An Overview of the Nigerian Economic Crisis and Capital Flight

By

Oke-Potefa, Oladele & Josu, A.Y
Business Education Department
Lagos State University of Education
Otto/Ijanikin

Abstract

The role played by investment in an economy can best be appreciated when one considers the correlation between investment and living standard of the people.

This paper gives an overview of the Nigerian economic crisis and capital flight. The paper is divided into four sub heading: Nigeria economic crisis in perspective, the concept of capital flight, capital flight in Nigerian economy and the way forward, this provided the necessary policy recommendations that will tackle the problem(s) of capital flight in Nigeria.

Keywords: Economy, Crisis, Overview, Capital flight, Nigeria

Introduction

The sorry state of Nigeria economy has been a major concern to individuals and corporate bodies such as academicians, investors, civil servants, the bankers and students. Although different approaches have been suggested or sought to soften the lingering crisis but one fact remains that it is the opinion of the general public that is not well with the economy.

According to Omobintan (2003) the economic problem arises a result of distortions in the workings of the macro-economic variables with regards to the internal sectoral activities. He further stressed that the manifestation of these problems cut across all facets of the economy with the following: low capacity utilization with regards to production, backwards and obsolete technology, high and chronic unemployment rate, high dependence on oil production and exports of primary products.

However, the over dependence on oil led to colossal decline in government revenue, this was further worsened by the oil glut which ravaged the international oil market, since the 1980's, hence the government had to operate on a deficit financing through internal and external borrowing constitutes a major problem in attaining a structural balance in the economy. furthermore, the gross deficiency in domestic base in the economy required to finance project resulted to external source of finance, this serious led to debt crisis in the economy and most of the debt were owed to Paris club, World bank and London club through this external borrowing the country has embarked on white elephant project that can not cover the cost of installation talk-less of making profit. The genesis of the occurrence of all these economic crisis reflected in the present predicament of capital flight in Nigeria economy.

The Nigerian Economy Crisis In Perspective

The Colonial masters before 1960 were not interested in the economic development of Nigeria, but were more concerned and concentrated their policies in political administration and maintenance of law and order. However, it was evident that the economic policy formulated by the colonialist was the establishment of master slave relationship in the colonies.

The colonial masters before independence made concerted effort in formulating economy policy which was towards the production of raw materials for the industrialized nations, this involved the production of Primary Commodities. The Nigerian government on her own part concentrated on the importation of finished goods at exorbitant prices, the exportation of her products yielded very little or low foreign exchange when compared with how much she pays for the goods imported.

However, at independence, Nigeria inherited an economy that was externally controlled by the foreign capitalist system, this perhaps affected the achievement of the developmental objectives due to rapid population growth, massive importation of capital goods and raw materials for import substitution industries, the exportation of goods that can not withstand international competition to monoculture nature of the economy and international trade restrictions.

Olukoshi, A (1991) traced the contributing factor of Nigeria economic crisis to be caused by the inner contradictions of the pattern of capital accumulation on which economic activities in the economy have rested. The contradiction between social production and consumption has always been a serious surplus with investment for expanded reproduction. This according to him is because much of the surplus generated in the economy does not go back into direct reproduction, but rather is spent on overseas consumption. It could be deduced from the above statement that Nigerians spent more on consumption than on investment.

Furthermore, Nigeria economy crisis presently has been worsened by inadequate foreign exchange earning, balance of payment deficit, capital fight, mismanagement, debt accumulation, inflation, unemployment, negative growth rate and worse of it all is her heavy dependence o on oil. Another major constraint to the peace at which the economy develop is the political instability the country has experienced several years back, various regime has succeeded in implementing irrelevant economic policies and moreso political stability can not de divorced from economic stability, they work hand in hand.

The Concept of Capital Flight

The factor that determines the level of economic activities in a given economy is the position of its external revenues and this however is dictated by the numbers of private and public foreign currencies flowing into it. Developing countries in the world have been swimming in the debt trap, through this the less developed countries outflow of private capital has been mostly motivated by the short –term speculative motives, economy and socio-political uncertainties.

Kham and Nadeem (1987) defined capital flight as the difference between total capital outflow and the part for which interest in income is identified and capital flight emerges due to the absence of exchange or capital control which allows domestic residents to transfer funds abroad at the current exchange rate. Furthermore, capital flight have been due to the insufficient monitoring of exchange rate policy which arises as a result of under-invoicing of export and import restively, this further enhanced the smuggling of currencies or foreign exchange earnings. Capital flight could also be viewed from the perspective of black marketing which encourage the exchange of currency and consequently

transferred abroad by the residents, other identified areas of capital flight is the movement of capital (private) through commissions and agency fees paid by foreign bank account residents, setting up of foreign companies and keeping part of borrowings abroad. The fear of devaluation of currency has also enlarged capital flight, they move their funds abroad to avoid a capital loss.

