

International Capital Mobility in the next Millennium: Prospects for Nigeria

By
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1.0 INTRODUCTION

Over the past twenty years, global trade in financial assets has been spurred by advances in communication and transaction technologies, the creation of new financial products, as well as a widespread trend toward deregulation of domestic and international capital market activities. In theory, international capital mobility provides governments and corporate bodies with the opportunity to expand their investment activities by borrowing from international capital market. The size of these gains, and the extent to which they are being attained in practice remain uncertain and furnish an active area for research. Indeed, high on the policy agenda of most developing countries, including Nigeria, is the desire for further integration into world or regional capital markets in order to attract the benefits to the domestic economy.

In Nigeria, attempts to accelerate growth and development have always led to modification of relevant laws and institutions that had hitherto restricted the inflow of foreign capital and the introduction of incentive packages. This is based on the perception that domestic resource gap can be filled through foreign capital. Before the introduction of Structural Adjustment Programme (SAP) in 1986, the Nigerian government encouraged foreign capital inflow, but in practice there were series of policies that served as disincentives to this announced policies (Ekpo, 1997). Since the inception of SAP in 1986, changes in government policies have been geared towards encouraging the inflow of foreign capital and the attendant benefits.

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The workings of the global capital market do not provide developing countries, including Nigeria, with easy access. For most developing countries, private capital markets are still cut off. The recent growth of foreign direct investment and portfolio investment flows has been restricted to a very small group or the larger and richer developing countries. There is scant reason to believe that this renewed access to private capital markets would be spread very widely in the next millennium. At the same time, private agents throughout the developing world have accumulated large foreign assets holding. However, the mobilization of these funds for domestic development may not be easy. Experience in countries where debt conversion programmes worked to repatriate this "flight capital" indicates that monies did not return after a sustained period of successful adjustment.

The foregoing notwithstanding, what will be the role of policy in the next millennium towards the attraction of capital into Nigeria? What are the outstanding issues on the way of foreign capital mobilization for Nigeria's economic development in the next millennium? Put differently, what are the major determinants of capital flows to Nigeria? Answers to these questions will inform policy on ways of attracting foreign capital to Nigeria in the next millennium.

This paper principally examines the factors that determine capital mobility and how Nigeria can benefit from the global trend of capital movements in the 21st century. Accordingly, the remaining part of the paper is organized as follows: Part 2 examines the theoretical issues and review of literature, Part 3 discusses the Nigerian experience with capital inflow. Part 4 dwells on the evaluation of the various variables identified in literature as affecting capital flows. Part 5 contains recommendations of what needs to be done to attract foreign capital into the country in the next millennium and some concluding remarks.

2.0 REVIEW OF LITERATURE ON CAPITAL MOBILITY

Capital is freely mobile within a multi-country region when its residents face no official obstacles to the negotiation and execution of financial trades anywhere and with anyone within the region, and they face transaction costs that are no greater for parties residing in different countries than for parties residing in the same country. This implies that national authorities do not interpose themselves between transaction partners from different countries, other than the provision of a nationality-blind legal framework for contract enforcement.

Actual conditions may differ from this ideal of free international capital mobility. Government can impose taxes on cross-border financial flows and payments, including

certain types of reserve requirement, as well as quantitative hints and outright prohibitions. The threat of such measures can discourage international capital movement, as can official Moral Suasion in which threats of formal regulation may be implicit. The prospect of partial or full government expropriation of foreign-owned assets lowers the financial openness of some economies. Differences in language and business practice can raise the cost of an international financial deal relative to that of a similar deal between residents of the same country.

In measuring the strength of such barriers to international capital movement, an essential comparative benchmark is the ideal case of perfect international capital mobility, in which capital is free to move internationally and transaction costs literally are zero.

Perhaps the most basic implication of perfect mobility is that an asset's price must be the same wherever it is sold. In practice, however, most tests of the law of one price compare the prices in different localities of narrow set of closely comparable assets, namely, claims on specified future currency payments. The dollar price of \$1 to be delivered in country A, one period from today is $\frac{1}{(1 + i_s^A)}$ where i^A is the one-period nominal dollar interest rate in country A.

