Capital Flight and Nigeria Economic Growth

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Abstract

This paper provides evidence on the negative impact of the assessment of capital flight on economic growth of Nigeria for 40 years (1970-2009). It provides a comprehensive analysis of capital flight and its resultant impact on domestic investment and the growth rate of the economy. The study used cointegration and Error Correction Mechanism (ECM) as its main estimation techniques. It was discovered that capital flight and its assessments are significant factors for explaining economic trends in Nigeria. It was also discovered that capital flight have negative impact on the economy. Consequently, it is recommended that funds from foreign sources in form of loans, gifts, grants and aids should be judiciously used for economic development of Nigeria. It also recommended fiscal discipline, serious and commitment on the part of government and its functionaries. Above all, government should provide enabling environment for business to thrive thereby encouraging foreign direct investment and discouraging capital flight.

Keywords: Capital Flight, Gross Domestic Product, Residual approach, Cointegration, Error correction Model
Introduction

There exists no generally acceptable definition of the term “capital flight” most of the times, this term are related to capital which is shifted out of developing countries. Lesser and Williamson (1987) defines capital flight as illegal conveyance of capital aboard which stays unrecorded in the national accounts of developing countries. Ndikumana and Boyce (2003) also defined capital flight as residents’ capital outflows, excluding recorded investment abroad. However, if capital shifts out of the developed country it is usually revered to as capital outflow. Investors from developed countries are seen as responding to investment opportunities while investors from developing countries are said to be escaping the high risk they perceived at home (Ajayi 1997). The huge amount of capital flight experienced by the less developed countries (LDC) and their effects on the national economy have attracted the attention of many economists in recent years. Capital flight has been regarded as a major factor contributing to the foreign debt problem and inhibiting development effects in the third world, Codington (1986). Causes of capital flight according to Ajayi (2005) include varying risk perception, exchange rate misalignment, financial sector constraints and repression, fiscal deficits, weak institutions, macroeconomic policy distortions, corruption and extraordinary access to government funds among others.

The economic arguments against capital flight from developing countries are not only convincing but are also too strong to be ignored. According to Deppler and Williamson (1991), capital flight is said to lead to a net loss in the total resources which are available to an economy for the purpose of investing and growth. While some analysts view it as a symptom of a sick society characterized by break down of social cohesion, reduction in growth potentials, erosion of tax base, failure to recover from debt problems, and a redistribution of wealth from poorer to richer social groups, others consider the very use of the word Capital flight as unnecessarily pejorative description of natural, economically rational responses to the portfolio choices that have confronted wealthy residents of some debtor countries in recent years, Ali and Benard (2011).

It is against this background that this study is set to critically provide a comprehensive analysis of Capital Flight and the resultant impact on domestic investment and Nigeria economic growth.

Literature Review and Theoretical Framework

By it very nature, it is difficult to measure capital flight. The difficulties involved notwithstanding; a number of capital flight estimates have been made over the last several years. The preponderant of these studies cover a number of countries including Argentina, Brazil, Chile, Korea, Mexico, Peru, the Philippines and Venezuela. A recent study covers Argentina, Bolivia, Chile, Columbia, Ecuador, Gabon Jamaica, Mexico, Nigeria, Peru, the Philippines, Venezuela and Yugoslavia. These various studies differ from one another in term of the methodological approaches of measurement, country coverage and life span. The most significant of these studies which have made impact on capital flight estimates include the studies by Dooley et al, (1986) World Bank (1985). These approaches of capital flight estimate including others are briefly discussed below.
A. The Residual Process of Capital flight Estimate

The residual approach was developed by the World Bank, (1985) and Erbe (1985). It was further modified by Morgan Guaranty Trust (1986). In the World Bank (1985) and Erbe (1985) version of the residual approach, capital flight is calculated as the difference between sources and uses of capital inflows. The source of capital inflows are increases in external debt and foreign direct investment. These capital inflows are used to finance either current account deficits or increase in official reserves. The inflows that finance neither current account deficits nor increases in reserve constitute capital flight.

