

FINANCIAL INTEGRATION AND ECONOMIC DEVELOPMENT IN NIGERIA

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Abstract

Financial integration is the integration of a country's local financial system with international financial markets. It usually requires liberalization of domestic financial sector and the capital account. The main objective of the study is to examine the effect of financial integration on economic development in Nigeria. Specifically, the study determines the effect of money supply on economic development in Nigeria. Analyzed the effect of private sector credit economic development in Nigeria. Investigate the effect of foreign direct investment on economic development in Nigeria. Examined the effect of gross fixed capital formation on economic development in Nigeria. Determine the effect of trade openness on economic development in Nigeria and market capitalization on economic development in Nigeria. Augmented Dickey Fuller Tests for Unit Roots and The Autoregressive Distributive Lag (ARDL) Approach which is capable of handling both stationary at level $I(0)$ and first difference $I(1)$ were used for the data analysis. The results of the study revealed that financial integration have significant short and long run policy effect on economic development in Nigeria. This connotes that financial integration is the driver of economic development in Nigeria. An active and efficient financial integration enhances growth and development of the economy. The study recommends that the Central Bank of Nigeria should employ an expansionary monetary policy that can increase the money supply to the real sectors and boost economic development in Nigerian. This connotes that financial integration is the driver of economic development in Nigeria. An active and efficient financial integration enhances growth and development of the economy. Amongst the recommendations is that there should be adoption of direct channels which include augmentation of domestic savings through diversification of production base to enhance export sector, reduction in the cost of capital through better global allocation of risk, development of financial sector and enhance technical know-how in Nigeria.

Key Words: Financial Integration, Economic Development, Nigeria

INTRODUCTION

Financial integration refers to an individual country's linkages to international capital markets propelled by technological innovations, globalization and capital account liberalization (Abdul, 2021). The phenomena of financial integration and financial globalization are in principle different concepts though both are mutually interrelated. Financial globalization is an aggregate concept that refers to increasing financial

global linkages created through cross-border financial flows (Omah, 2020). For instance, increasing financial globalization is associated with increasing financial integration on the average. In this work, both concepts shall be inter-changeably used. Due, Hong Vo, Anh, The Vo, and Chi-Minh Ho (2020) deduce that financial integration connotes increase in cross-country capital movements which involves an active participation of local borrowers and lenders in international money and capital markets and a wide spread rise in international financial intermediaries and instruments. Ekpo and Chuku (2017) see financial integration as an increase in cross-border capital flows and a tendency for prices and returns on traded financial assets in different regions and countries to equalize. Mckinnon (1973) and Shaw (1973) view financial integration as encompassing domestic market deregulation and capital account liberalization.

Financial integration therefore can be defined as the process through which financial markets of an economy become closely integrated with those in other economies or with those of the rest of the world. In theory, financial integration can be summed up as a ONE-STOP-SHOP market where financial instruments - Bonds, Stocks, Shares and loan deals are negotiated, concluded and traded on and where information is readily available, amenable at zero cost to participants in the market. It presupposes an efficient perfect market condition.

Economic development encompasses progress in providing livelihood on a sustainable basis, access to education and basic healthcare for the majority of the population (Ayadi, 2021). Economic development' is a process in which a nation is being improved in the sector of the economic, political, and social well being of its people. The term has been used frequently by economists, politicians, and others in the 20th and 21st centuries. The concept, however, has been in existence in the West for centuries. "Modernization, westernization and especially industrialization are other terms often used while discussing economic development. Economic development has a direct relationship with the environment and environmental issues Economic development is very often confused with industrial development, even in some academic sources. Whereas economic development is a policy intervention endeavor with aims of improving the economic and social well being of people, economic growth is a phenomenon of market productivity and rise in GDP. Consequently, economic growth is one aspect of the process of economic development.

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(Belshaw & Livingstone, 2002). The meaning of the term “development” becomes clearer with the understanding of the term “economic growth”. By economic growth, economists generally mean the increase over time in a country’s real output per capita. Though other measures can be used, output is most conveniently measured by the gross national product (GNP). This implies that economic growth is measured by the increase in a country’s per capita GNP (Mark & Waiyaki, 2021).