In country B on the same date, the nominal dollar interest rate is i_s^B . Under perfect capital mobility the price of future dollar is the same no matter where the claim to the dollar is located. Thus, the equality $i_s^A = i_s^B$ holds true. Empirical studies on implication of perfect capital mobility usually compare nominal interest rates in different financial centres. For instance, the interest rates on large certificates of deposit sold in New York and those on London Eurodollar deposits of the same maturity. However, such assets do not guarantee the same payment in all states of nature, for instance, the unregulated offshore Eurodollar market may be more prone to a generalized financial crisis than the onshore U.S. money market. However, the relationship between nominal interest rates on the same currency in different financial centres is probably the least ambiguous of the commonly used indicators of international capital mobility from cross-country comparisons of nominal or real uncovered returns on different currencies, basically because they necessarily appeal to auxiliary maintained assumptions that may be valid or not independently of the degree to which capital is mobile.

Capital mobility allows countries to trade differential consumption risks; the effect is to provide each other with insurance against purely idiosyncratic national consumption fluctuations. In practice consumption insurance is provided by trade in a wide array of contingent and non-contingent securities: a cross-border exchange of common stock, for

example will alter the statistical distribution of both trading partners' future consumption. In general, the implication of an efficient allocation of consumption risks is that country's marginal utilities of consumption are perfectly correlated across states of nature; thus national marginal rates of substitution across states of nature necessarily coincide. This could be shown mathematically thus:

Let $C^A(S_j)$ be country A consumption in state j ($j=1, 2, \dots, n$), let π_j be the probability of states, and let $U^A[C^A(S_1), C^A(S_2), \dots, C^A(S_n)] = \sum_{j=1}^n \pi_j u^A[C^A(S_j)]$ be country A's expected utility. Then, with similar notation for country B, marginal utilities are perfectly correlated if, for some constant λ and for every state j , $\pi_j U^A[C^A(S_j)] = \lambda \pi_j u^B[C^B(S_j)]$. But this condition implies the equalization of marginal rates of substitution across states

$$\pi_j u^A[C^A(S_j)] / \pi_e u^A[C^A(S_e)] = \pi_j u^B[C^B(S_j)] / \pi_e u^B[C^B(S_e)]$$

The above exposition stems from two distinct assumptions, there is free international asset trade and that the set of securities available to trade is complete, so that all consumption risks are insurable. In theory either of these two assumptions can fail independently of the other; in practice, it is clear that the existence of non-verifiable contingencies and actions limits the extent to which individuals can contract to share risks. Even under perfect capital mobility, there may be no close ex-post association between national consumption levels. Other things being equal, however, increasing international capital mobility should entail an increasing tendency for positively correlated consumption co-movements among countries.

If a set of state contingent asset people trade is sufficiently rich, perfect capital mobility leads to an efficient international allocation of investment at the margin, a decision to invest a unit of output in country B rather than country A should not affect the expected value of the flow of future world output. The richness of the available set of menu is crucial, because the expected value of world output is the sum of output realization in different states of nature weighted by state-contingent output prices. Thus, if the required set of state-contingent assets does not exist, people generally won't have common marginal rates of consumption substitution across all state of nature, and there is no presumption that investment will be efficiently allocated through the world. In a world of uncertainty and incomplete markets, it is difficult to judge how close global investment patterns are to those that free capital mobility would imply. Most researchers hoping to assess capital mobility from their perspective have been forced to rely on rough measures of constrained investment efficiency. A number of studies attempt to compare, directly or indirectly through an examination of capital output ratios, the marginal contribution of installed capital to national outputs. Given the capital installation costs, the marginal product of capital need not be the same everywhere. What

should be observed under capital mobility is a tendency for time-averaged marginal products of capital in various countries to converge. Similarly, world investment should flow disproportionately toward countries where capital is relatively more productive.

A controversial way of evaluating the efficiency of the global allocation of investment is proposed by Feldstein and Horioka (1980) and Feldstein (1983). They maintain that the productivity of capital in a country is not systematically linked to the determinants of its saving rate, and that national saving and domestic investment rates should not be systematically associated either, if capital is internationally mobile. Other things being equal, a rise in a country's saving rate should cause a current-account surplus that directs the freed resources towards their most efficient world-wide uses; similarly, an increase in the productivity of a nation's capital should cause current account deficit that draws in savings from abroad. They concluded that this picture differs markedly from the post war findings.

