The Effect of Capital Flight and Foreign Direct Investment on Nigerian Economy

Joseph, Fineboy Ikechi

Department of Accounting, Faculty of Social and Management Sciences, Clifford University, Owerrinta, Ihie, Abia State.

Nwankwo, Kelechi Odii

Department of Accounting, Faculty of Social and Management Sciences, Clifford University, Owerrinta, Ihie, Abia State.

Akujor, Jane Chinyere

Department of Financial Management Technology, School of Management Technology, Federal University of Technology, Owerri, Imo State.

Abstract:

The study examines the effect of capital flight and foreign direct investment on Nigerian economy for the period of 2008-2019. The data were analysed using Multiple Regression in line with the research objectives. The findings reveal that capital flight does have significant effect on economic growth in Nigeria. It is equally revealed that foreign direct investment does have a significant effect on economic growth in Nigeria; a confirmation that foreign direct investment in Nigeria has reduced drastically as a result of political instability, lack of transparency, widespread corruption and poor quality of infrastructure.

Citation: **Joseph, Fineboy Ikechi, Nwankwo, Kelechi Odii, Akujor, Jane Chinyere**, *The Effect of Capital Flight and Foreign Direct Investment on Nigerian Economy*. 8 (1), 51-66, (2022).

Based on the findings, it was concluded that increase in capital flight and reduction in foreign direct investment in Nigeria would continue to impact the economy negatively. The study therefore recommended that the government, politicians and the policy makers should formulate policies to attract foreign investors rather than illicitly and extravagantly sending or spending money overseas. Policies that would encourage reception of new technology and more job opportunities and increased productivity into the economy should be encouraged. It is also recommended that the domestic investors should be considered while formulating policies that could attract and motivate existing and potential domestic investors in Nigeria and also reduce illicit flow of funds abroad as this in turn will enhance the GDP of the nation.

Keywords: Foreign Direct Investment, Capital Flight, Gross Domestic Product, Multinational Corporations

1. Introduction

Capital flight is frequently perpetrated via tax havens by MNCs (Service Centre for Development and Cooperation, 2010). The World Bank Group (2017) noted that capital flight explains a number of illegal cross border activities and it is recently being used to describe movement of capital or activities or more clearly money that is illegally earned, transferred or used across borders.

Globally the estimates show that illicit flows/capital flight has grown substantially and it is difficult to quantify given the illegality of the flows and the underlying activities. Even according to conservative estimates, about €1,200 billion crosses nations' borders illicitly yearly. In 2008, it was estimated that the sum leaving the borders of developing countries is estimated to consist of over 50% of this, i.e. between €680 and €800 billion. The foreign debt of the countries of the region in 2004 amounted to €183 billion. With interest the sum increased to €490 billion (Service Centre for Development and Cooperation, 2010).

The Economic Commission for Africa of the United Nations (ECA) (2010) has used trade statistics to estimate that between 2001 and 2010 African countries lost up to US $407 billion from trade mispricing only. Despite the fact that it is difficult to estimate the exact figures being lost through capital flight, available statistics by GFI and ECA show a rising trend in the ugly development between 2001 and 2013 even beyond.

Foreign direct investment (FDI) has been the largest single source of external finance for developing countries since 1993 but unfortunately, this is lost via capital flight/illicit financial flows. Indeed, in 1995, the share of developing countries in global Foreign Direct Investment (FDI) inflows reached an historic high of 38%. Capital flight from developing countries is also more complex than was previously thought. For Latin America alone, residents are estimated to have lost about $300 billion in capital abroad via capital flight (Kuczynski, 1992) in (Princeton Studies in Int'l Finance, 1996).

Therefore the losses incurred by African countries rise significantly even though Africa's share of outward illegal financial flows of developing countries is about 4.6% to 7.2% (GFI,2017). The implication is that Nigeria, being the largest economy in Africa is among the nations in Africa that has lost one of the largest amount of resources in the African soil.

Capital flight is entrenched through tax haven practices by MNCs, tax evasion and avoidance, corruption, organized crime, fraud in international trade through mis-invoicing, illegal exploitation of natural resources and diversion of public fund from priorities. Other forms through which unlawful

outflows happen include illegal logging, fishing and mineral extraction and these impoverish individuals and communities that rely on these resources for their survival.
world especially in developing countries. Poverty, economic stagnation, poor standard of living and general underdevelopment in all ramifications have become the norm in developing world. Capital flight diminishes domestic resources and tax revenue needed to fund poverty-reducing programmes and infrastructure in developing countries. It also erodes resources thereby constraining poverty reduction and shared prosperity (The World Bank Group/International Bank for Research and Development/International Development Agency, 2017). Nigeria, being one of the developing countries have fallen victim of capital flight done by developed nations mostly through their agents, that is, multinational corporations. Though these multinational companies are welcomed by their host developing countries with a view to speeding up development in all ramifications and increasing FDI, studies have shown these developing countries, lose huge sum of capital/resources illegally to the countries of origin or parent companies of these MNCs abroad through their subsidiaries abroad in order to avoid/avert filling in their tax return to their host governments thereby robbing these developing nations of their resources through various tax havens practices and other illegal cross border practices. Nigeria is not left out of this ugly developments that has rendered the citizenry and economy of developing nations poor as well as inhibit development. I lieu of these, it is the purpose of this study, as a way of filling a gap, to examine the effect of capital flight and foreign direct investments on economic growth in Nigeria.
The following are the objectives, research questions and hypotheses for the study.

