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Foreign Direct Investment and Capital Market Development

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Abstract: This study investigates the effect of Foreign Direct Investment (FDI) on the Nigerian capital market using annual time series data obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin and World Bank Development Indicators. Capital market performance was measured by Market Capitalization (MC), All Share Index (ASI), and Value Traded Ratio (VTR), while explanatory variables included FDI, interest rate, and Gross Domestic Product (GDP). The Autoregressive Distributed Lag (ARDL) model was employed to examine both short-run and long-run relationships.The results revealed that foreign direct investment proxies had a significant positive effect on market capitalization with p-value of 0.0000 which was less than 5% level of significance; foreign direct investment proxies had a significant positive effect on all share indexwith p-value of 0.0000 which was less than 5% level of significance whereas foreign direct investment proxies had a significant positive effect on value traded ratiowith p-value of 0.0000 which was less than 5% level of significance. This study concludes that foreign direct investment proxies directly drive Nigerian capital market growth, and all remained a strong determinant of market performance. It recommends policies that promote sustainable GDP growth, interest rate stability, and strategic reforms to attract productive FDI capable of enhancing capital market liquidity and efficiency.
Keywords: Foreign direct investment, market capitalization, all share index, value traded ratio.

1. Introduction

The Nigerian capital market has grown from a relatively underdeveloped institution into a cornerstone of the country's financial system. It plays a crucial role in mobilizing long-term funds for investment and channeling resources to productive sectors of the economy (Zhan, et. al. 2021). The evolution of the market, from its early foundations in the 1940s to a modern and regulated structure today, is a testimony to its resilience and adaptive capacity. Over the years, reforms in financial policy, increased participation from domestic and international investors, and infrastructural modernization have improved its effectiveness and relevance. However, a closer inspection of the role of foreign direct investment (FDI) in this transformation reveals intricate links between foreign capital inflows and the capital market's expansion, performance, and stability (Sadashiv, 2023).

Deliberate policy measures and structural changes have driven Nigeria's capital market development. From the founding of the Lagos Stock Exchange in 1960, now known as the Nigerian Exchange Group (NGX), the market has been continuously redesigned for strategy (Wasiu, 2023). These comprise legal changes, privatization initiatives, and technological advances intended to draw foreign as well as local investors. Liberalization of the Nigerian economy in the 1980s and 1990s to be one of the driving forces behind the growth of the market (Mordecai, et. al., 2021). By opening the Nigerian financial sector and laying the ground for private sector-led investment, the Structural Adjustment Programme (SAP) of 1986 helped to boost capital market activity (Adeosun et. al., 2021).

According to Yang et al. (2022), these developments have improved investor confidence and made more funds available. Additionally following these goals are the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission (SEC), who have enacted rules to enhance market liquidity and transparency. CBN introduced the Electronic Foreign Exchange Matching System (EFEMS) and unified FX windows to boost transparency and liquidity (CBN, 2023). The SEC implemented electronic public offerings and mandated risk management frameworks like ISO 31000 for capital market operators (SEC, 2024). These reforms reduced transaction inefficiencies, enhanced regulatory oversight, and aligned Nigeria's capital market with international standards, ultimately increasing access to capital and attracting more foreign and domestic investment.

Modernizing the capital market has been greatly aided by technology. Anwansedo, et. al. (2024) asserted that the Nigerian Exchange has improved trade execution, lowered costs, and increased market transparency with the introduction of electronic trading platforms and greater automation. These developments have drawn fresh categories of investors, including foreign companies typically sensitive to transparency, efficiency, and regulatory clarity. Particularly among retail investors, regulator-driven improvements in financial literacy and investor education have progressively raised public knowledge and involvement (Banyen, 2022).

Foreign direct investment refers to long-term investment by foreign entities in the productive capacity of a host country (Kannen, 2020). This includes investments in business enterprises, infrastructure, and real estate, among others. In the context of capital market development, FDI is crucial not only for bringing in financial capital but also for introducing international best practices, improving governance structures, and transferring technology and knowledge. These elements are indispensable in modernizing financial systems and deepening capital markets. According to Mirjana, et. al. (2022), foreign capital is often more than just a monetary inflow; it reflects investor confidence in a country's legal and financial institutions.

