Novelty Journals

ISSN 2394-7322

International Journal of Novel Research in Marketing Management and Economics
Vol. 10, Issue 1, pp: (43-52), Month: January - April 2023, Available at: www.noveltyjournals.com

EFFECT OF CAPITAL FLIGHT ON FOREIGN INVESTMENT IN NIGERIA

[1]Ezu, Gideon Kasie, [2]Oranefo, Patricia Ijeoma

[1](Department of Banking and Finance, Nnamdi Azikiwe University, Awka, Nigeria)

[2](Department of Accountancy, Nnamdi Azikiwe University, Awka, Nigeria)

DOI: https://doi.org/10.5281/zenodo.7704149

Published Date: 07-March-2023

Abstract: **The objective of this study is to evaluate the effect of capital flight on foreign investment in Nigeria. The study obtained financial data from Central Bank of Nigeria Statistical Bulletin. The study made use of exploratory survey tools. Secondary data was used for data collection. The empirical method which adopts regression analysis was used to test the stated hypotheses. The findings revealed that the relationship between capital flight and investment is insignificantly negative. High exchange rates do not significantly increase capital flights out of the economy nor reduce Foreign Investment. This shows that Nigerian investment process is not significantly benefiting the RGDP or there is insufficient investment to significantly affect the RGDP. The work recommends that Capital flight management and reactions to capital account restrictions be factored into the management of external reserves position of developing countries. Removal of the exchange rate misalignment and the premium will be a good start to reduce flights of capital out of the economy. The monetary authorities should begin to look seriously into how to reduce the unresolved statistical discrepancies that are posted into the Balance of Payments with a view to finding out what make up such figures and how they came about.**

Keywords: **capital flight, Exchange rate, external reserve, inflation, investment, premium.**

I. INTRODUCTION

The uses to which capital flights are deployed are many, and became noticeable when developing countries' holdings of earning assets in form of Certificate of Deposits (CDs), real estate or negotiable bonds became significant and could no longer be ignored (Cardoso and Dornbush, 2009). Nigeria, a country with a large poor population is classed among the developing countries of the world, though she earns much foreign exchange from crude oil exports, she is still in need of capital to develop, maintain and upgrade her infrastructure. Nevertheless, the country has been faced with continuous outflow of capital, which has made some scholars conclude a priori that the country is facing capital flight challenges.

Countries have been known to develop through the accumulation of savings that have been profitably invested to yield returns and increase production in different sectors of the economy. Such investments could be social or soft in outlook (housing, health and education), while others are infrastructural or hard (transport, power and water), and yet others are purely economic, which the private sector undertakes for private capital accumulation. This has made monetary authorities promote the domestic savings within the economy, since it seems that the primary source of finance for investment is savings. Such accumulated capital has been allowed to freely flow from their countries to others over the years and this has been on for centuries. Such capital flows however became quite pronounced during the nineteenth century, especially during the upheavals in Europe, between the countries and continents of the Northern Hemisphere. At that time, capital moved from those countries of Europe to the Americas in search of higher returns (Cardoso and Dornbush, 2009).

International Journal of Novel Research in Marketing Management and Economics
Vol. 10, Issue 1, pp: (43-52), Month: January - April 2023, Available at: www.noveltyjournals.com

While capital flows within the Western world seemed to have been continuous overtime, the case of capital flows out of the Less Developed Countries to the Western world became noticeable from the early 1980s. Since then, these unusual flows have become a source of concern because of the macroeconomic challenges facing these countries, and as a result of the paucity of much needed capital to develop and promote growth in these countries. This unusual flows of capital from poor to rich countries is termed capital flight.

Capital flight specifically refers to the movement of money from investments in one country to another in order to avoid country-specific risks (such as hyperinflation, political turmoil and anticipated depreciation or devaluation of the currency), or in search of higher yield. Trillions of US$ (dollars) move around the world in response to the stimuli of return and safety (IMF, 2006). The International Monetary Fund further reports that offshore held assets amounted to some $11.6 trillion and income from such assets was $866 billion as at year end 2005. As a result of this, about $255 billion is lost in tax revenue regularly by countries suffering from capital flight - being a proof of the effect and the challenge of capital flight. The IMF has expressed concern over this issue: "....in light of the conventional wisdom suggesting that capital normally flows from capital-rich (developed) and mature markets to capital-scarce (developing), emerging markets".

