Capital Flight and Unemployment in Nigeria

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Abstract

This study examined Capital Flight and unemployment rate in Nigeria. Capital Flight was proxied by foreign direct investment outflows, external debt servicing, external reserves and capital and financial account deficits. Hypotheses that guided the study were formulated in line with the study objectives and relevant literature were reviewed and evaluated. Relevant data were extracted from the annual Statistical Bulletin and other issues, of the Central Bank of Nigeria. Unit root test was conducted using Augmented Dickey Fuller method which revealed that the variables were integrated at level and first difference necessitating the use of autoregressive distributive lag/bond test to explore the long run relationship existing among the variables in the model and the result showed that the variables in the model were co-integrated thus we proceeded in evaluating the long run as well as the co-integrating form in the model. From the result of the various tests, it was revealed that while some of the outcomes conformed to apriori expectations, others did not. Based on the findings from the analysis, the study recommended amongst others, that external debt acquired should be judiciously used for infrastructural development that would encourage investments which would ultimately bring about economic development as well as reducing the rate of unemployment in Nigeria.

Keywords: Capital Flight, Unemployment Rate, Foreign Direct Investment Outflows, External Reserves, External Debt, Capital and Financial Account

1.1 Introduction

Numerous developing nations across the globe including those countries within Sub-Saharan Africa, have overtime, suffered various situations of financial losses which have manifested as a result of the indiscriminate movement of investable financial resources from these developing countries, to other countries that are most often developed, this experience has been counterproductive to these developing nations and the economic growth and development of such countries have been seriously jeopardized (Forson, Obeng & Brafu-Insaidao, 2017).

Aderoju (2017) posits that the sluggish economic development, as well as the persistent balance of payment deficits experienced in most developing countries can be traceable to the high level of illegal capital overflows from those countries to advanced countries of the world. These outflows of financial resources are what ordinarily constitute capital flight. The outflow of resident capital, which is motivated by economic and political uncertainties in the home country, is referred to as capital flight (Leonard, Benjamin & Chibueke, 2014). Saheed, Zakaree and Ayodeji (2012) sees capital flight as the movement of local savings from less developed economics away from financing local real investment for a foreign financial investment in advanced economics of the world leaving the economic growth and development of the less developed economics at based.

The challenges of capital flight have been a major concern for policy makers especially in the less developed and developing nations to which Nigeria belongs, as there is a persistent issue of inadequate supply of financial capital considered necessary for sustained economic development (Ifedayo & Olawale, 2015). Olatunji and Aloye (2015) posit that economic resources lost through the medium of outflows of resident capital do not contribute to the increase of domestic activities which culminates into increased employment opportunities and enhancement of social welfare of residents.

Compared with past years, it is difficult to state categorically that the macroeconomic environment of Nigeria is stabilizing – judging from the rate of corruption, upward movement of inflation resulting in high cost of goods and services, low level of technological advancement poor human development indices, low investment/ GDP rates, increasing unemployment rate, low standard of living resulting to low per capital income, youth social vices, militancy in the Nigeria's Niger Delta region, overdependence on foreign institutions, poor infrastructural facilities, erratic power supply and above-all low level of capital inflow. Hence it is believed to be a high-risk market for investment due to the mono-culture nature of the Nigerian economy (Akani, Uzobor & Madume, 2009). Therefore, all these were as a result of capital outflow which represent a loss of potential resources for economic development in the contemporary literature of economics. There has been increasing attention to the notion of capital flight; many analysts' have attributed sluggish economic growth and persistent balance of payment deficits in most developing countries to capital flight (Adaramola & Obalade, 2013).

Over the years, there has been an increasing concern for capital flight in Nigeria in relation to the nation's economy, and general research works have been carried out on this problem. At the same time the prospect for solving this problem remain grim. increase capital outflow implies a potential lost for economic growth especially in a country that is heavily dependent on external financing and/or international aids or support. The Nigerian government in the past has initiated policies and programmes aimed at boosting foreign capital inflows and harness its

proper contribution to the overall economy. These includes, the establishment of Nigerian Investment Promotion Commission (NIPC), the establishment of the Bureau of Public Enterprises (BPE), the setting up of National Council on Privatization (NCP), Economic and Financial Crime Commission (EFCC) and other anti-regulatory agencies and economic/budgetary reforms are also targeting at promoting inflows of capital for economic growth and development of the nation's economy. Yet these lofty objectives have turned out to be a mirage.