Capital flight could be as a result of insufficient external reserves which prevent investment in the less developed countries. The loss of confidence in the domestic currencies of these countries is also a contributing factor.

Capital Flight in the Nigeria Economy

Capital flight occurs when assets or money are rapidly flown out of a country due to an economic event that disturbs investors and causes them to lower the value of their assets in the host country or otherwise to loose confidence in its economic strength. This however leads to sudden disappearance of wealth and is usually accompanied by a sharp drop in the exchange rate of the affected country.

According to Omobintan (2003) capital flight is a deceleration favour to the country's economic development, however it could as well be started that the money flow within the country's circular flow income mostly from the worker' salaries and savings. The yield from the profit earners (entrepreneurs) are in overseas countries or foreign countries, thus constitutes a capital flight to the country's economy. Accomplice in the act of capital outflow perpetuation in the Nigerian economy in the multinational corporations (MNC'S), the mode of profits repatriation to the headquarters of these corporation constitute an economic and social-political disadvantages to Nigeria and Africa.

The multinational corporations (MNCS) perpetrate capital outflow either through over-estimation of most projects they undertake. During the regime of late General Abacha, he sent money abroad by over-invoicing exports, on the other hand the average import to Nigeria are over-invoiced my more than 30 percent. For every dollar Nigeria spends on importation of goods and services more than 30 percent leaves the country as capital flight.

Africa and most importantly Nigeria is a consumer of technology and not a producer, the major projects are given to foreigners. For instance Julius Berger a German construction company, 10 percent of Nigeria's petroleum revenue is paid to the foreign oil companies as royalties and then companies re-invest their profit in Europe. Profits made by foreign companies are repatriated abroad and which in turn result to capital flight.

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It is pertinent to note that returns were paid to allotters of the project either in form of cash or in kind as gratifications, most of this returns were paid into foreign accounts. In tern of economy and socio-political advantages and disadvantages, the existence of multinational corporation (MNCs) is an avenue for the exploitation of Nigerians through continuous investment in it. The end result of these investment activities are injustice, self-centeredness, over-ambitious, and political maneuvers in Nigeria and Africa.

According to Omobintan (2003) the most catastrophic effect of the outflows of the capital on Nigeria economy is the ever disarray in balance of payment relations with other trading nations. There is a linear relationship between capital flight and unfavorable balance of payments. On the angle of industrial sector the manufacturing sector are bond to produce below capacity utilization if capacity flight prevails in an economy. The implication is that there will be inadequate foreign exchange to produce raw materials inputs from overseas countries and this would retard production wage rate and employment.

Way Forward

There are no vices without virtues there can never be economic problem without economic solution. In attempt to tackle capital flight problems in Nigeria, the following policy recommendations are provided.

Nigeria's total dependence on oil as a simple primary export should ultimately be discouraged. The problem associated with this is scarcity and poverty, this can never bring about a meaningful development in country, diversification of the economy should be enhanced.

The Nigerian government should as a matter of urgency discourage imported technology which add tremendously to the cost of production. Local technology should be encouraged, this will bring about specialization in manufacturing industries in which the country possesses international competitive advantage. However, this will bring about an increase in foreign exchange.

The government should also provide foreign companies that are willing to invest their capitals in the economy with conductive environment, investors will be able to forecast and have the confidence to invest.

Perhaps, government should provide a stable financial and macro-economic environment for its citizens and foreign investors. The adoption of tax holidays and the participation of private investors may bring may bring about meaningful economic development in Nigeria.

The bulk of Nigeria's problems also reflect on the qualities of leadership. Accountability and transparency should be the watch word in government affairs. The traits of over-invoicing and under estimation of projects should be discouraged. It is pertinent to note that overflow of capital is due to loss of confidence in the naira and daily depreciation of the currency also reduce employment, income and general output level accompanied by inflation.

Conclusion

It is quite obvious that the bulk of capital in a given country reflects in her investment strength. In other words the stock of capital, which a country possesses, reflects in the investment strength. The persistent of capital flight in an economy brings about low level of economic activities. The economic activities of the multinational corporations should be put under control and a serious check.

Our leaders should demonstrate a true sense of accountability and transparency, corruptive acts should be discouraged.

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