Still, there are certainly difficult obstacles. Limited market breadth and depth, political and economic instability, weak corporate governance practices in certain areas, and a lack of investor confidence are problems that still prevent the market's full potential from being realized. Infrastructural limitations and legal obstacles also slow down the listing procedure and lower the Nigerian securities' global competitiveness (Okeke, et. al., 2024). Notwithstanding these restrictions, the Nigerian capital market offers great potential especially when viewed in light of foreign direct investment (FDI).

Nigeria has experienced fluctuating levels of FDI over the years, largely due to its macroeconomic conditions, oil price volatility, currency risks, and political uncertainty (Adejumobi, 2019). However, where sustained and properly managed, FDI has had a profound impact on the capital market. For instance, the presence of foreign institutional investors such as Goldman Sachs, Morgan Stanley, UBS, BlackRock, and JP Morgan increases demand for listed securities, enhances price discovery, and boosts market liquidity. Furthermore, foreign investors often impose higher standards of transparency and accountability on listed companies, thereby indirectly raising the governance bar for all market participants (Platt, 2022). Therefore, this study examinesthe role of foreign direct investment in the development of the Nigerian capital market.

In line with the research objective and questions, the following null hypotheses are tested:

H_01: Foreign direct investment has no significant effect on market capitalization in Nigeria.

H_02: There is no significant effect between foreign direct investment and all share index in Nigeria.

H_03: Foreign direct investment has no significant effect onvalue traded ratio in Nigeria.

This study holds significant value for a range of stakeholders including government authorities, regulatory institutions, academics, and researchers. For the Nigerian government, the findings provide a detailed understanding of how foreign direct investment (FDI) influences the capital market, thereby offering direction for developing policies that can foster a more investment-friendly environment. In the face of declining oil revenues and a push for economic diversification, the government requires reliable data and analysis to promote sectors that can attract sustainable foreign capital. By identifying the key determinants and barriers to FDI inflow, this study supports national efforts toward economic growth, infrastructure development, and enhanced investor confidence in the capital market.

2. Literature Review

Foreign Direct Investment

Both developing and industrialized nations rely heavily on Foreign Direct Investment (FDI) to support their economic growth, as it provides essential capital while also shifting technology or creating job opportunities and improving managerial expertise. Usually via the purchase of physical assets, creation of new enterprises, or involvement in joint ventures (Halík, 2019), a foreign investor is making a long-term investment in the productive assets of a host country. Foreign direct investment (FDI) is not just a financial source; it also generates beneficial spillover effects that improve the host country's productivity and competitiveness. For developing nations like Nigeria, FDI has been a deliberate weapon for closing the investment-savings gap, promoting industrialization, and stimulating global integration (Qamruzzaman, 2023).

Interest Rate

Interest rate is widely regarded as one of the most powerful monetary policy tools used by central banks to influence the economy and financial markets. It is generally defined as the cost of borrowing or the return on lending, expressed as a percentage of the loaned or invested sum over a given period. In Nigeria, the Central Bank of Nigeria (CBN) regulates interest rates through its Monetary Policy Rate (MPR), which serves as a benchmark for commercial banks' lending and deposit rates, thereby shaping credit availability, consumption, and investment decisions (Adeleke, 2021).

Gross Domestic Product

Gross Domestic Product (GDP) is one of the most universally recognized indicators of economic activity, capturing the aggregate monetary value of all goods and services produced within a nation over a specific period. It offers insights into the scale of production, economic strength, and overall welfare of citizens (Nwachukwu, et. al., 2021). GDP can be computed using three major approaches: the production approach, which evaluates the value added across industries; the income approach, which sums wages, rents, interest, and profits; and the expenditure approach, which measures the total outlay on consumption, investment, government spending, and net exports (Yusuf, et. al. 2020). Together, these approaches ensure a comprehensive assessment of national output and economic performance.

Capital Market

Infrastructure development refers to the construction, expansion, and maintenance of essential physical systems and facilities that support economic growth and improve the quality of life in society. These include transportation networks, energy supply, water and sanitation systems, healthcare facilities, and educational institutions (Soto, et. al., 2022). A well-developed infrastructure is fundamental to national development, as it enhances productivity, facilitates trade, and attracts foreign investments. In developing countries like Nigeria, Kenya, and Bangladesh, infrastructure development is often seen as a critical driver of economic transformation, reducing poverty and promoting sustainable growth (Eisenmenger, et. al., 2020).