However, extant studies demonstrate a gamut of conflicts and controversies as to positive benefits of financial integration to the participating developing countries of South East Asia, the Latin Americas and the Sub-Saharan Africa, where Nigeria, the referral point of this study belongs.

Statement of the Problem

The introduction of the structural adjustment programme (SAP for short) in 1986 consequent upon the mismanagement of our national resources and foreign exchange reserves, the Nigerian economy had no choice other than to align itself with the prevailing world order of trade and financial globalization engineered by free marked forces rather than government regulations and repression. Theory suggests that financial integration enables a seamless interface between a country's domestic financial market and that of the global money and capital markets providing international opportunity for consumption smoothing, enhances productivity through specialization, technological innovations and financial growth development. Thus, financial integration should enable the local economy create more employment, increase its productivity, raise per capital income, reduce income inequality, provide quality and affordable education and health services, reduce environmental pollution and improve the general well-being of the Nigerian populace.

It has been argued, that financial integration is occasionally blamed for increasing a country's vulnerability to international financial crisis that could precipitate domestic financial shocks as a result of sudden reversals in international capital flows. Foreign direct investment (FDI) flows to countries with better growth potentials! Broner and Ventura (2016) contend that financial globalization destroys domestic trade and generates capital flight. Poor institutional quality impedes the positive effects of direct foreign investment and trade openness on economic growth in emerging and developing economies.

The advancement in information and communication technology with growing financial deregulation and liberalization in international capital markets has made

financial markets throughout the world easily and readily more open to foreign investors. This has compelled most developing countries in the Sub-Saharan region including Nigeria to initiate reforms to foster financial integration and attract foreign portfolios-One of the most contemporary debates in international financial flows is whether financial integration in developing countries promotes or depresses growth as a result of its effect on the local macro-economic variables of employment inflation and exchange rates (Olawajun, Adayernand & Alada, 2015).

It is noteworthy that a good number of early studies on financial integration concentrated in the advanced economies where the idea originated. Other studies of integrated global finance focused on cross-country comparative analysis involving time series cross-sectional or panel data of a mixture of countries and or regions.

For example, Middle East and North Africa region (MENA), The Latin America, South East Asian Nation (SEAN), The countries of Eastern Europe, ((EE), Sub-Saharan Africa (SSA) as well as G.8 countries. There is also a preponderant study in financial integration of the various regional blocks across the globe. The engagement therefore in a comprehensive context - specific investigation of the effects of financial globalization on the development indices of the Nigerian economy is a bold step in filling the knowledge gap in the extant literatures. Such a robust country specific examination would provide a dynamic and realistic domestic policy framework for the management of the country's monetary and fiscal policies that endures in the long run a result oriented planning and implementation strategy.

While a good number of Nigeria studies devoted attention to the nexus between financial integration variable and the index of economic growth (GDP), scarcely had any comprehensive study of the phenomenon of financial integration and its effects on the dynamics of economic development. It is against this backdrop and the palpable lacuna in the literatures that this study seeks to address such a robust engagement that would avail national policy formulators the opportunity to tap and utilize the result of a context specific study such as this in formulating policies for a sustainable economic growth and development.

These shortcomings have somehow contributed to the knowledge gap in the literature which this study closes by using data from (1987-2022) and increasing the number of financial integration variables

Objectives of the Study

The main objective of the study is to examine the effect of financial integration on economic development in Nigeria. The specific objectives are to:

- Determine the effect of money supply on per capita income in Nigeria
- Investigate the effect of private sector credit on per capita income in Nigeria
- Examine the effect of foreign direct investment on per capita income in Nigeria
- Ascertain the effect of gross fixed capital formation on per capita income in Nigeria
- Analyze the effect of trade openness on per capita income in Nigeria
- Analyze the effect of market capitalization on per capita income in Nigeria