Following the traditional literature in financial economics, assets are priced, in the absence of distortions, so that riskiest assets offer the highest rates of return. Also, although unsystematic risk can be reduced to a minimum by appropriately diversifying portfolios, systematic risk cannot be diversified and should be reflected in the price of assets-investors should be compensated for holding a portfolio of assets whose returns have high covariance (Taylor 1991). It is clear from these submissions that among the fundamental determinants of international capital flows are factors such as the investment opportunities available in the global economy, the covariance between the expected returns on various investment projects, and the preference of individuals for present and future consumption, as well as their attitude toward risk. Goldstein et al (1991) however observed that there is a major problem in measuring empirically the effect of the factors listed on capital flows. International capital markets may react to a shock in one country through a change in capital flows, through a change in the prices of the country's financial claims, or through a mix of the two. Moreover, as the international financial system becomes more integrated and portfolios more diversified, asset prices are more likely to change than net capital flows to restore market equilibrium. These interest rate parity conditions are usually employed by most econometric models to establish financial linkages across countries. They specified that asset price linkages are the outcome of arbitrage between financial markets rather than the capital flows. Taylor and Sarno (1997) added that changes in government policies and capital market imperfections also determine international capital movement. But even at that, it is extremely difficult to assess the impact of these policies and distortions because they generally overlap, creating both impediments and stimuli to capital flows.

Most economists have generally agreed that industrial countries are highly integrated financially. This view is at least partly based on the observation that gross financial flows among industrial countries are very substantial (see Golub, 1990). But the size of gross flows is often taken to be an imperfect indicator of the degree of financial integration. The reason is that although capital flows would indeed be zero under financial autarky, they need not necessarily occur between strongly integrated financial markets. Continuous equalization of the prices of financial assets would remove the incentives for capital movements. However, Monteil (1994) identified two reasons to expect a country enjoying a high degree of financial integration with the rest of the world, to on the average, experience large gross capital flows. Number one, in markets that are strongly integrated, the geographic locations of the parties on the two sides of a financial transaction are indeterminate. Thus, borrowing and lending by domestic residents should frequently cross international boundaries. Number two, although changes in international rates of return should quickly be reflected in domestic rates under such conditions, preservation of portfolio equilibrium for domestic residents in response to such changes will typically require net capital flows. For instance, the response to a change in world interest rates, the preservation of domestic monetary equilibrium under fixed exchange rates would be achieved through capital flows unless effects on the demand for money were accommodated by the domestic monetary authority.

The extent of financial openness has usually been assessed not in terms of the size of either gross or net capital flows between jurisdictions but also by the level to which expected returns are equalized between domestic and foreign assets of the same type. The equalization of returns can be measured by simple interest arbitrage (for assets of the same type, denominated in different currencies but issued in the same political jurisdiction), covered interest parity (for assets of the same type, issued in different political jurisdictions but with forward cover for exchange risk), uncovered interest parity (for assets of the same type, issued in different jurisdictions without forward cover), and real interest parity (for testing the equalization of expected real returns across similar assets issued in different jurisdictions).

Of all the types of interest parities discussed above, only the uncovered interest parity is the relevant interest parity measure for the majority of developing countries (see Faruquee, 1991), for applications for several pacific basins countries). The uncovered interest parity is based on the assertion that arbitrage equalizes expected returns on domestic and foreign assets of the same type:

$$(1 + i_t) = E_t [(1 + I_t^*) s_t + 1/s_t] \dots\dots\dots(1)$$

Where I_t and I_t^* are the domestic and foreign interest rates, respectively, s_t is the domestic currency price of foreign exchange (equal to s_{t+1} next period), and E_t is the expectations operator. The asset in question in this example is taken to be a nominally safe asset. However, because of political risk, I_t^* and $s_t + I$ are both random.

In equation 1, the expected value of $(I + I_T^*) s_T + 1 / s_T$ is not observable. Testing uncovered interest parity thus, requires making an ancillary assumption about how the unobservable subjective expectations of future returns on foreign currency assets are formed. With rational expectations, $E_T [(I + I_T^*) s_T + 1 / s_T]$ becomes the expectation of the true distribution of $(I + I_T^*) s_T + 1 / s_T$, conditioned on the available information. Under these circumstances, $(I + I_T^*) s_T + 1 / s_T = E_T [(I + I_T^*) s_T + 1 / s_T] + e$, where the prediction error, e , must be a mean zero random variable. The content of the information set used to form the expectation $E_T [(I + I_T^*) s_T + 1 / s_T]$ depend on the efficiency of the foreign exchange market. If the market is weakly efficient, the information set must contain at least the past prediction error (that is lagged values of e). Under these circumstances, e must be serially uncorrelated. Now consider the ex-post return differential, d_t given by:

$$D_T (I + I_T) - (I + I_T^*) s_T + 1 / s_T \quad \dots\dots\dots (2)$$

Under the null hypotheses of uncovered interest parity and rational expectations, D_T is the negative prediction error. Thus, the joint hypothesis can be tested by examining whether D_T has a zero mean and is serially uncorrelated.