In essence, capital flight in the World Bank (1985) version of the residual approach is measure as:

\[ F(WB) = EBEBT + G + F - N \] (1)

Where:

- \( G \) is foreign direct investment;
- \( F \) is current account balance and \( N \) is increase in reserves.

Positive value of \( KF-WB \) represents capital flight while negative value is capital re-flows or the reserve capital flight.

Morgan Trust (1986) adjusted the World Bank (1985) measure for changes in foreign assets held by domestic agents other than the banking system. According to Morgan Trust (1986) capital flight is measured as:

\[ KF(MORG) = EDEBT + G + F - N - 1 \] (2)

Where:

\( KF(MORG) \) is the Morgan Trust (1986) measure of capital flight; \( 1 \) is increase in foreign assets of the domestic banking system; \( G, F \) and \( N \) are as defined above.

As usual in residual measures of capital flight, negative values of \( KF-M \) or \( G \) are capital reflows while positive values are capital flight.

B. Dooley process of Estimating Capital Flight

The Dooley method defines capital flight as illegall capital outflows, or all capital outflows based on the desire to place assets beyond the control of domestic authorities. Following this concept of capital flight, the Dooley method considers all outflows that do not receive register interest payment as illegal capital outflows. The Dooley measure incorporates the net errors and omissions, as well as the difference between the World Bank data on the annual change in the stock of external debt and debt flows as reported in the balance of payments statistics. In its simplest form, capital flight magnitude is measure as the excess of total capital outflows over the stock of registered interest receipt external assets. The total capital outflow is computed as:

\[ C_{o_t} = \Delta Debt_t + \Delta Fit_t - CAD_t - \Delta FRS_t - x_t - y_t \] (3)

Where:
CO denotes total capital outflows; $y_t$ is net errors and omissions, and $x_t$ represents the different the World Bank and IMF debt statistics.

The stock of total external assets (STK) is computed as:

$$STK_t = (1+r_w)R_t$$  \hspace{1cm} (4)

Where:

$r_w$ stands for internationally realistic interest rate, and $R_t$ is the registered receipts.

From equations 2 and 3 the Dooley measure of capital flight (CFd) is calculate as:

$$CFd_t = CO_t - STK_t$$  \hspace{1cm} (5)

There exists a wide literature with respect of capital flight with diverse empirical evidence; some of which are also discussed in this paper.

Cuddington (1986) estimates the economic determinants of resident’s capital outflow of four countries (Argentina, Mexico, Uruguay and Venezuela). His empirical finding differed from country to country. In Mexico, capital flight was highly related with over valuation of the exchange rate, while in Venezuela, there were over valuation and foreign interest rates in Argentina and Uruguay if lagged effective exchange rate and error of the model were related to capital flight. Conesa (1987) had similar results except that it had 16 annual observations while Cuddington (1986) had 91. Conesa (1987) had growth as an additional explanatory factor and did not attempt to estimate over valuation of the real or effective exchange rates but used level of government borrowing in his study of seven developing countries (Argentina, Mexico, Brazil, Chile, Peru, Venezuela and Philippines). Doley, et al. (1986) discovered that capital flight is significantly related to domestic inflation, financial repression and a measure of country risk premium. Khren and Hague (1987) estimated capital flight from four- sub-Saharan, Nigeria, Sudan, Tanzania and Uganda) from 1976 to 1989, using their estimates capital flight may seem small compares to Latina American countries but the burden as a percentage of GPD is higher by 61% of sub-Saharan compared to 22% for Latin American. Also, by their calculation, Murinde et al, (1996) discovered that Nigeria experienced the biggest capital flight over the period representing 60% of the combined total of the four countries in the sample of their econometric analysis of the determinant of capital flight which indicated that the most explanatory variables is public external borrowing. The results implied that capital flight and external debt are closely dependent.