Capital flight reduces domestically available investible capital. Given that inflows of Foreign Direct Investment (FDI) should complement domestic capital, capital flight has constituted a problem. In spite of governments' continuous campaigns for foreign investors to invest in the domestic economy, capital flight has continued unabated. Investments that lead to increase in capital formation for the economy and act as the foundation for infrastructure or framework for the development of the country cannot be made in the face of inadequate capital.

Capital flight being a challenge to Foreign Investment is exacerbated by the process of financial globalisation that enables capital to move freely between countries. Since capital seeks the best avenue where it can earn the highest return given a level of assumed risks, the Foreign Investment environment has not been clement enough for investment. Emerging economies that have been forced to open up their economies have faced episodes of capital flight as results of financial globalisation induced crises. This is expected to boost domestic income and lead to financial and real development. But its effects in those countries have not been so productive but have rather brought market failures.

A second issue on resident capital is that per capita income goes down as capital flees. This reduces per capita income productivity. The scenarios generate macroeconomic challenges for policymakers as to how to retain resident capital in the economy in the face of competing real rates of return in developed and mature financial markets. The study of capital flight and aggregated financial savings in the investment process is important since a cycle has been established between income, savings and investment. The loss of investment that happens when capital flight occurs means equally that some savings are lost to the economy.

The specific objectives of this study are:

i. To examine the relationship between capital flight and Foreign Investment, and sum up the challenges posed by capital flight to Foreign Investment during the period of financial globalization in Nigeria,

ii. To evaluate the impact of capital flight on financial savings since it is the primary source of financing investment.

iii. To find out the type of capital flight and estimates that is more significant and therefore relevant to Nigeria.

The following hypotheses are presented for this study. They include:

$H0_1$: Capital flight has not significantly affected foreign financial savings in Nigeria.

$H0_2$: Risk in the macroeconomic conditions of the country does not have a long run relationship with capital flight out of the economy.

$H0_3$: Capital flight in the Nigerian economy does not have a significant relationship with Foreign Investment.

II. MATERIAL AND METHODS

2.1 Overview of Nigeria Capital Flight

Capital flight and its movement among countries are important economy issues that countries have to grapple with in the development process of the importance investment assumes in the domestic economy. The issues of capital movement is known to be heavily politicized (Walters, 2002) Since capital, in the development process passes through investment in the

economy to increase income and induce other investment, its iimportance cannot be overemphasized. When capital leakage occurs in an economy, much resource and opportunity for growth is lost. The processes of such movement are eased by the spate of globalization sweeping through countries. Globalization itself has been held to enable Efficient allocation of capital within the world economy. Flows and flight of capital occur to move capital from one economy to another and therefore have serious economic and financial implications in the Countries suffering and benefitting from them. This scenario is ccompounded by the country's need for investment capital domestically.

This chapter reviews important literature to this study in terms of capital fight and investment issues juxtaposed with episodes financial globalization sweeping across the countries the fluidity of capital in those countries that have lost substantial amount of capital to flights of capital before now and without the current episodes of financial globalisation underscores the importance of investment in domestic economy that has been lost. Investment done by private firms and non-public firms are the most hit by the lack or paucity of investible funds that result from the episodes of capital flight, which causes the economy to lose substantially in the long run. Episodes of loss of confidence in the financial system and the economy can be debilitating often which can lead to a contagion in a financially integrated region. Capital flight continually produces new estimates as more researches are done on the phenomenon. Issues that were considered less important before suddenly become significant due to dynamics in the economics of countries.

2.1.1 CONCEPTUAL AND DEFINITIONAL ISSUES IN CAPITAL FLIGHT

The various definitions of capital flight came up when capital flight became topical in the 1980s, following the series of sovereign debt defaults by Latin American countries, especially by Mexico and Argentina. This prompted the World Governing Financial Institutions (WGFI) to begin both academic and professional studies and researches on the subject. Of the three WGFI, the I International Monetary Fund (IMF) has been at the forefront of research on the topic and has given proactive advice to countries perceived to be suffering this plague as to what to do to control the problem.