As noted by Montiel (1994), several conceptual and empirical complications arise in applying tests of the uncovered interest parity. First, differences in rates of return between otherwise identical assets issued in different political jurisdiction are consistent with weak financial integration, so interest parity tests are of strong financial integration. Weak financial integration between two countries means that a given financial asset is traded at the same price by residents of both countries so that no profitable arbitrage opportunities remain. Thus, the degree of financial integration can, in principle, be measured as the difference between the prices of identical assets in the two countries. However, the identification of identical assets in different political jurisdiction is not a trivial matter. If an asset is defined by the probability distribution of its prospective returns then the requirement that two assets are identical, that is, that they offer the same pay-off in all states of the world, is very stringent. If the distributions of prospective pay-offs for the two assets differ in their second moments, they would probably not be priced so as to yield the same expected rate of return, even in perfectly integrated financial markets, unless agents were risk neutral.

Second, there is a wide range of assets in each jurisdiction. Arbitrage tests may hold for some assets but not for others. If transaction costs differ across assets, then those assets with the largest transaction costs may effectively be nontraded. Alternatively, some assets (say equities) may be more idiosyncratic than other and thus may be less similar to their foreign counterparts. Prices of such assets would fail parity tests, although other domestic assets may pass.

Third, an operationally meaningful measure of financial integration must focus on the scope for domestic variable to affect the prices of domestic financial assets, rather than on the validity of restrictions derived from arbitrage considerations. These notions are conceptually distinct. The interpretation of the failure of Uncovered Interest Parity (UIP) for most industrial countries, is controversial. The failure may arise from a non constant (time varying) risk premium. The premium could be consistent with strong financial integration, as long as the assets are perfect, substitutes after the premium is taken into account. Alternatively, systematic differences in rates of return on otherwise similar assets denominated in different currencies and issued in different political jurisdictions could respond to changes in the relative supplies of such assets. This "imperfect substitutes" case is inconsistent with strong financial integration. In general, the policy implications of failure of parity conditions depend on the source of the failure.

Most recent empirical works including Grabel (1995), and Clerke (1996) Corrigan (1989), argued that the processes of deregulation, globalization, and innovation have increased both the efficiency of, and volatility, in financial markets. Volatility adds another source of risk, not only making the pricing of financial assets more difficult but also generating portfolio flows that are potentially more unstable. However, some evidence suggests that volatility is not correlated with any measure of financial integration and that it does not rise because of financial liberalization (Teser and Werner, 1995).

Recent literature distinguishes between two sets of factors affecting capital movement (see Fernandez – Arias and Montiel, 1996 and Claessens et al (1993). The first are country-specific-pull factor reflecting domestic opportunity and risk. As developing countries credit worthiness is resorted, capital (bond and equity) flows are likely to become an increasingly prominent source of external finance. For instance, equity related capital flows could be very large and come in the form of either foreign direct investment or portfolio investment in equities. Foreign direct investment may be attracted by the opportunity to use local raw materials or employ a local labour force. Williamson (1993) noted that although portfolio equity flows to developing countries have increased sharply in recent years, they are expected to be extremely sensitive to a country's openness, particularly to rules concerning the repatriation of capital and income.

Goldstein et al (1991) identified the right to repatriate dividends and capital as the most important factor in attracting significant foreign equity flows. Credit ratings and secondary market prices of sovereign debt, reflecting the opportunities and risks of investing in the country, are likely to be important in determining capital flows (Bekaert, 1995). The second set of determinants of capital flows to developing countries are global-push-factors. For

example, the sharp increase in U.S. capital flows, which represent a significant share of the portfolio flows received by emerging markets, may have been induced to some extent by the fast and marked fall of U.S. interest rates (short, medium, and long term) in the late 1980s. Moreover, the slowdown of the U.S. economy in the late 1980s may also have attracted U.S. capital flows, especially because during that period macroeconomic policies, labour market conditions, and exchange rate policies in many developing countries were becoming noticeably more stable (Calvo et al 1996). It is thus expected that as developing countries undertake macroeconomic and institutional reforms, international investors will gain confidence and be more willing to direct capital flows toward the new markets.