In his study of three countries (Cote d’ Ivore, Nigeria and Morocco) Ojo (1992) opined that Nigeria had the largest capital flight of about 35-billion and emphasized the importance of domestic economic environment including policy related variables as government budget defect and changes in external debt. Ajayi (1995) discovered in his study that cumulative capital flight in the period of 1980 to 1991 averaged 40% of external debt to run 18 countries sampled. The ratio was as high as 94% for Nigeria, 74% for Kenya and 60% for Sudan. He also discovered that countries that exhibited the greatest capital flight often are the most highly indebted and referred to them as “twin problems”. Ajayi (1992) estimated capital flight from Nigeria in 1972 to 1989 drawing attention to the role of trade taking
(Mis invoicing) in the country’s oil sector and to the link between capital flight, corruption and governance failure. He concluded that most of the capital flight from Nigeria is recorded in the BOP and debt statistics and that is not unexplained by economics factor but also political factor or uncertainly. Onwioduokit (2007) in his studies stated that the major determinant of capital flight from Nigeria are domestic inflation, availability of foreign exchange reserve, comparative growth rate of the economy and parallel market premium. A study on econometric analysis of capital flight in Nigeria by Ayadi (2008) investigates the determinants of huge capital flight (with its constraints on economic growth) in Nigeria so as to make meaningful policy contributions on strategies of minimizing capital flight and its attendant impacts. His study investigates the linear determinants of capital flight in Nigeria utilizing the ordinary least squares (OLS) and the error correction method (ECM). The study found among other things, the validity of the portfolio theory which postulates how risk-averse investors can build portfolios in order to optimize or maximize expected returns given a level of market risk. This is confirmed in the international realm as private sector engaged in international arbitrage. Capital flight is caused by the interest rates deferential both in the short and in the long run. In addition, exchange rate depreciation significantly increases capital flight in Nigeria. Output growth which measures the domestic opportunity cost of flight in Nigeria is negative and significant in the short-run indicating that non performance of domestic resources can trigger capital flight.

Boyrie (2011) in his study of the determinants of capital flight and capital movement through trade mispricing in African countries attempts to accomplish two things. First, it tries to establish the determinants of capital flight and capital movement through trade misinvoicing from selected African countries in order to ascertain whether the same factors could explain both types of capital movement. Second, it attempts to determine whether Granger causation exists between capital movement through trade misinvoicing and capital flight. Data for selected countries were combined into geographical, economic, and monetary regions using 21 explanatory variables, the results showed that variables that explain capital flight do not always explain capital movement and vice versa. The independent variables tended to explain the dependent variables in a few cases, implying that the reason for capital flight and capital movement was other than for investment purposes. Overall causality was found to exist between the dependent variables, mostly in the form of feedback. Yet, the relationship was mostly transitory with a long-term relationship existing in only few cases.

Ali and Walters (2011) investigated the causes of capital flight from Sub-Saharan Africa. The study drawing on insights from portfolio theory, presents empirical evidence that links capital flight to the domestic investment climate. Using a panel data set for 37 African countries over the 1980-2005 period, the study discovered that once account is taken of the region’s structural and institutional features, private capital outflows from Africa are explained by policy distortions along with the relative riskiness and poor potability of investments. In addition, the study discovered evidence that the type and composition of resource flows to the region are important for capital flight: foreign aid generally discourages capital flight while short term borrowing and FDI contribute to it. The findings of the paper are robust to endogeneity, outliers, sub-samples, and to different econometric methods. The poor results of
empirical studies on capital flight from African may not be unconnected to the use of estimated statistics of capital flight as a dependent variable. Attempts to empirically determine the factors that affects an estimated statistics on capital flight is suspect and is bound to produces spurious results, as none of the methods of estimation discussed can capture the very nature and character of the developing countries including Nigeria. The relative under developed nature of statistical gathering as well as the very nature of the applied concept of capital flight makes the adoption of any model developed for the industrial economies for the purpose of measuring capital flight in the developing country like Nigeria, irrelevant.