Hypotheses

The following hypotheses which are stated in null shall be tested in the course of this study

H₀₁: Money Supply has no significant effect on per capita income in Nigeria

H₀₂: Private Sector Credit has no significant effect on per capita income in Nigeria

H₀₃: Foreign Direct Investment has no significant effect on per capita income in Nigeria

H₀₄: Gross fixed capital formation has no significant effect on per capita income in Nigeria

H₀₅: Trade openness has no positive and significant effect on standard of living in Nigeria

H₀₆: Market capitalization has no significant effect on per capita income in Nigeria

Review of Related Literature

Conceptual Review

Financial Integration

Financial integration is said to encompass domestic financial market deregulation and capital account liberalization (McKinnon, 1973). Financial integration is defined as the integration of a country's local financial system with international financial markets. It usually requires liberalization of domestic financial sector and the capital account. Financial integration, thus, entails increase in cross-country capital movement, which involves an active participation of local borrowers and lenders in international markets and a widespread use of international financial intermediaries and instruments (Obadeyi, 2013).

Financial integration improves macroeconomic policy-making and encourages the implementation of pro-growth reforms by imposing discipline on governments. It strengthens corporate governance through a more competitive market for corporate control. Improves country risk-sharing (Boyle, 2009); enhances product market competition through the inflow of new, internationally operating enterprise and portfolio diversification and directs capital flows to the most efficient and productive use and ensure that executives are performing at their best (Okechukwu, 2020). Through financial integration, foreign financial institutions bring to domestic financial markets best corporate practices and experiences that which are likely to encourage technology transfer to domestic financial institutions (Ogbuagu & Ewubare, 2015). Entry of foreign financial institutions helps improve domestic prudential supervision because supervisors are now able to see what risk management practices are successfully used in foreign institutions and insist that they be adopted by domestic institutions (Adebowale & Akindele, 2018).

There is significant change in the financial structure of most of the countries in world since 1980s. The wave of financial liberalization and globalization occurred in mid 1980s resulted into remarkable increase in capital flows among industrial and developing countries. A substantial increase in capital flows has been observed world-wide since 1991 which accelerated in 2000s due to financial liberalization (Oyenkachi, 2020).

The integration of global financial system has its own stages. As its initial level, when capital is free to move globally, countries involved get the opportunities to explore highest returns by diversifying their portfolio. But as the level of integration increases, these benefits get contracted (Hoxa et al. 2009). As the matter of fact financial integration among the countries cannot be perfect due to different basic structure. Therefore, it becomes fruitful for the countries to open their capital accounts. There is wide spread view that increased international financial integration (whether in the form of capital account liberalization or with increase in capital inflows and outflows) has improved quality of domestic financial institutions and has helped increased economic growth and reduced volatility (Olanrewaju, Adeyemo & Alalade, 2015).

Per Capita Income

Per-capita income is a measure of economic well-being. Through its effect on economic development, it can indirectly affect sustainable development. Over the years, income per-capita was commonly used to describe the wellbeing of individuals in a specific period of time. This was usually done without putting into consideration

the inter-temporal dimension in which sustainable development can also be affected by income per-capita level. Income per-capita level can indirectly affect sustainable development through its effect on economic development. This can be through the effect of income per-capita on education, health, migration and sanitation levels. Having low levels of income per-capita is more likely to reduce the individuals' access to high levels of education and knowledge. In addition, it deprives individuals from better nutrition which negatively affect their health status and productivity as well as it encourages migration from the country whenever possible. Also, low income per capita is associated with poor environmental conditions such as poor sanitation, high levels of pollution and lack of access to clean water. (Imandojemu & Babatunde, 2020).

Theoretical Framework

The theoretical framework for the study is based on the seminar work of McKinnon and Shaw (1973) who explained the role financial institutions play in economic development and demonstrated that development of the financial sector as a catalyst for economic growth and development. According to the McKinnon's model (1973), investment cannot be triggered unless sufficient savings is mobilized in the form of bank deposit liabilities which eventually leads to economic growth. McKinnon and Shaw (1973) later identified two theories of financial integration which are the theory of liberalization and the theory of repression.