1.1 Objectives of the Study

The objective of this study is to ascertain the effect of some economic indicators on economic growth in Nigeria. In specific terms, the objectives of the study are as follows:

- **a.** To determine the effect of capital flight on economic growth in Nigeria.
- **b.** To ascertain the effect of FDI on economic growth in Nigeria

1.2 Hypotheses

- **a.** Capital flight does not have significant effect on economic growth in Nigeria.
- **b.** Foreign Direct Investment does not have any significant effect on economic growth in Nigeria.

2. Literature Review

2.1 Conceptual Literature

Capital Flight Expounded: There is a growing degree of familiarity with the term 'illicit financial flows', but there is still no global census regarding its definition. For instance, the World Bank Group (2012) defines illicit financial flows (IFFs) to relate both the flow of illegitimate funds and assets across borders and the core activities that generate the flows. It includes money and activities that have a lucid relation with illegality such as corruption, illegal natural resources exploitation, smuggling and trafficking, money laundering, tax evasion and tax avoidance, and fraud in international trade.
Leonce Ndikumana, Director, Peri's African Policy Program, described capital flight as the money that leaves a country which is unaccounted for or unrecorded. And most of the times it is money that is leaking out of the country because the owners are not willing to disclose the sources of the funds, which may have been acquired illicitly. So it is basically a net loss to the country. It is resources that could have been invested in the country to promote investment, employment creation, and economic

growth. These resources are suddenly forced to develop wings to fly away midnight or evaporate like gas, unnoticed.

Furthermore, Service Centre for Development and Cooperation (2010), explained capital flight as illicit wealth that is earned, transferred or used the contravention of a country's laws. It can be referred to as wealth whose origin is connected with illegal activity, such as corruption, the illicit manufacture of goods, other varying forms of crime; it includes concealing a company's wealth from a country's tax authorities. The High-Level-Level Panel and GFI divide IFFs into three categories based on the source of the flow and that is captured in a study by Centre for Development and Cooperation (2010) as flows:

a. Corruption: This was the focus of a wide-range of talk during the 1990s, which accounts only for 3-5% of all these money/illicit outflows.

b. International Crime: This includes drug and human trafficking, money laundering et cetera which accounts for about 30%.

c. Illegal commercial capital flight via tax evasion by multinational companies is clearly of greatest significance. This account for about 64% of capital flight repatriation/illicit outflows: This is represented in a pie chart thus:

Tax Haven Explained within the scope of the study: It has been observed that there is no sole definition of a tax haven. According to the Organization for Economic Cooperation and Development, OECD, (2006), tax havens possess the following features as follows: 'low or non-existent taxation, unwillingness to participate in international exchange of information on tax matters, companies registered in them do not need to provide factual information on business activity in their own area, and inadequate transparency'.

Exemption/Deferral of Foreign Affiliate Income: Most advanced nations typically tax multinational home-country operations, but do not additionally, tax profits of the company's foreign affiliates (Markle, 2015). **Transfer Pricing (Invoice Values):** Globally as regards supply chains, multinationals ship goods and services whose unit price, chosen by the MNCs themselves, is frequently unfair by tax considerations The plan is simple; pay higher amounts to affiliates where taxes are low, and show lower values where taxes and/or tariffs are higher.

Inversion: This is a strategy where by a MNC relocate its corporate headquarters to a lower-tax jurisdiction. This achieved by simply acquiring or merging with a foreign firm in a lower-tax country.

Intra-corporate Loans: One more provision government offer companies is deducting interest payments on loans as an expense item. Indeed, payments on loans are an expense of the borrower/payer. But if the lender (source of fund) and the borrower are companies within the same MNC, even though in other nations, then the MNC has a clear path to paying less tax in high-tax jurisdictions. It can make its lower-taxed affiliates make loans available to its affiliates in high-tax nations and can then enjoy a juicer tax deduction on the interest payment.

There are a number of ways capital flight can affect the economies of developing nations and such include: a. Tax revenue of developing countries that could have funded investments and cover public expenditure is reduced. b. Inflation and increased income differentials are incited. c. Disruption of competition and shrinking of foreign trade. e. Capital flight makes deeper reliance on donors as well worsens the problem of debt of developing countries.

f. Multinational corporations via company tax evasion only force developing countries to lose taxes that are considerably greater than development assistance they receive from MNCs. g. Difficulty in

fixing a market price: Transfer pricing is not illegal as long as the subsidiaries are trading at 'arm's length', using prices they would use if they would be separate companies. Normally, both buyers and sellers aim for the best price from their own vantage positions. In the case of trade between the subsidiaries of MNCs, this rule does not always hold. The price may be set to a level that benefits most the parent companies. This is why affiliates divide up the profits of their business frequently in a way that minimises the company's tax burden. It should be noted that transfer pricing becomes illegal when the different units of a MNC sell goods or services to one another at artificially or manipulated high or low prices.

Tax evasion versus tax avoidance

Tax evasion implies the strategies by private individuals and companies to avoid taxation using illegal means. This can be done by providing intentionally erroneous tax information or concealing it into. A company may, for instance, leave part of its income undeclared or file a tax return that appears to be legal but which in reality contains false information.