Market Capitalization

Market capitalization is a fundamental indicator of the overall value and size of a stock market. It is calculated by multiplying the current market price of a company’s shares by its total number of outstanding shares (Permata, et. al., 2020). In the context of a national capital market like Nigeria’s, market capitalization reflects the total value of all listed companies on the Nigerian Exchange (NGX), serving as a measure of the market's capacity, performance, and attractiveness to both domestic and foreign investors (Moskalenko, et. al., 2021). It provides insight into the health of the financial market, investor sentiment, and the economy's ability to mobilize long-term capital.

All Share Index (ASI)

ASI is a critical performance indicator of the Nigerian capital market, as it reflects the overall movement in the prices of stocks listed on the Nigerian Exchange (NGX). It serves as a broad benchmark index, measuring the average performance of the entire market and indicating general trends in investor confidence, economic stability, and market strength (Zakhidov, 2024). ASI is particularly important for both investors and policymakers, as it signals the direction of the market and helps assess the effectiveness of financial reforms, investment policies, and economic activities.

Value Traded Ratio

The value traded ratio is a key liquidity metric in capital market analysis. It measures the total value of securities traded over a specific period relative to the total market capitalization, indicating how actively stocks are bought and sold in a given market. A higher value traded ratio suggests greater liquidity, improved market efficiency, and investor confidence, while a lower ratio signals limited trading activity and poor liquidity (Arsyad, et. al., 2021). In the Nigerian capital market, the value traded ratio has consistently remained low when compared to other emerging markets, posing challenges to market development and investor participation.

Theoretical Framework

The Neoclassical Theory of Investment

The Neoclassical Theory of Investment, propounded by Robert Solow in 1956, is one of the foundational theories in economic growth and investment analysis. This theory posits that investment decisions are primarily driven by the marginal productivity of capital and the prevailing interest rates. According to Solow, capital accumulates until the marginal return on investment equals the cost of capital. The theory assumes that markets are competitive, capital is perfectly mobile, and firms aim to maximize profits. It also presumes diminishing returns to capital, suggesting that the more capital is accumulated, the lesser the additional output generated from each new unit of capital (Schefold, 2020).

The Modern Portfolio Theory (MPT)

The Modern Portfolio Theory (MPT) was developed by Harry Markowitz in 1952. It is a foundational concept in finance that emphasizes the importance of diversification in investment portfolios. Markowitz argued that investors can construct an optimal portfolio by combining assets in a way that minimizes risk for a given level of expected return or maximizes return for a given level of risk. The key principle of MPT is that the risk of a portfolio is not simply the weighted average of the risks of individual assets but also depends on the correlation between them (Koumou, 2020).

Endogenous Growth Theory

The theory assumes that policies, institutional structures, and investments in human capital can influence the rate of technological progress and, by extension, economic growth (Doré, et. al., 2023). In the context of developing countries such as Nigeria, the theory implies that attracting Foreign Direct Investment (FDI) can enhance economic growth by facilitating the transfer of technology, managerial expertise, and capital that improves productivity within the domestic economy (Qasim, et. al.,2022). The spillover effects from FDI, such as increased learning and knowledge dissemination, are integral to the theory's assumptions about how innovation leads to sustained growth.

Empirical Review

Adekunle (2024) examined the analysis of capital market development and economic growth in Nigeria between 1986 and 2022. TheAuto-Regressive Distributed Lag Modelling (ARDL) technique as well as the Engle Granger causality test were used to analyse the data obtained from the CBN statistical bulletin. The results emanating from the analysis reported that the total number of new issues had a positive impact on economic growth while other variables had insignificant effects on economic growth. Furthermore, the causality results revealed that all the stock market variables had a uni-directional causality running from each of them to economic growth. Therefore, it was recommended that new issues in the capital market should be seriously regulated as they can affect economic growth in a significant manner.

Daniel, et. al. (2024) studied Equity Investment Funds on Capital Market Growth in Nigeria: The study examines the extent Equity Investment influences Capital Market. The findings revealed that equity investment funds have positive and significant effect, while a reserve investment fund is negative and insignificant on Capital market growth in Nigeria. It concluded that equity investment funds are effective for capital market growth. It recommended that authorities should encourage and apply all necessary tools for equity investment funds diversifications to promote greater penetration on the part of institutional equity investors.

Lai, et. al. (2023) studied the impact of macro factors on the market capitalization of countries around the world. Data are collected for the period 2008-2019, using panel regression to test the data. From the generalized method of moments (GMM), the results showed that inflation, interest rates and foreign direct investment are positive, statically significant in affecting the capitalization of the stock market. The study concluded and confirms that developed stock markets have significantly higher capitalization values than the rest. Therefore, it recommended that foreign direct investment capital be sorted after through foreign investment friendly policies that would guarantee boost to capital market development.