The theory of liberalization explains that financial markets allow financial integration which reflects an increasing use of financial intermediation by savers and investors as well as the monetization of the economy. The theory explains that the higher the real rate of interest, the greater the degree of financial integration. This theory encourages the expansion of the financial markets as a result of higher rate of interest which contributes to economic development. The theory of repression on the other hand, explains how government intervenes in the financial intermediation to determine the financial prices. The main characteristics of financial repression are interest rate control, restriction of capital account movement, restriction entry to financial market and so on. The intervention of government encourages mostly the borrowers to borrow as much as they can in order to invest into their choice projects which in turn promote economic growth.

On the other hand, Gurley and Shaw (1960) developed the theory of financial intermediation and advocates that intermediation plays a very crucial role in the development process by transferring financial resources from the net savers to net

borrowers, thereby influencing investment. When these financial resources are transferred, it enhances the financial capacity of the borrowers in the savings and investment process by improving the quality and standard of living of the populace, resulting in economic growth and development.

Empirical Review

Sambo, Zunaidah and Nuraddeen, (2020) examined the efficient role of the role economic growth and financial globalization uncertainty plays on financial development. The study uses synthesizing, theoretical analysis and systematization of empirical literature on the matter; structural analysis of how the variables relate from the conclusions of 50 relevant papers spanning the year 2015 to 2019 previously published in indexed journals for the analysis. The result of the study indicates that financial globalization uncertainty and economic growth positively affects the development of the financial sector in most developing and industrialized economies. Meanwhile, a negative or even neutral relationship seems prevalent in predominantly oil-rich countries.

Adekunle. Abayomi and Odusanya, (2021) examine the benefits of financial integrations in four of Africa regional trade blocs: COMESA, ECCAS, CEN-SAD and ECOWAS. We regress de-jure and de-facto indices of financial integration on growth outcome using the dynamic system generalised method of moment and pooled mean group estimation procedure. Findings revealed that total foreign asset and liabilities and foreign liabilities as a percentage of GDP are inversely related to growth outcomes in COMESA. In CEN-SAD, we found that foreign liabilities as a percentage of GDP hurts growth. In ECCAS, growth-financial integration relationship showed that foreign liabilities as a percentage of GDP inhibit real per capita GDP in the long run. In ECOWAS, foreign liabilities as a percentage of GDP is inversely related to real per capita GDP in the long run. Policy implications of our findings were discussed.

Imandojemu, and Babatunde, (2020) analyses the likely determinants of human capital development in Nigeria. Methodologically, the Autoregressive Distributed Lagged Model (ADRL) was modeled to examine the nature of relationship, where Human Capital Development Index (HCI) is presumed to depend upon changes in various list of Independent Variables estimators which were estimated over the period 1990 to 2018. Data were sourced from the National Bureau of Statistics, World Development Indicators (WDI) as well as those provided by the Central Bank of Nigeria Statistical Bulletin. Empirical results showed that the relationship between tertiary school enrolment and human capital development was positive but insignificant. The

relationship between government expenditure on education (GXE), government expenditure on health (GXH), life expectancy (LI) on human capital development (HC) was positive and significant while the relationship between Fertility Rate and human capital development in Nigeria was negative and significant. This succinctly indicates that increased fertility rate with attendant population growth can hamper human capital development. Furthermore, a trade-off exists between increasing fertility rate and the pursuit of human capital development.

Ayadi, (2021) analyzed the contributions of financial development and savings to economic growth in Nigeria from 1981 to 2015 using kernel quantile regression, simple ordinary least squares (OLS) and autoregressive distributed lag (ARDL) models. Financial development was captured with BMG, which is the broad money as a percentage of GDP. DCF which is the domestic credit provided by financial sector as a percentage of GDP; and DCP, the domestic credit to the private sector as a percentage of the GDP. The study found two measures of financial development as exerting fairly significant positive impact on economic growth in Nigeria while broad money as a ratio of GDP exerted a negative but significant impact on economic growth resulting in mixed results. Savings exerted fairly significant positive impact on economic growth. The quadratic results portray non-uniformity in the impact of savings because at the median growth level, savings' impact is insignificant but at higher levels of growth, savings significantly contributes to economic growth suggesting that there is a threshold effect of savings on economic growth in Nigeria.