Tax avoidance means taking advantage legally of the loopholes in the tax system in order to minimise taxes. Aggressive tax avoidance entails vigorous exploitation of loopholes in tax laws and using machinery to shift wealth between different tax systems to reduce overall taxation. Although this is not in contravention of the law, it is also not in conformity with the principles of tax regulations. A company that refuses to pay the right amount of tax in the right place and at the right time is acting against the spirit of tax laws. Developing country legislation and administrative arrangements are usually less developed and less effective than those of developed countries hence MNCs take advantage of such gaps.

Multinational companies as the main source of capital flight

Tax dodging by MNCs accounts for two thirds of the illegal capital flight. MNCs are able to engage in various kinds of legal and illegal tax planning, particularly by using subsidiary companies located in different parts of the world – often tax havens. The network of subsidiaries provides also possibilities to take advantage of bilateral taxation agreements. The most well-known means of tax evasion is simply to give false information on the content or make up of a company's international trading. Subsidiaries located in countries with low taxation can be made to appear most profitable and the subsidiaries of countries with high taxation most unprofitable so that there is no taxable income created.

The prices used in trade between the subsidiaries owned by a parent company are twisted or abusive use of transfer prices between subsidiaries. Company tax evasion alone causes developing countries tax losses that are appreciably greater than development assistance from development partners and international financial institutions.

Transfer Mispricing/ Transfer Pricing:

The biggest component of illicit capital flight repatriation and corporate tax evasion, results from misrepresentation of the contents and prices used in world trade. The key method for this is manipulating the trade between company's subsidiaries. This is called misuse of transfer pricing, or transfer mispricing.

Transfer pricing refers to the prices that a multinational corporation uses in trading between its subsidiaries. Based on estimations, about 60% of international trade takes place among affiliates within multinational corporations. Raw materials must be sold to their manufacturing plants and

financial services from financing units to country offices, and so on. Transfer pricing can be misused by under-pricing or overpricing products. Transfer mispricing is by far the most significant form of illegal capital flight. Based on Global Financial Integrity (2006) estimates, between €375–400 billion were sent offshore from developing countries in 2006. In terms of under-pricing of exports a MNC fixes the prices it uses in trading between its subsidiaries cheaper than the real value of the product. The products are then sold at current market price in the country of destination which usually far higher and the implication is higher profits in the low tax jurisdiction. In this case, the fraction of capital flight is simply the between the first and second price. The same mechanism works the other way round: taxes can be avoided by the ***overpricing*** of imports thereby increase the cost of production with its attendant reduction effect on profits. The excess is then invested in bank accounts in countries with high degree of banking secrecy. The value of import and export products can be manipulated to be artificially high or low also by providing falsified information on their quality, classification or quantity. MNCs may also employ ***fictitious trade transactions***, which are paid for despite the fact that the products do not exist. The payment may then be moved from a nation with heavier taxation to an area with lighter taxation.

Subsidiary Companies are the Main Tool of Tax Planning

It has been observed that multinational corporations normally have hundreds of subsidiaries. Owing to tax and other regulations, subsidiaries are virtually always established in each of the states where the parent company has business operations and most times in tax havens in which there is no proper business activity. A broad base of network of subsidiary companies facilitates the transfer of profits to countries with the lowest possible level of taxation. Companies in tax havens are often holding companies, whose only task is to own a parent company's other subsidiaries and ensure the collection of dividends from them. These forms of companies are often established in places such as the Netherlands, Ireland, Luxembourg, Switzerland and Denmark- paradise of tax havens.

Foreign Direct Investment Explained:

The internationally accepted definition of FDI is captured in the fifth edition of the IMF's Balance of Payments Manual (1993). *Foreign direct investment* (FDI) is investment made to acquire a lasting interest in or effective control over an enterprises operating outside of the economy of the investor. With respect to this definition, FDI has three components: equity investment, reinvested earnings, and short term and long term inter-company loans between parents firms and foreign affiliates.

Economic Development and Growth Described: A policy intervention efforts targeted at the economic and social well-being of people is termed economic development (Salmon Valley Business Innovation Centre, 2014).It concerns itself with improvement in the quality of life of people, creation of new goods and services using modern technology, lessening of risk and bringing to bare dynamics of innovation and entrepreneurship (Hadjimichael, 2014) in (Ofoegbu, Akwu and Oliver, 2016). The objective of economic development is to make the environment favourable for local communities and regions to develop new ways of production of goods in such quantities that may lead to exportation to other countries. Availability of financial resources from exportation leads to more investment in infrastructure for the benefit of the society and improvement in living conditions of the people, in education, transportation networks, health conditions, water supply, sewage and sanitation conditions (SVBIC, 2014) in (Ofoegbu, Akwu and Oliver, 2016). The changes create the conditions for long-run economic growth by positioning the economy on a higher growth trajectory (Hadjimichael *et al.*,

2014) in (Ofoegbu, Akwu and Oliver, 2016). Economic development is different from economic growth. Economic growth specifically means an increase in the value of goods and services produced by a country over a period. Economists use an increase in nation's GDP to measure it. Therefore, it is possible to have economic growth without economic development in the short or even medium term (Hadjimichael, 2014). On the other hand, there could be an increase in GDP without any increase in standard of living of people in a state. Environmental conditions that would enhance economic growth must be created through an investment of the national wealth in infrastructural development for successive improvement in the standard of life of the population of a country (Wilkins and Zarawski, 2014) in (Ofoegbu, Akwu and Oliver, 2016).