Capital flows from developed countries should not be much of concern but can be if it bothers on the capital movement from capital scarce countries to countries with abundant capital. Capital outflows measured against the Gross Domestic Product or income must be less than percentage growth for it to be insignificant. The outflow of capital becomes capital flight when the GDP increases at a lower rate than capital outflow. Flows of capital will continue around the world as long as countries trade with one another. The treatment of capital flight has moved from the old methods of examining the Errors and Omissions and other sections of BOP to national factors and particularly on resident capital issues (Schneider, 2003). The capital flight episodes can be country-specific and may not be fully generalized.

The countries and regions that have experienced capital flight have had varying degrees of capital flight resulting from among others, completely liberalized capital accounts, macroeconomic mismanagement, political factors and business and investment related reasons. Since capital flight figures are estimates, some of the capital adduced as capital flight may not be necessarily so, but errors in the recording process and unrecorded flows. While those countries that have experienced the flights of capital have been involved in some forms of political and economic crises or other, measurement of capital flight have also captured normal and regular flows as well.

The issues of foreign aid and debt induced capital flight and their implications in these countries become relevant. The impact of corruption and illegal movement of funds across countries on capital flight cannot be brushed aside in the current episodes as well. Collier et al (2003) considers one of the implications of capital flight as the brain drain that has compounded the woes of those countries as they lose out in the movement of human capital who are seeking better returns for their services across the countries of the world. The influence of war and other disruptive social-economic and political tendencies on capital flight in these countries cannot be treated in isolation. The impacts of transition and emerging economies where spontaneous privatizations have taken place in certain parts of the world resulting in capital flows and flight (such as in Russia) should also be considered. The influence of private banking and the activities of international financial institutions in capital flight which used to be strong have waned.

There are many definitions of capital flight, which has made it a very wide area for researchers and this has caused the material on it to be voluminous, with every researcher attempting to define or explain his or her own definition. The original definition of capital flight is rooted in political and economic uncertainty of the domestic economy (Kindleberger, 1937). To overcome the definitional problems of this subject, there is the need to look at the dimensions capital flight can assume and the process by which it can be carried out.

2.1.2 Foreign Investment

Foreign Investment is investment made to increase the total capital stock in the domestic economy. This is done by acquiring further capital-producing assets and assets that can generate income within the domestic economy rather than abroad. Physical assets particularly add to the total capital stock. Boosting economic development requires higher rates of economic growth than savings can provide. However, it is the savings that capital flight and flows affect. The role of savings in the investment process is positive. Countries with higher propensity to save have greater savings at every level of income and interest leading to a higher equilibrium level of savings and eventually a lower equilibrium level of interest. Savings ordinarily is accumulated income and abstention from current expenditure. Part of the finance for investment is provided by the corporate sector, bank loans and households' savings make up the other part. With this, savings is no longer a constraint to investment demand. The role of interest rate in the accumulation of volitional savings has somewhat reduced, as the rate is set in conjunction with other factors to achieve full employment and stable prices. The need to achieve and maintain internal and external balance is important for the Central Bank to consider the role of savings alone in the macro economy. Among the external balance parameters are the exchange rate, trade and capital flows. In the United States, capital flows have dwarfed trade flows many times over. If public sector investment is encouraged, it could crowd in other Foreign Investments, with the economy sustaining high growth rates in the process.

A World Bank study found that long-term relationship between savings and investment tend to be strong, (World Bank, 2007), though countries with the highest investment rates are not necessarily the ones with highest savings rates. This is the virtuous cycle that development policy makers 'attempt to set in motion and encourage. While short term investment are highly encouraged by external sources of fund, long term investment are more domestically driven. This is one of the reasons why aid is less effective in the long run in the development process, since most go to palliatives. With lower rates of interest, asset values tend to be on the upward swing which invariably represents the discounted value of such assets thereby increasing the rate of acquisition and investment in such assets which increases aggregate demand. This produces increases in total supply and further aggregate demand. Investment therefore is not constrained by aggregate savings but more by domestic interest rates (Monetary Policy Rates) as set by the Central Bank who have other objectives apart from maintenance of low inflation in conjunction with increase in savings within the domestic economy (Moore, 2006). Therefore the new equation of investment is Investment = (Savings) + (newly created money available to Deposit Money Banks).