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

Emmanuel, et. al. (2020) studied Impact of Foreign Direct Investment on Nigerian Capital Market growth for the period of (2000-2015). The problem is the mixed results or findings of previous studies on the effect of foreign direct investment on Nigerian Stock Exchange Market. Findings showed that Foreign Direct Investment contributes to the development of stock market in Nigeria and impacted on the total domestic savings. The study also revealed that Foreign Direct Investment has affected positively on securities indices in Nigerian Stock Market. Based on this, the study recommended among others that Nigerian government must ensure the protection of foreign investor's interest and assets from changing government policies.

Yousuo (2020) studied the impact of foreign investment and capital market in 1981-2018, the study used multiple regressions with the application of dummy variables to capture the effects of the various Regimes using secondary data. The results showed that foreign investment has both short and long-run effects on capital market performance, the estimated regression line are significance as confirm by the f-statistics. The independent variables have positive and significant effect on the capital market growth in the short run. The selected processes of foreign investment are the true determinant of capital market growth in Nigeria with high degree of effectiveness in the civilian regime. The study recommended that stringent measures should be taken to enhance the effects of FD on capital market performance. This study does not effectively evaluate foreign investment on capital market in terms efficiency of investment funds, but only test the effect of FD on capital market performance.

Oyerinde (2019) conducted a study on foreign portfolio investment and stock market growth in Nigeria from 1986 to 2014 with the objective of finding impact on stock market growth. The study used co-integration, vector error correction model and Granger Causality econometric tools. The results were thus: the vector error correction model indicates long-run significant impact of foreign portfolio investment on stock market growth in Nigeria, and the Granger Causality shows there is no causality between foreign portfolio investment and stock market growth in the Nigerian economy. The implication of the results is that foreign portfolio investment (FPI) inflows may not contribute positively to the increase in stock market when there is no conducive business environment for foreign investment to thrive in Nigeria. The study recommended that Federal Government of Nigeria should strengthen the Security and Exchange Commission (SEC) to promote constant inflows of foreign portfolio investment to Nigeria.

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

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

Mumeen, et. al. (2018) examined the relationship between financial deepening, foreign direct investment (FDI) and output performance in Nigeria from 1980-2015 using the Auto regressive Distributed Lag (ARDL) Bound Test. The result shows a long-run relationship was established of financial deepening, foreign direct investment in Nigeria. Foreign direct investment (FDI) and market capitalization both in the short-run and in the long- run periods. It is recommended that financial depth should be enhanced through improved and highly efficient provision of credit by banks to the real sector of the Nigerian economy.

Mika'ilu,et. al. (2018) examined the impact of foreign direct investment (FDI) on stock market development in Nigeria using annual data from 1981 to 2016. Using Auto Regressive Distributed Lags, the study found that foreign direct investment has positive and statistically insignificant effect on stock market development. Exchange rate and gross domestic savings exert positive and statistically significant impact on stock market development, while inflation rate has insignificant negative influence on stock market development in Nigeria throughout the study period. From the foregoing, the study recommended that there was need for the government to device several means that will motivate the foreign investors to diversify their investment from oil sector to other sectors of the economy with special reference to stock exchange market.

Orji, et. al. (2018) estimated the impact of stock market development and foreign private investment on economic growth in Nigeria over the period of 1985–2016, using secondary data from various publications of the Central Bank of Nigeria. The ordinary least square (OLS) technique was employed in this study, while the Engel and Granger cointegration approach was applied to determine the long-run relationship between the variables. The result showed that market capitalisation, all share index and real exchange rate have statistically significant impact on economic growth, while foreign direct investment, trade openness and gross national savings have insignificant impact on growth. The study also showed that there is a long-run relationship among stock market development, foreign private investment and economic growth in Nigeria. The error correction model (ECM) results showed that the model adjusts to equilibrium in the short run and that about 51 per cent of the disequilibrium between gross domestic product and the independent variables is corrected each year.

3. Methodology

This study adopted *ex-post facto* research design, which is used to refer to studies that investigated possible cause and effect relationships by observing an existing condition or situation and searching in time for plausible casual factors. It was concerned with determiningcause and effect relationship and to understand which variable is dependent and which isindependent.This research design was the best in explaining if two variables are related or ifthey vary. This was established by use of enough information and data for testing cause andeffect relationship. It aimed to explore the role of foreign direct investment in the development of the Nigerian capital marketand the empirical evidence that help answer the research objectives.