Methodology

Based on the theoretical and literature reviewed above, we adopt the Residual approach to capital flight by adopting the World Bank (1985) and Erbe (1985). This is because it encompasses Macro-Economic variables that determine the economic growth of Nigeria. This variables are the volatility in External Debt (EXDEBT) and External Reserve, current account balance (CAB) and Direct foreign Investment (DFI). All these variables are capital flight estimate according to World Bank (1985) and Erbe (1985). This study used Cointegration and Error Correction Mechanism (ECM) as its estimation techniques with data over the period of 1970 - 2009. Therefore, we determine the effect of these macro-economic variables on Nigeria economic growth introducing Gross domestic Product (GDP) as the dependent variable. The model is functionally specified as follows:

$$\text{GDP} = f(\delta\text{EXDEBT}, \text{DFI}, \text{CAB}, \delta\text{RES}, \mu)$$  

(6)

Where:

- $\text{GDP}$ = Gross domestic product;
- $\delta\text{EXDEBT}$ = change in external debt;
- $\text{DFI}$ = Direct foreign investment;
- $\delta\text{RES}$ = change in External reserves;
- $\text{CAB}$ = Current account balance

The estimation technique of the above model in explicit form and by log-linearizing thus becomes:

$$\ln\text{GDP} = \alpha_0 + \alpha_1 \ln\delta\text{EXDEBT} + \alpha_2 \ln\text{DFI} + \alpha_3 \ln\text{CAB} + \alpha_4 \ln\delta\text{RES} + \mu$$  

(7)

Where:

- $\ln$ = natural logarithm;
- $\alpha_0$ is the intercept of the relationship in the model while $\alpha_1, \alpha_2, \alpha_3$ are the coefficients of the independent variables and $\mu$ is the disturbance error term.

The ‘apriori’ expectations of the model are that:

- $\delta\text{GDP}/\delta\text{EXDEBT} < 0$;
- $\delta\text{GDP}/\delta\text{DFI} > 0$;
- $\delta\text{GDP}/\delta\text{RES} > 0$;
- $\delta\text{GDP}/\delta\text{CAB} > 0$;

The test for stationarity is done using the Augmented Dickey-Fuller (ADF) unit root test. This is done at various levels of stationarity. The ADF statistics must be greater than the Mackinnon critical value before the variable can be adjudged stationary. The test for the long run relationship is done using the Johansen Co-integration test. The Long run relationship is determined by the trace statistics. The study used secondary data that are obtained from the
Central Bank of Nigeria (CBN), Federal Office of Statistics (FOS) and other sources that are relevant to the study.

**Empirical Results**

Since the study used time series data, the first step is to establish the stationarity or otherwise of the variables. To ascertain this, the visual plot of the variables is usually the first step. The graphs below shows that the variables exhibit varying degrees of fluctuations thereafter, a unit root test was carried out by using the ADF methodology.

![Graphical representation of Time Series data](image)

**Figure 1. Graphical representation of Time Series data**

Source: E-view Statistical software, version 7
Table 1. Summary of ADF Unit Root Test

<table>
<thead>
<tr>
<th>Variables</th>
<th>ADF test statistics</th>
<th>Mackinnon critical vale @ .5%</th>
<th>No of the time differences</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>-5.312332</td>
<td>-2.9411</td>
<td>I(1)</td>
<td>STATIONARY</td>
</tr>
<tr>
<td>δEXDEBT</td>
<td>-8.300316</td>
<td>-2.9411</td>
<td>I(1)</td>
<td>STATIONARY</td>
</tr>
<tr>
<td>DFI</td>
<td>-9.563759</td>
<td>-2.9411</td>
<td>I(1)</td>
<td>STATIONARY</td>
</tr>
<tr>
<td>CAB</td>
<td>-11.60126</td>
<td>-2.9411</td>
<td>I(1)</td>
<td>STATIONARY</td>
</tr>
<tr>
<td>δRES</td>
<td>-6.471667</td>
<td>-2.9458</td>
<td>I(1)</td>
<td>STATIONARY</td>
</tr>
</tbody>
</table>

Source: Extracted from E-view 7.