Savings and investments are interrelated as they influence each other in the economic process. Generally, sub-Saharan Africa has lagged behind in the saving rates among other regions of the world. While savings rates have doubled in south East Asian countries and increased in Latin America countries, it has stagnated in sub-Saharan Africa, according to Loayza, Schmidt-Hebbel and Serven (2000). Since savings, investment and economic growth are linked; unsatisfactory and poor performance of the one affects the other and could lead to stagnated growth, affecting the viability of the Balance of payment (Chete, 2009). Attempts at reducing expenditure have affected investment rates that led to poor and sluggish growth and eventually affecting savings performance j (Khan and Villanueva, 1991).

2.1.3 International Capital Flows

Capital flows across countries are typically classified in terms of maturity (short-term versus long-term) and whether the investment represent some form of control over the target investment or for the sole purpose of earning returns -(Portfolio versus direct):

(i) Short-term Capital Flows: Short-term debt instruments have offered relatively appreciable real rates of return at low levels of risk for investor worldwide. Short-term capital tends to follow rise or fall in interest rates and it is highly speculative and unreliable. It forms to a large extent the hot money flowing around the world that is cashing in on the misalignment between interest and exchange rates in the presence and the use of capital controls, according to Dominiguez, Auguste, Kamil and Tesar (2004). Treasury bills, American and Global Deposit Receipts (AGDRs) provide internationally tradable investment instruments. It is not certain if Nigeria has been able to attract any of these, though two banks have AGDRs selling outside Nigeria. Rates of interest payable on these instruments are generally less than rates of inflation. This discourages investors.

(ii) Long-term Capital Flows: Long-term capital flows play a significant role in the capital account of the BOP of many countries. Long-term capital is typically attracted to economic and business environments expected to provide significant long-run stability and economic growth. This is usually more reliable than short-term capital and can play

Novelty Journals

ISSN 2394-7322

International Journal of Novel Research in Marketing Management and Economics
Vol. 10, Issue 1, pp: (43-52), Month: January - April 2023, Available at: www.noveltyjournals.com

an important role in the industrial growth of a nation. Though, this has recorded improvements in the Nigerian economy recently and its impacts incontrovertible, its effects on stifling out Foreign Investment and savings is well noted (Kayode and Oyeranti, 2002)

(iii)Portfolio Investment: A portfolio investment is a transaction in which securities are held purely as a financial investment, which can be liquidated depending on the investment horizon of the holder. This has been on the increase of recent due to the internationalisation of the capital market, but is seen as the major cause of hot flows that in itself causes capital flight and is currently been blamed for the downturn of the Nigerian Stock Exchange. The recent market bubbles aided the inflow of portfolio funds, which many overseas hedge funds took advantage of to make quick returns. Beaker, Harvey and Lundblad (2005) find that capital inflows benefits equity markets with above average financial development, better legal systems and better quality institutions, which mostly are still fledgling and nascent in most of the emerging markets of Africa.

(iv)Direct Investment: Foreign Direct Investment (FDI) is a transaction in which the investor has a controlling share or participates in the management of the firm. The cut-off level of ownership beyond which an investment is classified as direct investment varies across countries, and depends a lot on who is defining what foreign direct investment (FDI) is, but is usually around 10%. Nigeria has received a sizeable of this in recent past, but direction seems not to have gone into the real sector investment.

2.1.4 Methodology

In this study, the exploratory survey research (ex-post facto research design) will be used because the research study involvescollection of data from published work such as financial report.

2.1.5 Sources of Data

This study made use of mainly data collected from the secondary source. Secondary source of data refers to those type of data obtained from materials that contain accounting data, an event or phenomenon (Okpara, 1998). It is also information that has been documented or from an already published or unpublished work.

The secondary source used in this study includes text books, journals, financial statement of account, statistical bulletins and CBN reports. International Monetary Fund (IMF) remains the most authentic source of current data for financial and monetary issues. Data are usually available in different formats and disseminated in different ways.