Using a model of partial irreversibility of investment, Daveri (1995) found a negative relationship between foreign investment and costs of entry and exit from financial markets. Chuhen et al (1993), find that portfolio flows to a sample of Latin American and Asian countries are about equally sensitive to push and pull factors, using panel data for 1989 – 1992.

Before analyzing capital flows to Nigeria from an historical perspective, it is pertinent to discuss the foreign investment policies in Nigeria. This is summarized in Table 1.

TABLE 1
FOREIGN INVESTMENT POLICIES IN NIGERIA: A SUMMARY

Period	Policy/Legislation	Investment/Strategies	Remarks
1960 – 1985 Post-Independence	Encouraged investment with some government regulation and control. Some policies discouraged foreign investment, Companies Tax Act, 1962; Immigration Act 1962; Indegenisation Decree 1972; Decree No. 3 of 1977.	Generous capital allowance (allowance depreciated claim without limit tax rebates in respect of losses (before April 1976); later claims were limited to four years but indefinite carry forward to losses for agriculture business. Permission was required for transfer of profits, repatriation of capital and new foreign borrowing; compensation deals to retain some proportion of foreign exchange not needed for local expenditure abroad; Indigenisation Act reserved some businesses for foreigner and some for Nigerians.	Favourable to Foreign Direct Investment up to 1972 and less favourable from 1973.
1986 – 1993 Structural Adjustment	Deregulated and Liberalized policy, new industrial policy 1981; Companies and allied Matters Decree 1990.	Financial liberalization; removal of price controls; decaying interest rate; abolished the Indigenisation Act. Foreigners were free to invest in all aspects of the economy; publication of an industrial development; establishment of the industrial development; establishment of Industrial Development Co-ordinating Committee (IDCC).	Favourable to Foreign Direct Investment.
1994 – 1998 Post-Adjustment	Guided deregulation; some brief policy reversals on SAP, Nigerian Investment Promotion Commission Decree 1995; Foreign Exchange (Monitoring and Miscellaneous) Decree 1995; Abolishing the Nigerian enterprises Promotion Decree 1972 and 1977.	Unconditional transferability of funds, no enterprise should be nationalized or expropriated by any government of the federation; foreigners cannot be compelled to surrender their interest in any company; establishment of the autonomous foreign exchange market, deregulation of interest rates.	Less favourable up to 1995 and favourable thereafter.

Source: Adopted from Ekpo (1996)

The recent trend of portfolio investment in Nigeria indicates that this components of foreign investment was principally characterized by disinvestment. Portfolio investment in 1986 stood at N103.4 million. It increased to N1,018.6 million in 1988. Between 1989 and 1992, there was an outflow of portfolio investment due principally to policy reversals. It is clear from the above that different governments provided various incentives to attract foreign investment. The bulk of the FDI was oil denominated. Foreign private investment and its components increased in years in which the economic fundamentals moved in the right direction. However, in the next segment of this paper an attempt is made to quantify the determinants of capital mobility of Nigeria.

4.0 DETERMINANTS OF INTERNATIONAL CAPITAL FLOW TO NIGERIA: EMPIRICAL EVIDENCE

The theoretical issues discussed in part 2 above reveals that international capital flows to a domestic economy are influenced by the size of domestic market, capacity utilization, debt service ratio, inflation rate, exchange rate, interest rates, government policies, output, credit to the private sector, per capita income, credit rating, world interest, etc.

$$FDI = f(y, CU, Ds, Inf, Fr, Dr, Govt, Cr, Wir, Gy) \quad \dots\dots(3)$$

In its genetic form the theoretical issue as well as the literature reviewed on the subject matter could be summarised thus:

$$FDI = a_0 + a_1 Y + a_2 Cu + a_3 Ds + a_4 Inf + a_5 Er + a_6 Dr + a_7 Govt + a_8 Cr + a_9 Wir + a_{10} Gy + U_t \quad \dots\dots (4)$$

