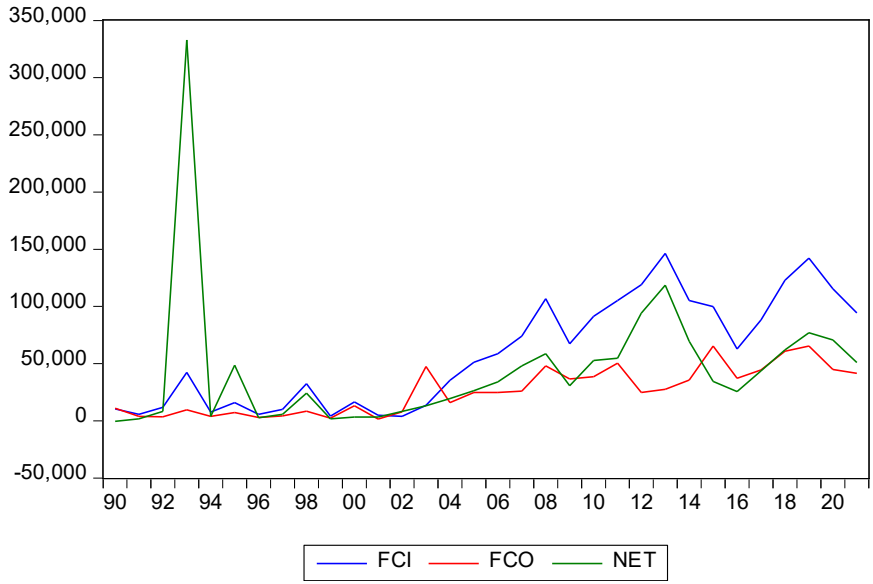

Figure 1: Trend of Foreign Capital Inflows (FCI), Foreign Capital Outflows (FCO) and Net Flows in Nigeria from 1990 to 2021.

Source: Researcher's (2023).

Figure 1 indicates that there is rising trend in foreign capital flows in the Nigerian economy. Both Foreign Capital Inflows (FCI) and Net flows (NET) appears to run concurrently in the last 20 years especially from 2004 to 2021. This is an indication that the inflow outweighs the outflows in the Nigerian economy. Invariably, it is possible to state that the country receives into its

economy colossal amount of capital inflows over the years covered in this study. This is also an indication that policies aimed at promoting the inflow of foreign investments and likes is working.

4.3. Testing for Stationary Properties in Variables

This was conducted using Augmented Dickey Fuller (ADF) unit root analysis to test the presence of unit root in the variables at different orders of integration. This is to indicate the existence of stationary or non-stationary properties in the variables. A non-stationary variable is considered to have unit root, and is not suitable for further statistical and econometric estimation since the results would be spurious. The ADF unit root results in presented in Table 3.

Table 3: ADF Unit Root Analysis of Variables

Variable	*ADF t-stat*	*Critical value (5%)*	*Probability*	*Order of Integration*
MANO	-3.480335	-2.963972	0.0157	1st Difference
FCI	-6.258176	-2.963972	0.0000	1st Difference
FCO	-6.819635	-2.967767	0.0000	1st Difference
NET	-5.476876	-2.960411	0.0001	Level

Source: Researcher's Computation (2023)

Table 3 shows that at the order of integration of 1, the variables manufacturing output (MANO), Foreign Capital Inflows (FCI), Foreign Capital Outflows (FCO) were shown be stationary, while net flows (NET) was stationary at order of integration zero. At these levels of integration, all the variables were certified to be free of any unit root going by the probability values which were all less than 0.05.

4.4. Cointegration Analysis

The Johansen cointegration was used in establishing the existence of a long-run relationship between the variables in this study. Based on the obtained trace statistic shows that there is no existence of one cointegration equation indicating the existence of a long-run effect of foreign capital flows and manufacturing output in Nigeria. This implies that there is a long-term effect of foreign capital inflows, outflows, and net flows on economic performance in Nigeria as indicated by manufacturing output. This is based on the obtained Trace statistic probability value of 0.0454 which is less than 0.05 as shown in Table 4.

Table 4: Johansen Cointegration Tests

Number of Coimtegrating Equations	*Trace Statistic*	*Prob.*	*Max Eigen Stat*	*Prob.*
None	48.29380	0.0454	27.58434	0.3520
At Most 1	28.44849	0.0709	21.13162	0.1545
At Most 2	11.06086	0.2078	14.26460	0.2127
At Most 3	1.072371	0.3004	3.841466	0.3004

Source: Researcher's Compuation

4.5. Test of Hypothesis

This hypothesis states that "foreign capital inflows, foreign capital outflows, and net flows have no significant effect on manufacturing output in Nigeria" the multiple regression results in Appendix is summarized in Table 5.