2.1.6 Method of Data Analysis

The study involves the use of exploratory survey; hence the empirical method which adopts regression analysis will be used to test the stated hypotheses. Regression analysis includes any techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables. For purpose of this study the sample linear regression model is used.

$Y = bo + blx.$

Table 1: Capital Flight Regression Results

Variables	CAPFT (a)	LCAPFT(al)	DDCAPF(b)	LDDCAPF(bl)
Constant	-5.0007	-1.05011	-3890.06	-3.6287
	(-1.7912)*	(-0.41979)	(-1.656)	(-1.0747)
Avexrate	-0.38035	-0.29443	27.143	-0.3835
	(0.007245)	(1.03470)	(0.6060	(-1.0832)
Kaopen	-1793.220	-1.49486	-27157.76	-1.4016
	(-1.081627)	(-3.51025)***	(-1.641)	(-2.482)**
IntDiff	2063.427	0.6244	1996.657	-0.1473
	(2.14268)**	(1.22725)	(2.33)**	(-0.2250)

Invt	-0.008736	-0.050620	-0.003	-0.815
	(-0.505270)	(-0.081777)	(-0.210)	(-1.0747)
FSavs	-0.015905	0.223799	-23.002	-0.1288
	(-2.7151)***	(0.613862)	(-3.89)***	(-0.2722)
Reserves	0.94924	0.705916	1.019	0.3626
	(3.741654)***	(2.43031)**	(4.272)***	(0.7751)
AR(1)	-0.387927	-	-0.249985	-
	(-1.905259)	-	(-1.22386)	-
R^2	0.55	0.54	0.57	0.51
Adjusted R^2	0.45	0.42	0.47	0.38
Durbin Watson	2.2	2.1	2.15	1.92
F Statistics	5.21	4.63	5.55	3.78
Observations	38	31	38 .	28

Capflt= 19.30091037*Avexrate- 11.80008909*Fsavs + 1719.527867*Intdiff-0.008736060652*Invt - 2167.12258 l*Kaopen + 0.9429726125*Resrv - 3462.619468 + [Ar(l)=-0.3879242881]

Note t statistics are in parentheses *, **, *** denote the level of significance at 1, 5, and 10 percent respectively.

III. RESULTS AND DISCUSSIONS

A look at the OLS regression estimates (Table 1) show that capital flight determinants and variables are more than presented here as contained in the literature. The raw variables show a low R^2giving credence to the value of logged ones. At 0.52 and adjusted $R^2$of 0.43, the raw variables show a medium explanatory power for the variables under investigation. The initial Durbin Watson was 2.44 and corrected and F statistics of 5.21 shows a suspect regression results before it is adjusted for auto correlation. The complete observations of 38 were employed in the process. The independent variables adopted for the work throughout show that the exchange rate has the expected negative sign and is not significant.

The Kaopen index is not significant with the raw variables and equally negative as anticipated. Interest differential that represents the portfolio approach to capital flight is significant at 0.05 level. The previous studies have always attributed the capital flight episodes to the investor's portfolio choice, which can be corroborated from this study. The investment variable is not significant in that the t is low but negative. The implication is that the correlation between investment and capital flight is very low and negative. This means that capital flight increases reduces Foreign Investment at a very slow rate.

Table 2: Granger Causality Test Results

Null Hypothesis	Obs.	F-Statistic	Probability
INVT does not Granger Cause CAPFLT	2.98948	0.06627	0.09288
37CAPFLT does not Granger Cause INVT			0.79840
RESRV does not Granger Cause CAPFLT	12.0912	5.16249	0.00141
37CAPFLT does not Granger Cause RESRV			0.02952
FSAVS does not Granger Cause CAPFLT	8.26730	8.18616	0.00692
37CAPFLT does not Granger Cause FSAVS			0.00717 '
INTDIFF does not Granger Cause AVEXRATE	6.52340	0.80518	0.01530
37 AVEXRATE does not Granger Cause INTDIFF			0.37586

Source: E Views Results

With these results, the inference is that two of the independent variables: financial savings and external reserves have bi-directional and significant causal relationships with capital flight. Of note is the observation of bi-directional causality of two of the independent variables with capital flight. Financial savings and reserves can granger cause capital flight and vice versa. With these, capital flight revolves around activities impelling increases and decreases in aggregate reserves and financial savings. The variables of interest differential and investment both have significant relationships with capital flight. As usual,

the results are not signed, but by results from the earlier regressions, the interest rate differential and investment are positive. Therefore at above 0.05% investment with Wald F statistic of 3.36 and 3.8 respectively are significant in the causal relationship by granger causality tests.