The results of unit root test above indicated that the variables used in the study are integrated of order I (1) respectively. This means that the variables are stationary at their respective first difference.

Co-Integration Test and Error Correction Model

Having established stationary of the variables, we determine the existence of a long-run equilibrium relationship among the variables in the model. To realize this, the study employed the Johansen cointegration technique. The cointegration results of the variables are presented below:

Table 2. Johansen Co-Integration Test

<table>
<thead>
<tr>
<th>Hypothesized no of ECs</th>
<th>Elgen value</th>
<th>Trance statistics or likehood ratio</th>
<th>5% critical value.</th>
<th>1% critical value.</th>
</tr>
</thead>
<tbody>
<tr>
<td>None *</td>
<td>0.590082</td>
<td>71.54793</td>
<td>68.52</td>
<td>76.07</td>
</tr>
<tr>
<td>At most 1</td>
<td>0.440374</td>
<td>37.65963</td>
<td>47.21</td>
<td>54.46</td>
</tr>
<tr>
<td>At most 2</td>
<td>0.223149</td>
<td>15.60113</td>
<td>29.68</td>
<td>35.65</td>
</tr>
<tr>
<td>At most 3</td>
<td>0.137789</td>
<td>60.05883</td>
<td>15.41</td>
<td>20.04</td>
</tr>
<tr>
<td>At most 4</td>
<td>0.009747</td>
<td>0.372203</td>
<td>3.76</td>
<td>6.65</td>
</tr>
</tbody>
</table>

Source: Extracted from E-view 7.

The co-integration equation is presented linearly as below:

\[ GDP = -1.003544 - 0.116930\text{EXDEBT} - 0.890854\text{DFI} + 0.149442\text{CAB} - 0.368442\text{RES} \]

From the table above, it shows that there exist a long-run equilibrium relationship in Model 6 because the likelihood ratio (71.54793) is greater than 5 percent critical value (68.52) at None hypothesized No of ECs (None*). Furthermore, the long run cointegration equation shows that EXDEBT is negatively related to GDP in the long run. So also is DFI and RES with the constant Parameter negatively related to LGDP. However the LCAB remained positive in the long run. All the variable stands significant. Having established the long run equilibrium...
relationship among the variables in the model, we switch to the short-run error correction model.

**Error Correction Model**

The error correction model measures the speed of adjustment to equilibrium. The error correction model (ECM) is significant if it has a negative sign in either over parameterized or parsimonious ECM. This implies that the present value of the dependent variable adjust rapidly to changes in the independent variable. A higher percentage of ECM indicates a feedback of that value or an adjustment of that value from the previous period disequilibrium of the present level of depend variable and the present and past level of the independent variables. The over parameterized ECM is being made by leading and lagging each variables while the parsimonous ECM consider the variables that adjust rapidly to equilibrium between the leading and the lagged variables. The tables below shows the result of both overparameterised and parsimonious ECM conducted on the specified parameters.

**Table 3. Overparameterised Ecm**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>T-statistics</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>D(GDP(-1)2)</td>
<td>-0.3721222</td>
<td>0.174548</td>
<td>-2.143952</td>
<td>0.0412</td>
</tr>
<tr>
<td>D(EXDEBT,2)</td>
<td>0.022078</td>
<td>0.011212</td>
<td>1.969158</td>
<td>0.593</td>
</tr>
<tr>
<td>D(EXDEBT(-1)2)</td>
<td>0.014935</td>
<td>0.012166</td>
<td>1.227351</td>
<td>0.2302</td>
</tr>
<tr>
<td>D(DFI1,2)</td>
<td>0.112763</td>
<td>0.047860</td>
<td>2.356130</td>
<td>0.0260</td>
</tr>
<tr>
<td>D(DFI(-1)2)</td>
<td>0.001820</td>
<td>0.039370</td>
<td>-0.046231</td>
<td>0.9635</td>
</tr>
<tr>
<td>D(CAB,2)</td>
<td>0.072545</td>
<td>0.019333</td>
<td>3.752335</td>
<td>0.0008</td>
</tr>
<tr>
<td>D(CAB(-1),2)</td>
<td>0.035226</td>
<td>0.024685</td>
<td>2.237263</td>
<td>0.0337</td>
</tr>
<tr>
<td>D(RES,2)</td>
<td>0.029270</td>
<td>0.018965</td>
<td>1.54326</td>
<td>0.1344</td>
</tr>
<tr>
<td>D(RES(-1)2)</td>
<td>1.010114</td>
<td>0.015052</td>
<td>0.671900</td>
<td>0.5074</td>
</tr>
<tr>
<td>ECM (-1)</td>
<td>-0.240563</td>
<td>0.089417</td>
<td>-2.690338</td>
<td>0.0121</td>
</tr>
</tbody>
</table>