2.2 Theoretical Literature

There are divergent views on how capital flight/capital mobility/illicit cash outflows affect economic and social aspects of society or any nation especially developing nation. The theoretical overview or background is discussed hereunder. There are five views on the possible effect of MNCs and FDI on the direction the world economy is going. These are termed 'the Race to the Bottom', 'the Climb to the Top', 'Neo-liberal Convergence', 'Uneven Development', and 'Much Ado about Nothing'. The study settled with 'the Race to the Bottom' view. According to this view, capital will more and more be able to compensate workers, communities and nations off against one another, while it will threaten to run away once there is demand for tax, regulatory and wage concessions are not forthcoming. In this perspective, increased capital mobility benefits corporations, while workers and communities lose. A modified version of this view is that the winners in the race to the bottom will include highly educated and skilled workers, and those in privileged professions, no matter where they live. The losers will be the less skilled and the unemployed everywhere (Bluestone and Harrison, 1982; Barnet and Cavanagh, 1994; Greider, 1997). For the purpose of this study we adopt 'the race to the bottom' view because it has relationship with the reason MNCs and foreign investors indulge in illegal capital repatriation leading to huge losses by their host communities and countries to their own advantage.

2.3 Empirical Literature

Orimolade and Olusola (2018), studied the nexus between capital flight and the growth of Nigerian economy and discovered that there is a long run negative nexus between GDP and all the capital flight variables as used in the study.

Rabah (2014), in their own study on the relationship between natural resources and capital flight in the form of tax avoidance from multinational corporations, it noted spill over effects in terms of tax revenue mobilization and stock market development from the thin capitalization rule, a policy instrument aimed at limiting firm tax avoidance through setting limits on a firm's foreign indebtedness. The study exploited the plausibly exogenous within-country variations of data on oil discoveries for a group of countries during the period 1970–2012. It was discovered that oil discoveries significantly boost both tax revenue mobilization and stock market development, but only when thin capitalizations rule is in place. The study therefore concluded that through, capital flight perpetrated by MNCs, tax evasion is entrenched in developing nations hence the loss of capital in such countries and this brings about erosion of domestic tax base.

Global financial Integrity (2007),in a study/report to determine the rate of capital flight in developing countries, discovered that capital flight with the intention to evade tax returns are of various forms such illegal commercial capital flight by MNCs amounting to 64%, international crime estimated at 30% and corruption between 3-5%. Some multinational companies engaging in illegal capital flight

are domiciled and operating in emerging economies, but nevertheless, about 80–90 percent of illegally taken capital leaves developing countries permanently.

Worlu and Emeka (2012) studied the impact of tax revenue on the economic growth of Nigeria for the period 1980-2007 looking at its effect on infrastructural development. The study found out that tax revenue has both direct and indirect correlation with the infrastructural development and the gross domestic product respectively (GDP). The study argued that the means through which tax revenue influence economic growth in Nigeria are infrastructural development, Foreign Direct Investment and Gross Domestic Product (GDP). It stressed that availability of infrastructure speeds up investments that in turn brings about economic growth.

In another study by Engen and Skinner (1996) entitled 'taxation and economic growth of the U.S. economy, large sample of countries and adoption of evidence from micro level studies of labour supply, investment demand and productivity growth. Their results imply reserved effects on the order of 0.2 to 0.3 percentage point differences in growth rates in response to a major reform. The study suggested such small effects can have a large cumulative impact on living standards.

Bukie and Adejumo (2013) as quoted in Ofoegbu, Akwu and Oliver (2016) examined the effect of tax revenue on economic growth of Nigeria within the period 1970 to 2011, regressing indicators of economic growth (domestic investment, labour force and foreign direct investment) on tax revenue. The result shows that the indicators all have a positive and significant relationship with economic growth in Nigeria.

Ihenyen and Mieseigha (2014) examined taxation as an instrument of economic growth in Nigeria. Using annual time series data sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin during the period 1980 through 2013, data of Corporate Income Tax (CIT), Value Added Tax (VAT) and Economic Growth (GDP) was estimated using the Ordinary Least Square (OLS) technique. The empirical result suggests that the hypothesized link among corporate income tax, value added tax and economic growth indeed exist in the Nigerian context. Therefore the result provides enticing evidence that taxation is an instrument of economic growth in Nigeria. This conclusion points to the need for additional measures by government in ensuring that taxpayers do not indulge in tax avoidance and evasion so that income can be properly redistributed in the economy.

Rabah, Rota-Graziosi, Senbet (2104) investigate the relationship between natural resources and capital flight in the form of tax avoidance from multinational corporations. The study exploit the plausibly exogenous within-country variations of data on oil discoveries for a panel of 117 countries during the period 1970–2012. Evidence is found that oil discoveries significantly enhance both tax revenue mobilization and stock market development, but only when a thin capitalization rule is in place. It therefore argue that these findings can be explained through the limiting role of a thin capitalization rule in multinational companies' use of financial transactions among their affiliates or tax havens to transfer part of the profit. The thin capitalization rule may thus not only help limit the erosion of the domestic tax base but may also entice multinational corporations to resort to using and developing the domestic financial system.