Egbetunde and Anthony (2020) examine the impact of financial integration on economic growth in sub-Saharan Africa (SSA). Using a dynamic panel Generalized Method of Moment (GMM), the paper finds that financial integration had a negative and significant impact on economic growth in SSA. The results also reveal that institutional quality had a negative and significant impact on economic growth in SSA. The results of the paper further show that financial development had negative impact on economic growth in the region.

Oyenkachi, (2020) examines the effect of financial integration on economic growth in Nigeria. Using time series data from 1986 - 202019, the study employs autoregressive distributed lag (ARDL) bounds testing approach proposed by Pesaran et al., (2001) to estimate the long run and short run effect of financial integration and development on economic growth. The result from cointegration test showed presence of long run relationship between dependent and all explanatory variables. The regression results show that, while financial integration has no short run effect on economic growth, its

long run effect on growth is negative and significant. Financial development was found to have both short run and long run positive effect on economic growth in Nigeria. Hence, for Nigeria to benefit from financial integration, the government has to increase the level of competition, improve the quality of financial information and reduce corruption in the financial system.

Patrick, Kehinde, Adegbite and Okoye, (2018) examines the relationship between interest rate spread and corporate bond market development in thirteen African economies comprising Botswana, Egypt Mauritius Nigeria, Tunisia, Cameroon, Kenya, Morocco, South Africa, Cote d'Ivoire, Ghana Namibia, Tanzania from 2004 and 2014 using fully modified ordinary least square (FMOLS) in an autoregressive distributive lag (ARDL) framework. Subsisting literature suggests that in bank-based economies, interest rate spread could adversely affect the potency of corporate bond market development; and thus limits the financial market competitiveness. The result provides evidence that corporate bond issue, as proxy for financial development is negatively influenced by interest rate gap in the short and long term. The result affirms the 'group interest' theorem in these African economies leading to a deterrent in competitive financial development. The ECM coefficient satisfies a priori expectation, affirms the short run dynamic relationship, which implies long run equilibrium from the annual speed of adjustment, which is about 100 percent.

Restu, Rossanto, Abdul, Mohamad, (2020) globalization in the financial and trade sectors has increased capital flows for numerous countries. This study aims to analyze the determinants of international financial integration in ASEAN-5 (Indonesia, Malaysia, Philippines, Singapore and Thailand) from 2008 to 2017. The value for International Financial Integration in this study was calculated using equity-based measurements. This study uses the Generalized Method of Moment (GMM) based on dynamic panel data. The results of this study indicate that all variables significantly affect international financial integration in ASEAN-5, except for domestic credit and exchange rate volatility. Market capitalization, trade openness and GDP per capita have positive relationships to international financial integration, while the inflation variable has a negative relationship to international financial

Methodology

Research Design

The study will adopt the *ex-post facto* research design.

Model Specification

Analyze the Effect of Financial Integration on economic development in Nigeria

The model which is adapted for the study is the model of [Arinze, \(2013\)](#).

The model is stated thus:

$$PCI = f(M_2, PSC, FDI, GFCF)$$

Where:

PCI= Per Capita Income

M₂= Money Supply

PSC= Private Sector Credit

FDI= Foreign Direct Investment

GFCF= Gross fixed capital formation

The Model is modified as follows:

$$PCI = f(M_2, PSC, FDI, GFCF, TOP, MCP)$$

The Econometric Equation Form of the Model is:

$$PCI = \beta_0 + \beta_1 M_2 + \beta_2 PSC + \beta_3 FDI + \beta_4 GFCF + \beta_5 TOP + \beta_6 MCP + \mu \quad \dots \quad 1$$