Table 5: Multiple Regression Result for Testing of Hypothesis

MANO = 2949.482 + 0.015FCI + 0.017FCO – 0.00025NET			
t-stat. = (9.4096)	(2.0667)	(1.0672)	(-0.0718)
Prob. = (0.0000)	(0.0481)	(0.2950)	(0.9432)
R^2 = 0.5277			
Adjusted R^2 = 0.4771			
F-stat. = 10.4301			
Prob. (F-stat) = 0.000089			

Source: Researcher's Computation (2023)

Table 5 shows that manufacturing output in Nigeria (MANO) will remain positive at an average of 2949.482 units if the foreign capital inflows (FCI), Foreign capital outflows (FCO) and net flows are held constant. Similarly, a unit change in the level of foreign capital inflows (FCI) will lead to an increase of 0.015 units increase in manufacturing output (MANO); a unit change in the level of foreign capital outflows (FCO) will lead to an increase of 0.017 units in manufacturing output (MANO); while a unit change in net flows will lead to a 0.000025 units decrease in manufacturing output (MANO) in Nigeria. However, the positive effect of foreign capital inflows (FCI) is found to be statistically significant with a computed t-statistic value of 2.0667 and a probability value of 0.0481. The probability obtained is less than 0.05.

Furthermore, the coefficient of determination (R^2) value of 0.5277 indicates that 52.77% of the variations in the explained variable, MANO are accounted for by the explanatory variables which are FCI, FCO and NET. The remaining 43.23% of the variations in the independent variable are attributable to other

variables not captured in this study. This is given as error term. Finally, since the computed F-statistic value of 10.43011 is greater than the critical F-statistics value at 5% level of significance, and the probability value of 0.000089 is less than 0.05, the null hypothesis will fail to hold and is rejected. The alternative hypothesis which states that foreign capital inflows, foreign capital outflows, and net flows have significant effect on manufacturing output in Nigeria is accepted.

4.6. Causality Relationship Analysis

The Granger causality result is presented in Table 6.

Table 6: Granger Causality Analysis of Variables

Pairwise Granger Causality Tests
Date: 02/17/23 Time: 06:27
Sample: 1990 2021
Lags: 2

Null Hypothesis:	*Obs*	*F-Statistic*	*Prob.*
FCI does not Granger Cause MANO	30	4.21915	0.0264
MANO does not Granger Cause FCI		0.46106	0.6359
FCO does not Granger Cause MANO	30	4.05869	0.0298
MANO does not Granger Cause FCO		3.20064	0.0579

Source: Researcher's Computation (2023)

Based on the probabilities returned for the F-statistic in Table 6, it is shown that Foreign Capital Inflows (FCI) and foreign capital outflows (FCO) granger causes manufacturing output with probability values of 0.0264 and 0.0298 respectively. However, it is shown that there is a uni-directional causality between Foreign Capital Inflows and manufacturing output, and a bi-directional causality between foreign capital outflows and manufacturing output. This implies that foreign capital flows has a causative effect on economic performance in Nigeria.

4.7. Discussion of Findings

Foreign capital inflows have a positive and significant effect on the manufacturing output in Nigeria. This is an indication that foreign capital inflows affects economic performance in Nigeria positively, and as such increase in the level of foreign capital inflows in Nigeria will lead to an increase in

economic performance in Nigeria. Conversely, a decline in the level of foreign capital inflows in Nigeria will invariably lead to the decline in the economic performance level in Nigeria. This finding conforms to the findings in Oke and David (2021) and Balogun et al (2019) who provided that foreign capital inflows positively affects economic growth or performance. Furthermore, foreign capital outflows also showed a positive effect on manufacturing output. This implies that foreign capital outflows positively affect economic performance. This finding was expected since foreign capital outflows underlines funds from repatriation of profits, dividends, debt servicing, which hitherto emanates from funds that were already invested in the economy.

5. CONCLUSION AND RECOMMENDATIONS

Foreign capital flows pass into the economies of countries through various conduits and these are typified through capital inflows and outflows. The inflows usually follow through foreign direct and indirect investments, loans grants and donations. There are several outflows which ensure that foreign investors and even international financial institutions as well as foreign donor agencies repatriate, profits, dividends, various kinds of returns to their respective domestic countries. This two-way traffic of the flow of capital and other financial resources affects several sectors of the economy including the productive sectors of the economy. This could be the reason why a causal relationship exists between foreign capital inflows and outflows and manufacturing output. Hence, they affect the manufacturing output. Based on this, it can be stated that foreign capital flows has a causative and positive effect on economic performance in Nigeria.

Given this, the following recommendations are made:

- Government should sustain their efforts are promote Nigeria on the international stage in order to facilitate the inflows of foreign capital. This will help enhance economic performance in Nigeria.
- There is need for policies that monitor and regulate productive and not destructive foreign capital outflows in Nigeria to ensure that it does not in any way impede favourable economic performance in the country.
- Government policies should further ensure that at all times foreign capital inflows outpaces foreign capital outflows in the country to ensure that economic performance is positively influenced by the resulting net flows.

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