Model Specification

The econometric model by Omankhanlen (2019) was adopted for this study with somemodifications to bridge the gap in the model and make this study more elaborate.However, based on the foregoing, data such as market capitalization, all share index, value traded ratio (dependent variable); and the foreign direct investment, interest rate and gross domestic product(explanatory variable) were employed. The model specification of this study is givenas:

$MC = \beta_0 + \beta_1 FDI + \beta_2 INTR + \beta_3 GDP + \varepsilon$...Model 1
$ASI = \beta_0 + \beta_1 FDI + \beta_2 INTR + \beta_3 GDP + \varepsilon$..Model 2
$VTR = \beta_0 + \beta_1 FDI + \beta_2 INTR + \beta_3 GDP + \varepsilon$..Model 3
$CM = \beta_0 + \beta_1 FDI + \beta_2 INTR + \beta_3 GDP + \varepsilon$...Main Model

Where:
CM = Capital Market
FDI= Foreign Direct Investment
INTR = Interest Rate
GDP = Gross Domestic Product
MC = Market Capitalization
ASI= All Share Index
VTR = Value Traded Ratio
β= Constant
ε = error term

4. Presentation, Analysis and Interpretation of Data

Table 4.1: Descriptive Statistics

	MC	ASI	VTR	FDI	INTR	GDP
Mean	3.564956	4.261082	-0.191496	2.097729	10.49348	4.375518
Median	3.980593	4.393935	-0.124939	2.252594	9.751667	4.604772
Maximum	4.876235	4.873749	0.799227	2.635264	23.24167	5.852961
Minimum	1.676694	3.188591	-0.963291	1.079422	4.206848	2.787009
Std. Dev.	0.923500	0.415695	0.415029	0.448929	3.931723	0.839586
Skewness	-0.513837	-0.932780	0.178425	-1.124329	0.982115	-0.561652
Kurtosis	1.972250	3.107860	3.006150	2.923334	4.783092	2.243752
Jarque-Bera	2.728499	4.510433	0.164532	6.538859	9.090260	2.368559
Probability	0.255572	0.104851	0.921027	0.038028	0.010619	0.305966
Sum	110.5136	132.0935	-5.936379	65.02961	325.2980	135.6411
Sum Sq. Dev.	25.58555	5.184076	5.167476	6.046118	463.7534	21.14713
Observations	31	31	31	31	31	31

Source: Output from E-views 9

Unit Root Results

	Augmented Dickey-Fuller (ADF)		
Variables	Test Statistic	P-value	**Stationary**
Market Capitalisation	-4.273356	0.0023	I(1)
All Share Index	-4.482240	0.0014	I(0)
Value Traded Ratio	-4.995156	0.0004	I(1)
Foreign Direct Investment	-6.800340	0.0000	I(1)
Interest Rate	-4.100654	0.0034	I(0)
Gross Domestic Product	-4.470886	0.0014	I(1)

Source: Researcher's Computation (2025)

Discussion of Findings

Foreign Direct Investment and Market Capitalization in Nigeria

Several recent studies supported the finding that foreign direct investment, interest rates, and gross domestic product significantly affected market capitalization in Nigeria. Lai, et. al. (2023) reported that net FDI and macro rates were statistically significant drivers of stock-market capitalization across countries, a result consistent with Nigeria's experience. Adeleke (2021) showed that monetary policy rates transmitted meaningfully to equity values via discount-rate and earnings channels, raising capitalization in expansionary phases. Likewise, Eze, et. al. (2020) and Okafor (2019) found that GDP growth strengthened corporate earnings and investor sentiment, expanding listed firms' market value. Daniel, et. al. (2024) also documented that investment inflows in public and privatewere associated with deeper capitalization in Nigeria.Other scholars argued against uniform significance. Afolabi, et. al. (2021) observed that FDI's effect on capitalization weakened when flows targeted non-listed sectors, diluting stock-market transmission. Okonkwo, et. al. (2019) reported periods when elevated interest rates crowded out equities, muting their net impact. More recently, Ojo, et. al. (2022) showed that GDP's influence varied across downturns, with oil-price shocks breaking the growth–capitalization link. Overall, the literature suggests that the three variables can be significant, but their effects depend on sectoral composition of FDI, monetary conditions, and macro shocks.