Where:

PCI= Per Capita Income

M₂=Money Supply

PSC= Private Sector Credit

FDI= Foreign Direct Investment

GFCF= Gross fixed capital formation

TOP= Trade openness

MCP= Market capitalization

μ = Stochastic Disturbance (Error Term)

β_0 = Intercept of Relationship in the Model Constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ = are the Coefficients of the Independent Variables

μ = Stochastic Disturbance (Error Term)

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$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ = are the Coefficients of the Independent Variables

Analysis of Data

Table 1: ADF Test of Stationarity test for financial integration and economic development variables

Variables	At Level		First Difference		Order of Integration
	t-Statistic	Prob.	t-Statistic	Prob.	
PCI	3.4265	1.0000	-3.9973	0.0042	1(1)
M ₂	1.061128	0.9959	-3.070463	0.0432	1(1)
PSC	-2.123540	0.2372	-5.164075	0.0002	1(1)
FDI	-1.988460	0.2902	-6.493611	0.0000	1(1)
GFCF	-2.212907	0.2058	-9.983399	0.0000	1(1)
TOP	-2.113713	0.2408	-5.502564	0.0001	1(1)
MCP	-4.452938	0.0012	-	-	1(0)

Source: Eviews 9.0

The tests of stationarity for the variables were shown on Table 1. The results revealed that the following variables are not stationary in their level but became stationary in their first differences: PCI, M₂, PSC, FDI, GFCF and TOP.

However, only MCP was stationary at level 1(0). This means that most of the variables are stationary at first difference 1(1) and one was stationary at level 1(0). Since the variables have a combined stationarity status of level 1(0) and first difference 1(1), the most suitable tool of analysis is the Autoregressive Distributive Lag technique (ARDL). The variables stationary at level implies that they are not time variant while the ones stationary at first deference suggest that they respond to changes in time periods.

ARDL (Bounds) Test for Cointegration

The result of the Bound test examined the presence of cointegration between financial integration and economic development in Nigeria. If the F-statistic of bound test is higher than the lower and the upper bound critical value at 5% significance level, the null hypotheses of no long run relationship is rejected, whereas if the F-statistic of bound test is lesser than the lower and the upper bound critical value at 5% significance

level, long run relationship is accepted. The cointegration relation between financial integration and economic development in Nigeria are presented in Table 2

Table 2. Result of the ARDL (Bounds) Test for Cointegration for Financial Integration and Economic Development in Nigeria

ARDL Bounds Test

Date: 07/21/23 Time: 16:46

Sample: 1987 2022

Included observations: 35

Null Hypothesis: No long-run relationships exist

Test Statistic	Value	K
F-statistic	5.710216	5

Critical Value Bounds

Significance	I0 Bound	I1 Bound
10%	2.26	3.35
5%	2.62	3.79
2.5%	2.96	4.18
1%	3.41	4.68

Source: Eviews 9.0

The bound test is shown in Table 2. The result compared the F-statistics with the critical bound values. The F-statistics is 5.710216. The results showed that the F-statistic is greater than the lower bounds at 2.62 and upper bounds at 3.79 of the critical values at 0.05 level of significance. The implication is that there is a cointegration or long run relationship between financial integration and economic development in Nigeria

Analyses of Long Run Effects of Financial Integration and Economic Development in Nigeria

Table 3: Model of the long run relationship between Financial Integration and Economic Development in Nigeria