Capital flight tends to restrict the capacity and ability of the affected countries like Nigeria, to mobilize domestic resources and access foreign capital necessary to finance economic growth and development and thereby alleviate poverty in the land (Ayodele, 2014). Deppler and Williamson (1987 stated that capital flight has the potential of giving rise to a net loss in the total resources available for domestic savings and investments in any economy. Since domestic savings and investments are very important in the growth and development process, an economy experiencing huge capital flight is retarded. Capital flight induces liquidity crunch in an economy. This can lead to depreciation of

domestic currency in a floating exchange rate system. If a country is making efforts to protect its exchange rate by stabilizing it, a loss in its foreign exchange reserves will occur.

3. Methodology and Data Description

3.1 Research Design

Exploratory and ex-post facto designs were adopted in this study. The exploratory design helped the researcher to gather related materials from various sources such as text books, journal articles. The ex-post facto design was adopted on the grounds that it does not provide the study the chance to influence or control the variables majorly because they have already taken place and cannot be manipulated.

3.2. Model Specification

The functional relationship between Foreign Direct Investment (FDI), Capital Flight and the economic growth of Nigeria is expressed as shown below:

GDP = F (FDI, CAF) ------------------------------------- 1

Obtaining the OLS model from the above expression thus:

GDP = α+β1FDI+β2 CAF+ € --------------------------- 2

Where:

GDP = Gross Domestic Product

FDI = Foreign Direct Investment

CAP = Capital Flight

€ = Error term

This study places emphasis to test the effect of the capital flight and FDI on economic growth of Nigeria. GDP is adopted as proxy for economic growth in this study. The control variable is the inflation rate reflecting the years under study.

3.3 Techniques of Data Analysis

Ordinary Least Squares (OLS) regression technique was used in analysing data gathered having established the relationship between dependent and independent variables. This regression technique has been employed in previous studies such as Ihenyen and Mieseigha (2014), Balestra (1970); Okafor (2012) and was found suitable owing to its distinctive properties of linearity, efficiency, sufficiency, least variances, unbiasedness and least mean errors.

3.4 Method and sources of data

The study primarily used secondary source of data. Time series data were collected through desk survey method from official websites of Federal Inland Revenue Services (FIRS), UNCTAD, FDI/MNE database, World Bank Report, United Nations Development Programme (UNDP) reports, CBN statistical bulletin, journals, textbooks and other relevant private and government publications. The period covered by the study stretched from 2005 to 2019.

4. Data Analysis, Results and Discussion of Findings

This chapter deals with the presentation, analysis, interpretation of data and discussion of findings. The chapter, in essence, deals with the detailed econometric analysis of the effect of Capital Flight and Foreign Direct Investment on economic growth of Nigeria adopting Gross Domestic Product (GDP) as proxy for economic growth. Data on Foreign Direct Investment, Capital Flight, Gross Domestic Product

(GDP) and Inflation Rate (control variable) for the period 2005-2019 were obtained from official websites of Federal Inland Revenue Services (FIRS), UNCTAD, FDI/MNE database, World Bank Report, United Nations Development Programme (UNDP) reports, CBN statistical bulletin, journals, textbooks and other relevant private and government publications. In this chapter, the empirical results based on the formulated regression models in the preceding chapter are presented, while the interpretation and discussion of each result is aligned with the stated objectives. It also provides the platform on which conclusion and recommendations are based.
The data as discussed in the previous chapter were analysed in two folds, namely: the descriptive analysis, which describes the data and gives the graphs showing the trends of the various independent variables on the dependent variable; and empirical analysis, where the correlation analysis result and regression analysis estimates are shown.

HO_1: Capital Flight does not have significant effect on economic growth in Nigeria.

Table 1

Dependent Variable: Y
Method: Least Squares
Date: 08/24/20 Time: 10:51
Sample (adjusted): 1 14
Included observations: 14 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.424809	1.151211	0.029765	0.9767
CF	34146822	4472669.	7.634552	0.0000

R-squared	0.806326	Mean dependent var	4.285211
Adjusted R-squared	0.792492	S.D. dependent var	8.844711
S.E. of regression	4.037811	Akaike info criterion	56.39723
Sum squared resid	2.275824	Schwarz criterion	56.49380
Log likelihood	-449.1778	Hannan-Quinn criter.	56.40217
F-statistic	58.28638	Durbin-Watson stat	3.779054
Prob(F-statistic)	0.000002		

Source: Field Data, 2020

Table above shows the coefficients of capital flight on economic growth**.** The coefficient of multiple determination (R^2) was 0.806 which implies that 80.6% of the variations in dependents variables were explained by changes in the independent variable while 19.4% were unexplained by the stochastic variable indicating a goodness of fit of the regression model adopted in this study which is statistically significant at 1% probability level. Thus, the coefficient of capital flight was statistically significant and positively related to economic growth at 5 percent level (7.634**). F-statistic = .002 while p-value = .000 < .05% significance level. Durbin- Watson stat measures the existent of auto- correlation in the model. Durbin- Watson stat was 3.779 which is more than 2, indicating a negative autocorrelation. This implies that Capital flight does have a significant effect on economic growth in Nigeria.

HO_2: Foreign Direct Investment does not have any significant effect on economic growth in Nigeria.