The Dooley definition of capital flight somehow presents results that are more significant. The variables of investment, Kaopen, reserves and financial savings are all significant at various levels. The only insignificant variable here is the interest differential variables, which was significant in the straight World Bank definition. By this technique, investment is significant at 0.01 level, which indicates the capital flight, leads to reduction in Foreign Investment with F statistic of 5.179 but can also increase capital flight. Kaopen is significant beyond 0.05 with F Statistic of 4.316. The external reserve is significant at 0.1 with 2.5 and domestic financial savings is significant beyond 0.01 with F Statistics of 21.4 respectively. The results as usual are not signed, though it is possible to know which of these is positive or negative by inference to earlier and other results.

3.1 Foreign Investment

The ordinary least squares technique (OLS) was used to obtain regression estimates. Results from the OLS estimates on investment show the significance of the variables both positive and negative. The constant factor shows a negative figure indicating an unstable and widely negative growth of investments during the period in view alongside other variables. This becomes more pronounced as the years go by. Investment during the later years was much less, as it tapered off than in the earlier years as the table below shows (Table 3). It equally shows that the public sector borrowing requirement intended to direct the investment of the autonomous sector into particular areas is significant at t of 3.4406 gives an acceptable level of significance beyond 0.01 levels and cannot be ignored. By this, the government often borrow to make necessary investment from the financial system, but would be better directed to finance autonomous investment, and would be best utilised on real investment.

The role of the average is instructive as the rate of exchange is a significant inducement for investment in the domestic economy. The more stable the exchange rate the more confident the foreign direct investors are sure that no capital losses would be sustained. Therefore, the relationship between the rates of exchange and investment is positive and significant relationship with t of 4.531, which is significant beyond 0.01 level.

Table 3: OLS Regression Results on Investment

	Pooled Data	Pre Globalization Period	Post Globalisation (1985-2007)
Constant	-82330.45	-14160.27	-31809.48
	(-1.18975)	(-0.2181)	(37062.07)
Finsavings	162.517	687.146	192.5335
	(37.18)**	(8.426)***	(46.035)***
Avexrate	2052.25	679.0332	1676.837
	(195.072)***	(4.4135)***	(266.765)***
PSBR	1.239	-4.7800	2.226
	(0.488)**	(-2.7034)**	0.7586***
DDCapft	2.938992	0.080295	-0.994325
	(3.171252)	(0.139506)	(3.549744)
Kaopen	11410.40	13934.60	12651.21
	(18531.18)	(15579.01)	(22959.17)
RGDP	-0.0379	0.2447	-0.0522
	(0.0208)**	(0.1055)	(0.0252)**
ALSI	0.0360	-	0.0496
	(2.2606)**	-	(0.0184)***
Caputili		116.4	-583.302
		60.53*	(930.29)
R Squared	*.976*	.98	98
Adjus. R Squared	*.970*	.98	97
F Statistics	*276.72*	378	124.
Durbin Watson	*2.22*	1.94	2.09
Observations	*37*	24	23

Note: OLS estimates. Standard errors are in parentheses. ***, **, * denote significance at 1, 5 and 10 percent levels respectively.

As the coefficient is positive then it can be inferred that higher rates of exchange induces investment. The causative determinants are here for both foreign direct and Foreign Investment. The lead and lag factor is a good reason for investors to take positions on Foreign Investment while the stable rates of exchange induces foreign investment into the economy.

The all share index variable indicates the importance of financial investment in the economy and is significant at t of 2.2606, which is beyond 0.05 level of significance. Financial investment in the economy is not directly a form of capital formation though its impact on the wealth of the investor cannot be ignored.