Dependent Variable: PCI

Cointegrating Form				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(PCI(-1))	1.758180	0.175202	10.035151	0.0021
D(PCI(-2))	0.637471	0.090321	7.057839	0.0058
D(M ₂)	-0.000849	0.000075	-11.374239	0.0015
D(M ₂ (-1))	-0.000111	0.000089	-1.241668	0.3026
D(M ₂ (-2))	-0.002498	0.000189	-13.234506	0.0009
D(PSC)	0.002114	0.000542	3.900038	0.0299
D(PSC(-1))	0.001444	0.000408	3.536997	0.0384
D(PSC(-2))	-0.004265	0.000546	-7.805585	0.0044
D(FDI)	-0.020303	0.002624	-7.738122	0.0045
D(FDI(-1))	0.006892	0.002009	3.430135	0.0415
D(FDI(-2))	-0.034923	0.003457	-10.102017	0.0021
D(GFCF)	0.205432	0.109480	1.876426	0.1573
D(GFCF(-1))	0.071303	0.074726	0.954197	0.4104
D(GFCF(-2))	-0.115932	0.054931	-2.110487	0.1253
D(TOP)	-0.000249	0.000138	-1.798272	0.1700
D(TOP(-1))	-0.000990	0.000062	-16.057643	0.0005
D(MCP)	-0.177167	0.014706	-12.047173	0.0012
D(MCP(-1))	0.189248	0.025671	7.371962	0.0052
D(MCP(-2))	0.119212	0.023225	5.132804	0.0143
CointEq(-1)	-1.877669	0.170838	-10.990907	0.0016
Long Run Coefficients				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
M ₂	0.001698	0.000024	71.165598	0.0000
PSC	0.005874	0.000360	16.317528	0.0005
FDI	0.001130	0.001863	0.606748	0.5869
GFCF	0.382307	0.051265	7.457498	0.0050
TOP	-0.000481	0.000093	-5.169645	0.0140
MCP	-0.337286	0.016960	-19.887679	0.0003
C	-0.062488	0.039328	-1.588870	0.2103

Source: Eviews 9 Output

The result on Table 3 is the ARDL cointegrating and long run form of the relationship between financial integration and economic development in Nigeria. The error correction of -1.877669 which is rightly signed with a negative coefficient to indicate that any deviation from normalcy has the tendency to return to equilibrium in due time.

The probability value of 0.0016 is less than 0.05 level of significance. Thus the study rejects the null hypothesis of no long run adjustment to equilibrium. This indicates that financial integration has a significant long-run effect on economic development in Nigeria

Short run Effect of Financial Integration on Economic Development in Nigeria
Table 4: Short Run Model of the Relationship between financial integration and economic development in Nigeria

Dependent Variable: PCI

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
PCI(-1)	0.880511	0.097333	9.046358	0.0029
PCI(-2)	-1.120709	0.128069	-8.750812	0.0031
PCI(-3)	-0.637471	0.090321	-7.057839	0.0058
M ₂	-0.000849	7.46E-05	-11.37424	0.0015
M ₂ (-1)	0.001428	0.000166	8.601407	0.0033
M ₂ (-2)	0.000111	8.92E-05	1.241668	0.3026
M ₂ (-3)	0.002498	0.000189	13.23451	0.0009
PSC	0.002114	0.000542	3.900038	0.0299
PSC(-1)	0.006094	0.000542	11.23836	0.0015
PSC(-2)	-0.001444	0.000408	-3.536997	0.0384
PSC(-3)	0.004265	0.000546	7.805585	0.0044
FDI	-0.020303	0.002624	-7.738122	0.0045
FDI(-1)	-0.005606	0.003225	-1.738284	0.1805
FDI(-2)	-0.006892	0.002009	-3.430135	0.0415
FDI(-3)	0.034923	0.003457	10.10202	0.0021
GFCF	0.205432	0.109480	1.876426	0.1573
GFCF(-1)	0.467785	0.105774	4.422514	0.0215
GFCF(-2)	-0.071303	0.074726	-0.954197	0.4104
GFCF(-3)	0.115932	0.054931	2.110487	0.1253
TOP	-0.000249	0.000138	-1.798272	0.1700
TOP(-1)	-0.001644	0.000163	-10.07497	0.0021
TOP(-2)	0.000990	6.16E-05	16.05764	0.0005
MCP	0.177167	0.014706	2.104717	0.0012
MCP(-1)	0.147684	0.014716	3.03558	0.0021
MCP(-2)	0.189248	0.025671	4.371962	0.0052
MCP(-3)	0.119212	0.023225	5.132804	0.0143
C	-0.117331	0.076565	-1.532438	0.0229
R-squared	0.839975			
Adjusted R-squared	0.729760			
F-statistic	4650.820			
Prob(F-statistic)	0.000004			
Durbin-Watson stat	2.129190			