Table 2

Dependent Variable: Y
Method: Least Squares
Date: 08/24/20 Time: 11:02
Sample (adjusted): 1 14
Included observations: 14 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.014710	8.671410	-0.116280	0.9091
FDI	871122.7	82276.64	10.58773	0.0000

R-squared	0.888977	Mean dependent var	4.284811
Adjusted R-squared	0.881047	S.D. dependent var	8.847811
S.E. of regression	3.050111	Akaike info criterion	55.84079
Sum squared resid	1.301724	Schwarz criterion	55.93736
Log likelihood	-444.7263	Hannan-Quinn criter.	55.84573
F-statistic	112.1000	Durbin-Watson stat	1.235893
Prob(F-statistic)	0.000000		

Source: Field Data, 2020

Table indicated the coefficients of Foreign Direct Investment on economic growth**.** The coefficient of multiple determination (R^2) was 0.888 which implies that 88.8% of the variations in dependents variables were explained by changes in the independent variable while 11.2% were unexplained by the stochastic variable indicating a goodness of fit of the regression model adopted in this study which is statistically significant at 1% probability level. Thus, the coefficient of Foreign Direct Investment was statistically significant and positively related to economic growth at 5 percent level (10.587**). F-statistic = .000 while p-value = .000 < .05% significance level. Durbin- Watson stat measures the existent of auto- correlation in the model. Durbin- Watson stat was 1.893 which is less than 2 we can conclude the model is likely free of autocorrelation (positive autocorrelation). This implies that Foreign Direct Investment does have a significant effect on economic growth in Nigeria.

5. Result and Discussion of Findings

From E-view table 1, the study concludes that Capital flight does have a significant effect on economic growth in Nigeria (HO_1). It shows a correlation coefficient of 80.6% which indicates a very strong positive correlation between Capital flight on economic growth, and a p-value of .000% which is also far less than the conventional 0.01 and 0.05 levels of significance. In a similar study carried out by Orimolade and Olusola (2018), studied the nexus between capital flight and the growth of Nigerian economy and discovered that there is a long run negative nexus between GDP and all the capital flight variables as used in the study. Alos Rabah, et al (2014), in their own study on the relationship between natural resources and capital flight in the form of tax avoidance from multinational corporations. The study therefore concluded that through, capital flight perpetrated by MNCs, tax

evasion is entrenched in developing nations hence the loss of capital in such countries and this brings about erosion of domestic tax base.

From E-view Table 2, the study shows that Foreign Direct Investment does have a significant effect on economic growth in Nigeria (HO_2). It shows a correlation coefficient of 88.8% which indicates a very strong positive correlation between Foreign Direct Investment on economic growth and a p-value of 0.000 which is also far less than the conventional 0.01 and 0.05 levels of significance. Therefore, we conclude that there is a significant correlation between Foreign Direct Investment on economic growth in Nigeria. This findings is in tandem with the study of Akinlo (2014) which studied the impact of foreign direct investment on economic growth in Nigeria from 1970-2001 using Error Correction Model. The findings revealed that private capital and foreign capital have little effect on the economic growth and it's not statistically significant and financial development showed a significant negative effect on growth based on the findings which could be as a result of high capital flight it generates.

6. Findings, Conclusion and Recommendations

The objective of this study is to ascertain the effect of some economic indicators on economic growth in Nigeria (2005-2019).

The conclusions in line with the results of hypotheses testing were as follows:

Capital flight affects the economic growth of a nation. Therefore, the study confirms that Capital flight does have a significant effect on economic growth in Nigeria. The impact of capital flight is enormous. Capital flight is aided and abated by Nigeria corruption politician and foreigners who have the monopoly of the technology to tap these natural resources. Thus, the study indicated that if these funds are invested domestically it will add value to the currency and create job opportunities in the nation.

The study also examine the effect of foreign direct investment on economic growth, however, several reviews were been done based on the existing literature relating to the subject matter. From the findings, this study concluded that Foreign Direct Investment does have a significant effect on economic growth in Nigeria. The study showed that FDI in Nigeria have reduced drastically as a result of political instability, lack of transparency widespread corruption and poor quality of infrastructure.

This study recommended that the government, politicians and the policy makers should create more avenues to attract foreign investors rather than repatriating money overseas, if such avenues are created it will enhance technology transfer, and more job opportunities, and increase productivity into the economy. It is also recommended that the domestic investors need not to be ignored in formulating policy that could not only attract and motivate existing and potential domestic investors in Nigeria but also reduce illicit flow of funds abroad, this in turn will enhance the GDP of the nation.

References

1) Action Aid et al (2009). *Breaking the Curse: How Transparent Taxation and Fair Taxes Can Turn Africa's Mineral Wealth into Development.* Available-at www.actionassistance.org/main.aspx?PageID=1319 (August 2009).
2) Action Aid (2009). *Accounting for poverty. How international tax rules keep people poor.* Available at www.actionassistance.org.uk/doc_lib/accounting_ for_poverty.pdf (accessed October 2009).
3) Asagunla, T. M., (2018). Oil revenue and output growth in Nigeria. International Journal of Economics and Business Management, 4(6): 65-74.