Where

FDI	=	Foreign Direct Investment
Y	=	Real National Income
Cu	=	Capacity Utilization
Ds	=	Debt Service ratio
Inf	=	Inflation rate
Er	=	Exchange Rate (Naira/Dollar)
Dr	=	Domestic interest rate (Deposit Rate)

- Govt = Government foreign investment policy (dummy 0 for unfavourable years and 1 for favourable years as classified in Table 1)
- Cr = Credit rating (Based on data from Mogan Trust, Country Credit Rating, 1997)
- Wir = return on investment in the rest of the world proxied by the US real interest rate
- Gy = Per capital income (Percentage growth rate)
- U_t = Stochastic error term assumed to have all the normality properties (constant variance and uncorrelated with the explanatory variables).

Apriori, we expect

$$a_1, a_2, a_6, a_7, a_8, \text{ and } a_{10} > 0 \text{ and } a_3, a_4, a_5, a_9 < 0$$

4.1 Data/Method of Analysis

Data for this study were obtained from the Central Bank of Nigeria's Statistical Bulletin, Annual Reports, and the International Financial Statistics (IFS) of the International Monetary Fund. Annual series were used. Regression analysis using OLS technique was employed to determine the relationships between FDI and the identified variables. The data for the study spans 1970 – 1997.

TABLE 2
REGRESSION RESULTS

Predictor	Coefficient	Student's T
Constant	-52239	-3.27
Y	+11298	4.11
Cu	+2347.7	2.36
Ds	-243.21	1.81
Inf	-0.0468	1.69
Er	-122.23	0.73
Dr	+944.03	3.16
Govt	-2.5092	-0.70
Cr	+1102.9	2.33
Wir	-3842	-0.13
Gy	+1.161330	2.41
R ²	0.93	
\check{R}_2	0.92	
DW	2.5 (2.48)	
F	27.83	

4.2 Regression Results

In order to determine quantitatively and perhaps more precise relationship(s) between FDI and the identified variables in Nigeria, equation (4) was estimated using ordinary least squares for the period 1970 – 1997. The results are presented in Table 2. It is instructive to note that the model explains over 90 per cent of the variance in FDI in Nigeria for the period of study. The results also show that all the variables were properly signed with the exception of government foreign investment policy variable. Thus, the apriori expectations about the signs of the variables were met. However, only National Income, Capacity Utilization, Domestic Interest Rate, credit rating and per capita income growth rate were significant.

Overall, the regression results are not just instructive, but theory and data admissible. Accordingly, in the years that lead to the new millennium the government should take appropriate measures to further liberalize the economy so as to make it attractive to foreign investors. There is no gain saying the fact that the domestic saving-investment gap would persist and in fact might not be bridged in the foreseeable future given the level of poverty in Nigeria. Thus, the only viable option for the development of the entire economy hinges on the level and rate of foreign capital inflow. Consequently, the following policy measures should be considered by the government:

1. Increased output through productivity: As shown from the empirical results, there is a significant relationship between the national income and FDI flows. Thus, the government should adequately remunerate and motivate the labour for meaningful productivity.
2. Capacity utilization is a very critical factor in economic development and the attraction of FDI, the government through appropriate policy mix should strive for increased capacity utilization in the years leading to the new millennium. These policies should be in the areas of interest rate, exchange and adequate fiscal incentives.
3. The level of inflation in the country should be moderated through appropriate monetary and fiscal policies' formulation and harmonization.
4. The need to continue to service our external obligations timely is crucial. This action, has the double effect of enhancing our credibility and thus improving our credit rating in the international financial markets.
5. Government should further deregulate the economy by privatizing the remaining public utilities like National Electric Power Authority (NEPA) and Nigeria Telecommunications Plc (NITEL)
6. The need to see governance as a social contract between the government and the people irrespective of who takes over the reins of power should be emphasized and entrenched in the constitution.
7. Nigeria should start by acceding to the IMF Article VIII on Current Account convertibility, thereafter a well sequenced programme aimed at total liberalization of capital account should be pursued.
8. Within the West African sub-region, the government should through appropriate policies recommended above, strive to strengthen the Nigerian economy, and thereafter, make the Naira a convertible currency within the sub-region.

5.0 CONCLUSION

From the foregoing, it can be concluded that Nigeria has great potentials to attract foreign capitals in the 21st century. However, the level as well as the rate that will eventually flow to the country will depend on how well the economic managers/policy makers approach the issue discussed in this paper.

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