Source: Eviews 9 output

The coefficient of the endogenous variables showed a statistically significant p.values ($P < 0.05$) throughout short term period of the model. However, the coefficients were positive and significant at lag1 (0.8805, $p = 0.0029$) but negative at lag 2 (-1.1207, $p = 0.0031$) and lag 3 (-0.6374, $p = 0.0058$). This means that economic development is an endogenous variable in the mode for financial integration as determinant of development in Nigeria.

Money Supply: Funding from money supply have a negative and significant short-run effect in the in initial period (-0.0008, $p = 0.0051$) but positive and significant short-run effects, after one year (0.0014, $p = 0.0023$) and after the third year (0.0024, $p = 0.0009$). This suggests that money supply gyrates intermittently within the short run period in the economic development in Nigeria

Private Sector Credit: The private sector credit showed all time short run significant effect on economic development. However, the coefficients gyrate between negative and positive trends within the short run frame. In the initial period and at lag 1 and 3 were positive coefficients, but negative at lag 2. This is similar to the coefficients of the private sector credit with a sporadic flow of significant negative effects from initial period to lag 2 and significant positive effect at lag 3.

Foreign Direct Investment: The coefficient of foreign direct investment showed a positive (0.4677) and significant (0.0215) short run effect on economic development in Nigeria

Other coefficients indicate positive relationship at initial period (0.2054, $p = 0.1573$), and lag 3 (0.1159, $p = 0.1253$) but negative at lag 2 (-0.0713, $p = 0.4104$) which were not statistically significant at 0.05 level. This means that foreign direct investment has a positive and significant short run effect on economic development at the initial period.

Gross Fixed Capital Formation: The outcome of coefficient for gross fixed capital formation reveal a negative and significant effect at lags 1 and 3 but positive in the lag 2 (after two years). This means that gross fixed capital formation has a fluctuating effect (within the bounds of positive and negative melee) on economic development in Nigeria.

Market Capitalization: For the market capitalization, the effect was comprehensive, positive and significant at all the short run periods.

The adjusted coefficient of determination ($\text{Adj } R^2$) revealed a 70% of the change in economic development can be explained by financial integration in Nigeria, a statistically significant p.value of 0.0000 from the F-statistics (4650.82). The Durbin-Watson statistics of 2.12 being within the bond of 2 affirms the reliability of the model.

Conclusion

The study has shown that the financial integration have huge effect on economic development in Nigeria. Financial integration has significant short and long run policy effect on economic development in Nigeria. This connotes that financial integration is the driver of economic development in Nigeria. An active and efficient financial integration enhances growth and development of the economy.

Recommendations

The study recommends that the Central Bank of Nigeria should employ an expansionary monetary policy that can increase the money supply to the real sectors and boost economic development in Nigerian. There should be adoption of direct channels which include augmentation of domestic savings through diversification of production base to enhance export sector, reduction in the cost of capital through better global allocation of risk, development of financial sector and enhance technical know-how. The indirect channels associated with promotion of trade specialization and inducement for better economic policies for example, appropriate exchange rate, and monetary and fiscal policies should be adopted in order to increase financial flow that can enhance growth and reduce inflation. Government has to put measures in place to control the outflow of capital from the country to other countries. This is to enable the country reap the benefits of reinvesting profits generated from Nigeria's based companies instead of taking such profits channeled outside the country thereby causing negative growth. Incentives should be put in place to encourage inflow of funds into the country through favourable trade practices. This gives confidence to trade partners outside the country and boost trade and economic development. The policy makers should promote sustainable long-run policies by creation of modern, efficient and strong financial institutions by deepening the financial sector. The legal reforms, regulatory and supervisory bodies of financial system should be strengthened through capacity building and investing in human resources.

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