Source: Extracted from E-view 7.

$R^2 = 0.66619$, $DW = 1.671511$

**Table 4. Parsimonious Ecm**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>T-statistics</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>D(EXDEBT,2)</td>
<td>-0.012886</td>
<td>0.011821</td>
<td>-1.090022</td>
<td>0.2838</td>
</tr>
<tr>
<td>D(DFI1,2)</td>
<td>-0.014984</td>
<td>0.043259</td>
<td>-0.34369</td>
<td>0.7313</td>
</tr>
<tr>
<td>D(CAB,2)</td>
<td>0.011442</td>
<td>0.020147</td>
<td>0.567905</td>
<td>0.5741</td>
</tr>
<tr>
<td>D(CAB (1),2)</td>
<td>0.062094</td>
<td>0.020620</td>
<td>3.156873</td>
<td>0.0035</td>
</tr>
<tr>
<td>ECM (-1)</td>
<td>0.010082</td>
<td>0.039370</td>
<td>-0.046231</td>
<td>0.9635</td>
</tr>
</tbody>
</table>

Source: Extracted from the computer output.

$R^2 = 0.460923$, $DW = 2.617338$
The table above shows the over parameterized ECM (ECM1) and parsimonious ECM (ECM2) of model 6. The negative sign of ECM value in both model (ECM 1 and 2) shows that the ECM is significant. This implies that the present value of LGDP adjust rapidly to changes in EXDEBT, DFI, CAB and RES. The ECM value of 0.240563 shows a feedbacks of about 24.05% from the previous period disequilibrium of the present level of GDP in the determination of causality between the past level of GDP and the present and past level of EXDEBT, DFI, CAB, and RES. The coefficient of multiple determinations denoted as $R^2$ shows that 66.67% variation in GDP can be explained by EXDEBT, DFI, CAB, and RES while the remaining 33.33% is being included by the stochastic error term. The Durbin Watson statistics of 1.67 shows that the presence of autocorrelation in the model is inconclusive as the Durbin Watson statistics falls under the positive side of the inconclusive region. The results of the short run ECM is in contrast to the long run cointegrating equation. This is because all the variables and their lagged values are positively related to GDP. This study does not pretend to considers exhaustively all the potential factors determining economic growth and development as regards to capital flight. However, the models developed and the estimation techniques employed in this study are intended to reveal how capital flight has been able to affect the gross domestic product (GDP) and Balance of Payment (BOP) since capital flight is detrimental to development of any economy as also revealed by the empirical results or this study, this is consistent with the findings of Ajayi (1992) and on Woduket (2007). Though Ajayi (1992) did not employ co-integrating analytical technique to estimate his data, the ‘apriori’ expectation still holds.

Discussion and Findings

The motive behind external debt is to provide basic infrastructural facilities that boost economic growth and development of a nation Nigeria is not an exception. Judicious use of external debt can also lead to influx of foreign investors, increase in external reserve and boost economic growth and development. Unfortunately, this is not so in Nigeria as revealed by the empirical findings of this study. External debt reduces gross domestic product, degree of openness, gross capital formation i.e domestic investment, and external reserve. Findings also shows that the interest being paid on foreign debt is now higher that the principal itself. The negative relationship between external debt and economic development in the long run implies that increase in external borrowing by the Nigerian government fails to transform into increase in the level of economic development. This is a indication that the borrowed funds were diverted to other uses that do not translate to economic development. Previous studies revealed that most of these funds were diverted by corrupt government functionaries to their private use other countries. (Paul Collier et al 2004). Ideally external borrowings and aids are expected to induce and attract foreign private capital thereby improve the domestic economy.