Foreign Direct Investment and All Share Index in Nigeria

Empirical evidence shows that foreign direct investment (FDI), interest rates, and gross domestic product (GDP) significantly influence the AllShare Index (ASI) in Nigeria. Adeniyi, et. al. (2021) confirmed that FDI inflows boosted stock market confidence, thereby strengthening the ASI. Similarly, Adekunle, et. al. (2020) observed that GDP growth positively correlated with stock market indices, reflecting investor optimism during economic expansion. On monetary policy, Adebayo, et. al. (2022) reported that lower interest rates stimulated equity demand, leading to higher ASI performance.

Conversely, some scholars argue that the relationship is not always stable. Yusuf, et. al. (2019) revealed that excessive dependence on FDI in non-listed sectors diluted its impact on ASI. Likewise, Okeke, et. al. (2023) found that rising interest rates crowded out equity investments, weakening ASI growth. These findings suggest that while the variables are influential, their effects are conditional on broader macroeconomic dynamics.

Foreign Direct Investment and Value Traded Ratio in Nigeria

Several scholars have examined the impact of foreign direct investment (FDI), interest rates, and gross domestic product (GDP) on the value traded ratio in Nigeria. Supporting the findings, Ojo, et. al. (2020) observed that FDI inflows enhanced stock market liquidity, reflected in higher value traded ratios. Similarly, Bello, et. al. (2021) found that GDP growth positively influenced market depth, as economic expansion boosted investor participation. On interest rates, Adeyemi, et. al.(2022) confirmed that lower rates encouraged equity trading, leading to increased value traded ratios.

In contrast, some studies argue otherwise. Chukwuma, et. al. (2019) reported that FDI effects were minimal when channeled into sectors outside the stock market. Likewise, Musa, et. al. (2023) revealed that high interest rates discouraged equity trading, thereby weakening the value traded ratio. These mixed findings highlight that while the variables significantly influence liquidity, their impact depends on prevailing macroeconomic and structural conditions.

5. Conclusion and Recommendation

This study examinedthe role of foreign direct investment in the development of the Nigerian capital market, with specific focus on three major indicators: Market Capitalization, All Share Index (ASI), and Value Traded Ratio (VTR). The scope of the study covered Nigeria over a defined period, analysing how FDI influences the depth, liquidity, and efficiency of the capital market. Using the Autoregressive Distributed Lag (ARDL) model, the study evaluated the short-run and long-run relationships between FDI and these capital market variables to determine the significance and nature of their impact.The study concluded that foreign direct investment (FDI) has a statistically significant effect on the Nigerian capital market. The empirical results showed that FDI positively influences market capitalization, indicating that foreign investment inflows contribute to the expansion of market size and investor confidence. Similarly, a significant effect was found between FDI and the All Share Index, implying that increased foreign investment boosts stock market performance through higher share prices and increased investor participation. The findings also confirmed a significant relationship between FDI and the value traded ratio, suggesting that FDI enhances trading activities and market liquidity.

Based on the findings that Foreign Direct Investment (FDI) significantly affects market capitalization in Nigeria, it is recommended that the Nigerian government and capital market regulators prioritize policies that attract and retain FDI. These policies should include tax incentives, reduced bureaucratic barriers, improved infrastructure, and legal protections for foreign investors. By doing so, Nigeria can increase the flow of foreign capital into its capital market, thereby boosting the market size and enhancing investor confidence. A more robust market capitalization fosters better financing opportunities for listed firms and contributes to economic growth.

Given the significant effect of FDI on the All Share Index (ASI), it is advisable for regulatory bodies like the Securities and Exchange Commission (SEC) and the Nigerian Exchange Group (NGX) to ensure greater transparency and stability in the financial market. This can be achieved by strengthening corporate governance practices, enhancing information disclosure, and maintaining political and economic stability. When foreign investors perceive the Nigerian capital market as transparent and secure, it positively influences investor sentiment and drives up the ASI. A higher ASI reflects a growing and stable stock market, attracting more investorsboth local and foreign.The finding that FDI has a significant effect on the Value Traded Ratio (VTR) suggests the need to deepen market liquidity by encouraging participation of foreign institutional investors. Authorities should consider diversifying financial instruments and simplifying trading procedures to make market participation more attractive. Furthermore, the integration of advanced technology in trading platforms and cross-border trading agreements could enhance market efficiency and accessibility for foreign investors. A more liquid market not only ensures fair price discovery but also reduces volatility, thereby improving overall market performance and resilience. These combined efforts would contribute to making the Nigerian capital market a more viable destination for foreign investments.

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