Asian Development Policy Review
ISSN(e): 2313-8343
ISSN(p): 2518-2544
DOI: 10.18488/journal.107.2020.83.171.184
Vol. 8, No. 3, 171-184.

URL: www.aessweb.com

CAPITAL FLIGHT AND ECONOMIC GROWTH IN NIGERIA: A NEW EVIDENCE FROM ARDL APPROACH

Anthony Orji[1]
Jonathan E. Ogbuabor[2]
Kenneth Kama[3]
Onyinye I. Anthony-Orji[+4]

[1,2,3,4]*Department of Economics, University of Nigeria, Nsukka, Nigeria.*
[+]Email: onyinye.anthony-orji@unn.edu.ng

(+ Corresponding author)

Article History
Received: 16 June 2020
Revised: 20 July 2020
Accepted: 24 August 2020
Published: 3 September 2020

Keywords
Capital flight
Economy
Growth
Domestic investment
Money supply
Autoregressive Distributed Lag Model
Nigeria.

JEL Classification:
E22; F21; F41.

ABSTRACT

The issue of capital flight has been a recurrent topic of discussion among researchers especially in Africa. The cause, magnitude and consequences of this undesirable outflow of domestic capital have been a persistent concern among scholars. Nigeria among other African countries has been a victim of massive capital outflow to other developed nations. Thus, this study investigated the impact of capital flight on economic growth in Nigeria. In carrying out the analysis, data from CBN statistical bulletin was used for the period 1981 to 2017. The Autoregressive Distributed Lag (ARDL) bounds test approach was adopted for the study. The study showed that capital flight significantly decreases economic growth in both short run and long run. Other variables found to have significant effect on economic growth include money supply, credit to private sector and domestic investment. The study therefore recommended proactive policy measures that will curtail capital flight and make the economy competitive and attractive for domestic investment that enhances economic growth. Expansionary monetary policy should also be adopted to improve money supply whenever the policy environment is ripe for such.

Contribution/ Originality: This study adds to existing literature by using a modern econometric estimation technique, ARDL, to investigate the impact of capital flight on economic growth in Nigeria. The study makes some interesting findings by revealing that capital flight has a negative impact on economic growth in Nigeria. Thus, there is need to adopt strategic policy measures to avoid future leakages of such capitals out of the economy and as a matter of urgency, government at all levels should strengthen anti-graft agencies to improve their effort in tackling laundering of public funds.

1. INTRODUCTION

The issue of capital flight has been a recurrent topic of discussion among researchers especially in Africa. The cause, magnitude and consequences of this undesirable outflow of domestic capital have been a persistent concern among scholars. Nigeria among other African countries has been a victim of massive capital outflow to other developed nations (Olawale & Ifedayo, 2015). Taking into account the national income identity, economic growth has a direct correlation with investment, however, in the Nigerian case with inadequate capital organization for massive investment, poor investment policies and pitiable infrastructures, political instability and domestic terrorism, capital abscond to other nations with more favorable investment return and this is regarded as capital flight. Thus, according to Otene and Edeme (2012) and Ajayi (2012) the persistent outflow of domestic capital as a result of economic and political uncertainties in the home country is referred to as Capital flight. This unfavorable situation deprives the home country enormous economic resources that could have aided domestic economic activities, enhance social welfare of residence and promote economic growth (Beja & Edsel, 2006) On the contrary, they lost capital implies goods and services forgone that would have been essential to sustaining economic expansion.

The lack of funding for proper economic development has led many African countries including Nigeria to resort to external borrowing in a bid to supplement domestic capital, and this has tremendously increased the accumulation of external debt. As recorded in CBN (2016) Nigerian external debt was about $590.44 billion in 2009, in 2010 and 2011, it increase to $689.84 billion and $896.85 billion respectively. As at 2014, the eternal debt had reached $1631.51billion and increased to $2111.53billion and $3478.92billion in 2015 and 2016 respectively. The ugly part of the situation is that the supposed borrowed fund are not properly utilized for capital projects that will foster growth, rather the borrowed funds are siphoned political office holders and shipped abroad, and this persistent practice has notably handicapped the availability of capital to private sectors, total domestic investment and other macroeconomic variables that influences growth. Evidence to this can be highlighted with a glance at some of the macroeconomic indicators as illustrated in the Figure 1 below:

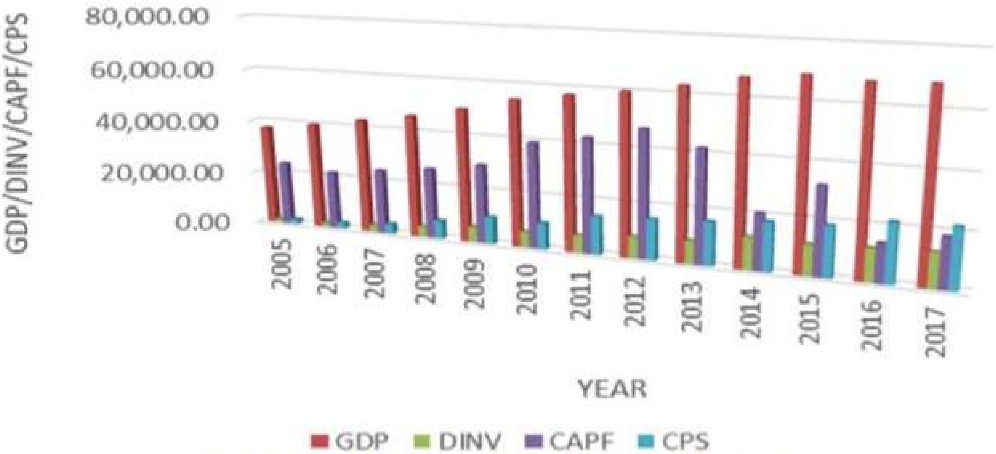

Figure-1. Capital flight, GDP and other macroeconomic indicators.

Figure 1 indicated that within 2005 and 2009, Nigerian economy recorded a gross domestic product (GDP) of about N43, 252 billion in average, an average of about N4, 993.96 billion capital to private sector (CPS), and an average capital flight (CAPF) of about N25, 229.14 billion in the same period. As from 2010 to 2013, the Nigeria GDP was about an average of N58817.98 billion, N13.839.29 billion average of capital to private sector and capital flight of about N42902.77 billion in average. Within 2014 to 2017, Nigeria GDP was at an average of N68149.74 billion, an average capital flight of about N21460.14billion and an average capital to private sector of about N20,279 billion (CBN, 2016). Though this pitiable performance of this economic indicators can be attributed to various economic factors, the over illustration indicated that capital flight cannot be exonerated to have played a vital role in creating this anomaly.

However, it is crucial to have better understanding and an in-depth knowledge of the capital flight concept, with this fact, it is important to point the difference between capital flight and capital export. When investors from countries that are developed move their capital abroad, they are considered to be responding to investment opportunities which are regarded harmless to their domestic economy as those capital yield returns back to their home countries. On the other hand investors from developing countries are regarded to be escaping economic, social and political risk when they make investment abroad. The formal which is the legal movement of capital in