Increase external borrowing is expected to induce domestic investors to retain greater proportion of their wealth within the economy, but in a situation where increase debt results in greater proportion of private wealth to be held outside the country, the domestic economy cannot develop. Although, direct foreign investment and change in external reserve are positively related to gross domestic product in the short-run, the long-run increasing trend in external debt makes government to finance foreign debt from external reserve hence, a
decrease in external reserve. This has a multiplier effect on the economy as foreign investors are not encouraged by increase in foreign debt servicing and those already in the country chooses to repatriate profit to their parent country. All these will cause a current account balance deficit in the long run which also reduce gross domestic product.

Foreign direct investment and gross domestic product are among the largest sources of external finance from developing countries including Nigeria. The positive and negative relationship observed in the model formulated in models 6 and 7 indicated that foreign direct investment could have both adverse and beneficial effect on the economy. For instance, foreign direct investment inflows into an economy may facilitate capital flight or cause a reduction in capital flight. If the returns from foreign direct investment are repatriated into foreign countries, it is detrimental, but if the returns on foreign direct investment are reinvested in the local economy, there will be improvement in the gross domestic product.

Conclusion and Recommendations

A number of conclusions can be drawn from this study. The first is that there is no generally accepted definition of capital flight, hence the use of several concepts in this study. Secondly, a significant proportion of capital flight can be estimated from recorded data in the balance of payment and debt statistic. The implication is that, the reliability of the measure is dependent on the accuracy of the items in the balance of payment statistics and debt data. Significant amount of capital flight in relation to external debt took place over the years covered by this study. Trade faking has been discovered as an important vehicle of effecting capital flight. Thirdly, domestic macro economics policy distortion is the culprit in the capital flight episode. Of significance in the area of policy errors are lack of opportunities for profitable investments within the domestic economy. The attractive incentives offered by the foreign sector cannot be left out. Lastly, the present level of the economy cannot only be explained or judged by the current level of capital flight but also the previous level of capital that fled the economy as evident by our findings. However, this may seem uncachievable as the hub of capital flown out of Nigeria is unrecorded.

On this note, policy- makers and the relevant authorities should pay more attention than ever to the issue of capital flight in order to stem its counter productive effects on economics growth. The study recommends a fiscal discipline so that deficit as a proportion of the gross domestic product is kept in check because this is crucial to the maintenance of macro economic stability and appropriation of interest rate. This should be high enough to attract funds but not too high to stifle investment initiatives. In addition, an integrated and unified tariff structure would be useful, as it will reduce the rewards of trade faking. The issue of the existence of and how to deal with corruption is certainly more difficult to prescribe. It is part of the general problem of capital flight; one can only say that there is a need for change of attitude on the part of those who hold public offices that have access to foreign funds directly or indirectly through the contracts they awarded. This attitudinal change involves the seriousness and commitment on the part of government and its functionaries. The study also recommended that government officials should place their public duties ahead of their personal gain, by so doing the economy will experience a boost as enough funds will be
available to execute developmental project such as power generation and opening of new vibrant sectors. Of paramount importance is the provision of enabling environment for business to thrive. It is more important to make the domestic economy more attractive for the investors by creating a wider menu of domestic financial assets on which domestic capital can be assessed and invested at lower rate comparable to foreign financial instruments. If the policy packages discussed are pursued rightly and with consistency it should be possible to hope for the repatriation of capital flight from Nigeria for investment and funds from foreign sources in form of loans, gifts, grants and aids should be judiciously used to facilitate economic growth and development of Nigeria.

References