4) Ayodele, T.D. (2014) "Capital Flight and the Nigerian Economy: An Empirical Reassessment'. *Information and Knowledge Management, Vol. 4, No.4: pp 7-13.*
5) Apata, T.G., Folayan, A., Apata, O.M. & Akintua, J. (2011). The economic role of Nigeria's subsistence agriculture in the transition process: Implications for rural development. Paper Presented at the 85th Annual Conference of the Agricultural Economics Society, 18-20th April, Warwick University, Warwick.
6) Baunsgaard, Thomas and Michael, K (2005). *Tax Revenue and Trade Liberalization*. IMF Working Paper WP/05/112. Available at www.imf.org/external/pubs/ft/wp/2005/wp05112.pdf (September 2009)
7) Baker, Raymond (2008). *The Ugliest Chapter in Global Economic Affairs since Slavery.* Global-Financial-Integrity.Available-at - www.gfip.org/index.php?option=com_content&task=view&id=109&Itemid=74(August 2009
8) Baker, Raymond and Eva, J (2008). *The Issue of Illicit Financial Flow*s. Commentaire, Hiver 2008–2009, volume 31, numéro 124. Available at www.gfip.org/storage/gfip/rwb ej winter 2008 commentaire piece.pdf (August 2009)
9) Bloomberg (2009). *Coca-Cola, Oracle, Intel Use Cayman Islands to Avoid U.S. Taxes.* Published 5.5.2009 atwww.carmodylegal.com/Tax_Whistleblower_&_.Rewards/Overview files/Ugland%20House-Obama%20Article.pdf (October 2009).
10) Barnet, R. J. and John Cavanagh (1994). Global Dreams; Imperial Corporations and the New World Order. New York: Simon and Schuster.
11) Christian Aid (2008). *Death and Taxes: the true toll of tax dodging.* Available at www.christianassistance.org.uk/images/deathandtaxes.pdf (August, 2009).
12) Christian,A (2008). Death and taxes: the true toll of tax dodging. Available at www.christianassistance.org.uk/images/deathandtaxes.pdf (August 2009).
13) Ezirim, A.C., Okeke, C.T. & Ebiringa, O.T. (2010). "Achieving vision 2020 in Nigeria: A review of the economic and karket-oriented business reforms." Journal of Sustainable Development in Africa, 12(4), 58-71.
14) Eurodad (2009). European Network on Debts and Development. Annual Report 2009.
15) Ezejelue, A.C and Ihendinihu, J.U (2006).*Personal Income Taxation in Nigeria*.LIins Consult Nig, Okigwe.
16) Greider, William, 1997. One World, Ready or Not; The Manic Logic of Global Capitalism. New York: Simon and Schuster.
17) Global Reporting Initiative (2006). GRI *Guidelines, Economic Indicator Protocol, EC1*, version 3.0, sivu 5. Availableat www.globalreporting.org/NR/rdonlyres/A4C5FA04-3BD3-4A02-B083-6B3B00DEAF61/0/G3_IP_Economic.pdf (August 2009).
18) Gupta, S.C., C. Pattulo and S. Wagh (2007) "Impact of Remittances on Poverty and Financial development in Sub-Saharan African countries". *IMF Working Paper 07/38.*
19) Lawrence, Robert Z. (1994) "Trade, Multinationals & Labor," Cambridge: NBER, Working Paper No. 4836, August.
20) Farok J. Contractor (2016). Tax Avoidance by Multinational Companies: Methods, Policies, and Ethics. *Rutgers Business Review Vol. 1, No. 1 27.*
21) Feenstra, Robert C. and Gordon H. Hanson, 1996. "Globalization, Outsourcing and Wage Inequality", American Economics Review, May, pp. 240-245.
22) Global Financial Integrity (2014). Illicit Financial Flows to and from Developing Countries: 2004-2014

23) Global Reporting Initiative (2017). GRI *Guidelines, Economic Indicator Protocol, EC1*, version 3.0, sivu 5.
24) James, C, Gerald, E, and Patricia, K (1998). *Multinational Corporations, Capital Mobility and the Global Neo-Liberal Regime: Effects on Northern Workers and on Growth Prospects in the Developing World.* Seoul *Journal of Economics*
25) Kar, Dev and Devon Cartwright-Smith (2009). *Illicit Financial Flows from Developing Countries 2002–2006.* Global Financial Integrity. Available at www.gfip.org/storage/gfip/documents/executive - final version 05-14-09.pdf (August 2009).
26) Markle, K. (2015). A comparison of the tax-motivated income shifting of multinationals in territorial and worldwide countries. *Contemporary Accounting Research*, *33*(1), 7-43.
27) Markusen, James R., and Anthony J. Venables, 1996. "Multinational Production, skilled Labor and Real Wages", NBER Paper, No. 5483, March.
28) OECD (2007). Revenue statistics 1965–2006. October 2007, table A, p.19
29) OECD (2009a). *Development assistance at its highest level ever in 2008*. Published 30.3.2009 at
30) www.oecd.org/document/35/0,3343,en_2649_34487_42458595_1_1_1_1,00.html (August 2009)
31) OECD (2009b). *A progress report on the jurisdictions surveyed by the OECD Global Forum in implementing the internationally agreed tax standard.* Published 3.9.2009. Available at www.oecd.org/dataoecd/50/0/43606256.pdf (September 2009).
32) OECD (2009c). *Tax Information Exchange Agreements*. Available at www.oecd.org/document/7/0,3343,en_2649_33767_38312839_1_1_1_1,00.html (October 2009.
33) Krugman, Paul R. and Robert Z. Lawrence, 1994. *Trade, Jobs and Wages*. Scientific American, April, 1994, Vol. 270. No. 4. pp. 44-49.
34) Organisation for Economic Co-operation and Development (2013). Action Plan on Base Erosion and Profit Shifting (Paris).
35) Princeton Studies International Finance (1996).Foreign Direct Investment and Capital Flight.
36) Kofi Annan African Progress Report, 2013. Equity in extractives: Stewarding Africa's natural resources for all. A Report Presented in Africa Progress Panel held in Cape Town, South Africa on May 10, 2013.
37) Krugman, Paul R. and Anthony, V (1995). *Globalization and the Inequality of Nations NBER Working Paper, no. 5098.*
38) Service Centre for Development Cooperation (2010*). Illegal Capital Flight from Developing Countries,* r Series: 101,ISSN: 1236-4797 ,ISBN: 978-952-200-145-0
39) Rabah, A, Gregoire, R.G, and Lemma, W; Senbet (2014), African Economic Research Consortium and University of Maryland (Senbet), CERDI-CNRS and FERDI (Rota-Graziosi).
40) Service Centre for Development Cooperation, 2010. Illegal Capital Flight from Developing Countries, Series. pp: 101.
41) U.S. *Senate Permanent Subcommittee on Investigations–Committee on Homeland Security and Governmental Affairs*. 2011. Repatriating offshore funds: 2004 Tax Windfall for selected Multinationals.
42) The World Bank Group's Response to Illicit Financial Flows: A Stocktaking (2015) IMF's data on FDI on Balance of Payments Manual (1993).
43) Ezirim, A.C., Okeke, C.T. & Ebiringa, O.T. (2010). "Achieving vision 2020 in Nigeria: A review of the economic and karket-oriented business reforms." Journal of Sustainable Development in Africa, 12(4), 58-71.
44) Eurodad (2009). European Network on Debts and Development. Annual Report 2009.