A noteworthy observation is that the RGDP is not significant, indicating that the growth of investment is not induced endogenously from growth in the economy. Financial savings is however significant beyond 0.01 with the t of 2.7900. This conforms to theory that the available savings propel growth of Foreign Investment in the economy in the financial system. The estimation result indicates the higher level of borrowing from the financial system by the government had resulted in less investment during the period. It equally proves the theory that PBSR crowds out private investment right. It also indicates that less autonomous investments were made in the economy while the exchange rate shows an inverse relationship, indicating that the higher the rates of exchange of the currency the less the Foreign Investment that this made during the period. The figure of-2.7034 is significant beyond 0.05.

With the test, the PSBR is highly significant beyond 0.01 with a t of 3.324. The RGDP at this time is much lower coefficient higher than the initial regression denoting that financial conditions are worse become investment committed as a result of growth had dwindled considerably. The all share price index (ALSI) variable was not used because the index came on in 1984. From the regressions estimates, pre globalization PSBR shows a significant diversion of government borrowings from the domestic financial system to other areas that are not captured in the regression. If borrowings from the system were to impact on the system, it would have shown a positive figure. Equally, noticeable is the increase in the level of significance of financial savings during the break period: an indication of the reduction in savings at this time. Financial savings was significant beyond 0.01 for the period before this time as Nigerians saved more in the domestic system than the post globalization period.

The results discussed above adequately explain the investment scenario where the R^2 is 0.976 and only less than 0.03 of the investment can be adduced to external factors. The adjusted R^2, which takes care of degree of freedom, also is 0.97. The Durbin Watson figure is unadjusted and is 1.86 indicating that the autocorrelation challenges are minimal. The overall statistic reliability shows a robust F test figure of 150.999. The break test indicates the lower R^2 at 0.98 and the adjusted indicates 0.98. An improved Durbin Watson of 1.94 is recorded here to show that the figure during the period is less plagued by autocorrelation and a higher F statistic at 378, Chow prediction is F 43.56. The fitness of the curve is reliable as the Akaike info and Schwarz criteria show 0.236. The conclusion from the regression is that Foreign Investment in the country has gone down and has been badly affected by lack of development in the economy, which has reduced the overall level of growth. The rate of exchange that was floated during the Structural Adjustment Plan of 1986 that coincided with the time of the beginning of the current wave of financial globalization has badly affected Foreign Investment as the insignificant relationship become more serious. Furthermore, the role of Real Gross Domestic Product (RGDP) impacts on the Foreign Investment and this is evidence that the economy is not making progress in terms of investment.

Findings indicate that the relationship between capital flight and investment is insignificantly negative. However, the relationship exhibited by the Dooley estimates is more pronounced. This could be due to the involvement unrecorded capital inflow in Foreign Investment. An observation from the various regressions results is the continuous significance of the external reserves in the economy. The interest rate differentials between Nigeria and United States have encouraged capital flight as it is significant in all the estimates. The exchange rate is not significant from the estimates and results but high enough for concern.

The macroeconomic variable targeted by the Central Bank of Nigeria for economic management is the Monetary Policy Rates (MPR) at the present. However, a second look at the exchange rates might produce better results for the whole economy rather than just the external sector. The current methods of exchange rate management have not produced desired results. The importance of targeting the exchange rate can be seen in the fact that the country is a major importing country for both industrial and consumption goods. The impact of this on the economy is enormously evident in the investment and globalisation processes as the nation spends most of its export earnings on imports with few industrial exports.

International Journal of Novel Research in Marketing Management and Economics
Vol. 10, Issue 1, pp: (43-52), Month: January - April 2023, Available at: www.noveltyjournals.com

IV. CONCLUSION

From the literature consulted, it is impossible for developing economies to eradicate capital flight, but its prevalence can be controlled. Investments of domestic resources become impossible when capital flight is serious and reaches a higher dimension and percentage than the growth of the economy. From the domestic side, nationals who resort to capital flight are seriously averse to risks existing in the economy and would be afraid that capital losses could happen to their hard-earned resources and thus, would tend to shift capital abroad.

Flight of domestic capital assumes serious dimension when foreign investors attempts to shift capital abroad through every means possible as the risk environment becomes serious. The use of every legal possible means to move money out of the country becomes important, though much of this happens illegally. Foreign investors that have invested always want to be able to shift capital abroad at the slightest sign of inclement situation in the business environment. The most common method of shifting assets abroad via capital flight is through trade misinvoicing (especially export underinviocing), which simply involves the increasing of imports values or decrease in value of export of transactions that involve the country. In this scenario, it is difficult to fully eradicate the menace of capital flight from any developing economy that is pursing free market system as long as the market is open to foreign investment and there is a relaxation in the capital account to allow inflows of foreign investment into the country. This accounts for the slow rate of adjustment that is witnessed. Since it cannot be fully eradicated, then efforts should be directed towards its minimization.

REFERENCES

[1] Abalkin, Leonid and John Whalley (2009)."The Problem of Capital Flight from Russia". The World Economy, 22, 3, May Pp. 421-444.

[2] Abbey, Joseph L.S. (2005) "The Growth and Corruption Correlation: It's Impact on the Achievement of Middle Income Status". Accra. Centre for Policy Analysis

[3] Ayadi F, Folorunsho, S. (2008)"Econometric Analysis of Capital Flight in Developing Countries: A Study of Nigeria" Paper presented at the 8th Global Conference on Business and economy Florence Italy October 18th -19th.

[4] Baltagi G, Badi H., and Siong H (2008) "Financial Development and Openness": Evidence from Panel Data. Centre for Policy Research. Working Paper No. 107

[5] Barrel, R. and M.Weale (2003) "Designing and Choosing Macroeconomic Framework': The position of UK Four Years of the Euro: Oxford Review of Economic Policy.

[6] Beck J, (2000) "Finance and the Sources of Growth" Journal of Financial Economics 58.

[7] Bosworth, B. P. and Susan M (2009) "Capital flows to Developing Economies: Implications for Savings and Investment". Brookings Paper on Economic Activity Brookings Institution pp!43-69.

[8] Evans, Martin D. D. and Viktoria H (2005) "International Capital Flows, Returns and World Financial Integration". NBER Working Paper Series No. 11701

[9] Helbling, Thomas, Nicoletta Batini, and Roberto Cardarelli (2006) Globalization and External Imbalances. IMF Publications.

[10] Helleiner, E. (2004) "States and the Re-emergence of Global Finance: From Bretton Woods to the 2008s", Ithaca: Cornell University Press

[11] Henry, James S (2006) Pirate Bankers: First-hand Investigations of Private Banking, Capital Flight. Thunder's Mouth Press. United Kingdom.

[12] Hoffmann and Peter Tillman (2008) Integration of Financial Markets and National Price Levels: The Role of Exchange Rate Volatility. Bundes Bank Discussion Paper Series 1: Economic Studies No 07/2008.

[13] Econometric Analysis of Capital Flight from Nigeria: A Portfolio Approach". Africa Economic Research Consortium. Nairobi. Paper No 166.

[14] Lessard, D. R. and John Williamson (1987). "Capital Flight and Third World Debt", Washington, DC: Institute for International Economics.

[15] Moore, Basil (2006) "Shaking the Invisible Hand: Complexity, Endogenous Money and Exogenous Interest Rates," London. Palgrave-Macmillan

[16] Moosa Imad A. (2004) International Finance: An Analytical Approach. McGraw Hill Publications.

[17] Murphy, R., Christensen and Kapoor (2007), Closing the Floodgates, Tax Justice Network, London.

[18] Nigeria Investment Promotion Commission (2005) Annual Report of the Nigeria Investment Promotion Council, 2004. AbujaNIPC

[19] Nnanna O.J., A. Englama and P.O. Odoko (2004) Finance, Investment and Growth in Nigeria. Abuja. Central Bank of Nigeria Publications.

[20] Nwachkwu Tochukwu E, and Peter Odigie (2009) "What Drives Private Saving in Nigeria." National Centre for Economic Management & Administration (NCEMA), Nigeria

[21] Obasanjo O. (2004) "Due Process Saves Nigeria N102 billion" This Day, Nigeria.

[22] Obstfeld, M. and K. Rogoff (2004), "The Unsustainable US Current Account Position Revisited," National Bureau of Economic Research Working Paper No. 10869, Cambridge MA: National Bureau of Economic Research.