45) Ezejelue, A.C and Ihendinihu, J.U (2006).*Personal Income Taxation in Nigeria*.LIins Consult Nig, Okigwe.

46) Global Reporting Initiative (2006). GRI *Guidelines, Economic Indicator Protocol, EC1*, version 3.0, sivu 5. Available at www.globalreporting.org/NR/rdonlyres/A4C5FA04-3BD3-4A02-B083-6B3B00DEAF61/0/G3_IP_Economic.pdf (August 2009).
47) Farok J. Contractor (2016). Tax Avoidance by Multinational Companies: Methods, Policies, and Ethics. *Rutgers Business Review Vol. 1, No. 1 27.*
48) Global Financial Integrity (2014). Illicit Financial Flows to and from Developing Countries: 2004-2014
49) Global Reporting Initiative (2017). GRI *Guidelines, Economic Indicator Protocol, EC1*, version 3.0, sivu 5.
50) James, C, Gerald, E, and Patricia, K (1998). *Multinational Corporations, Capital Mobility and the Global Neo-Liberal Regime: Effects on Northern Workers and on Growth Prospects in the Developing World.* Seoul *Journal of Economics*
51) Kar, Dev and Devon Cartwright-Smith (2009). *Illicit Financial Flows from Developing Countries 2002–2006.* Global Financial Integrity. Available at www.gfip.org/storage/gfip/documents/executive - final version 05-14-09.pdf (August 2009).
52) Markle, K. (2015). A comparison of the tax-motivated income shifting of multinationals in territorial and worldwide countries. *Contemporary Accounting Research*, *33*(1), 7-43.
53) OECD (2007). Revenue statistics 1965–2006. October 2007, table A, p.19
54) OECD (2009a). *Development assistance at its highest level ever in 2008*. Published 30.3.2009 at
55) www.oecd.org/document/35/0,3343,en_2649_34487_42458595_1_1_1_1,00.html (August 2009)
56) OECD (2009b). *A progress report on the jurisdictions surveyed by the OECD Global Forum in implementing the internationally agreed tax standard.* Published 3.9.2009. Available at www.oecd.org/dataoecd/50/0/43606256.pdf (September 2009).
57) OECD (2009c). *Tax Information Exchange Agreements*. Available at www.oecd.org/document/7/0,3343,en_2649_33767_38312839_1_1_1_1,00.html (October 2009.
58) Krugman, Paul R. and Robert Z. Lawrence, 1994. *Trade, Jobs and Wages*. Scientific American, April, 1994, Vol. 270. No. 4. pp. 44-49.
59) Organisation for Economic Co-operation and Development (2013). Action Plan on Base Erosion and Profit Shifting (Paris).
60) Princeton Studies International Finance (1996).Foreign Direct Investment and Capital Flight.
61) Kofi Annan African Progress Report, 2013. Equity in extractives: Stewarding Africa's natural resources for all. A Report Presented in Africa Progress Panel held in Cape Town, South Africa on May 10, 2013.
62) Krugman, Paul R. and Anthony, V (1995). *Globalization and the Inequality of Nations NBER Working Paper, no. 5098.*
63) Service Centre for Development Cooperation (2010*). Illegal Capital Flight from Developing Countries,* r Series: 101,ISSN: 1236-4797 ,ISBN: 978-952-200-145-0
64) Rabah, A, Gregoire, R.G, and Lemma, W; Senbet (2014), African Economic Research Consortium and University of Maryland (Senbet), CERDI-CNRS and FERDI (Rota-Graziosi).
65) Service Centre for Development Cooperation, 2010. Illegal Capital Flight from Developing Countries, Series. pp: 101.

66) U.S. *Senate Permanent Subcommittee on Investigations–Committee on Homeland Security and Governmental Affairs*. 2011. Repatriating offshore funds: 2004 Tax Windfall for selected Multinationals.
67) The World Bank Group's Response to Illicit Financial Flows: A Stocktaking (2015) IMF's data on FDI on Balance of Payments Manual (1993).