Also, there are numerous empirical studies with conflicting claims concerning the effect of capital flight on the economy of a country, while some researchers argue that capital flight has a negative impact on the economy (Ajayi, 2012; Olugbenga & Alamu, 2013; Lawal, et al, 2017; Uddin, Yousuf & Islam, 2017) , others had maintained an opposite view arguing that capital flight do not impact negatively on an economy (Adaramola & Obalade, 2013; Adebayo & Ayodele, 2016; Gunter, 2017), It is against this backdrop that this study therefore, is aimed at evaluation the effect of capital flight on employment rate in Nigeria.

1.2 Objectives of the Study

The overall objective of this research was to examine the effect of capital flight on unemployment rate in Nigeria. The specific objectives included to;

1. analyze the effects of foreign direct investment outflows on unemployment rate in Nigeria;
2. assess the effect of external reserves on unemployment rate in Nigeria;
3. examine the effects of external debt servicing on unemployment rate in Nigeria; and
4. evaluate the effects of deficits on capital and financial account on unemployment rate in Nigeria.

2. Literature Review

2.1 Conceptual Review

2.1.1 Capital Flight

Capital flight is a rather slippery concept: Several interpretations have been given of what exactly is meant by the term. Usually, capital flight is related to the existence of high uncertainty and risk with respect to returns on domestically held assets. Residents take their money and run in order to avoid extremely high-expected losses on their asset holdings. However, the following three main methods of measuring capital flight can be distinguished in the literature. First, several studies have measured capital flight indirectly from balance of payments statistics by comparing the sources of capital inflows (Net increases in external debt and the net inflow of foreign investment) with the use of these inflows (the current account deficit and additions to foreign reserves). If the sources exceed the uses of capital inflows, the difference is termed as capital flight.

Second, some authors measure capital flight by adding up net errors and omissions and non-bank private short-term capital outflows (Francis & Chukwuemeka, 2014). This measure reflects the idea that capital flight goes unrecorded, due to the illegal nature of these capital movements. It is argued that the unrecorded capital movements appear in the net errors and omissions. Moreover, by concentrating on short-term flows, medium and long-term outflows are excluded, which according to the author are more normal in character (Onwioduokit, 2007).

Third, the capital flight measure proposed by Dooley (1986) also aims at measuring abnormal or illegal capital outflows. Dooley defines capital flight as all capital outflows based on the desire to place assets beyond the control of domestic authorities, excluding normal outflows. Consequently, this measure includes all capital outflows that do not receive and/or register interest payments.

2.1.2 Dimensions of Capital Flight

(i) Foreign Direct Investment Outflows

Foreign Direct Investments is defined as a cross-border investment in which a resident in one economy (the direct investor) acquires a lasting interest in an enterprise in another economy (the direct investment enterprise). It is the kind of investment in which residents of one country invest in a firm present in another country and acquire a joint venture with the foreign firm (Akeem, 2011). Foreign direct investments represent a phenomenon resulting from globalization, which involves the integration of the domestic economic system with global markets. It is accomplished through opening up of the local economic sector as well as domestic capital for foreign investors to establish business, within the economy.

Once foreign direct investment is established, increases in FDI can take the form of injections of additional equity capital, the reinvestment of earnings not distributed as dividends by subsidiaries or associated enterprises and undistributed branch profits, and various intercompany claims, such as the extension of suppliers' credits or loans, all of which represent foreign direct investment capital. These transactions cover only one aspect of financing available to direct investment enterprises that can also expand their operations by borrowing in local markets and in international capital markets (with or without the guarantee of direct investors).

Nevertheless, foreign investments do not come devoid of some negative aspects. There is normally the tendency for over utilization of the available natural resources, as the companies strive to maximize profits in their venture (Cohen *et al*., 2009). In the Nigerian context, foreign direct investment could be expressed as FDI local which defines foreign direct investment coming into the country, and FDI outflows representing foreign direct investment going out of Nigeria. In this study, the researchers will be interested in foreign direct investment outflows.

(ii) External Reserves

External reserve can also be called foreign reserve or international reserve and it is defined according to IMF as consisting of official public sector foreign assets that are readily available to, and controlled by the monetary authorities, for direct financing of payment imbalances, and directly regulating the magnitude of such imbalances, through intervention in the exchange markets to affect the currency exchange rate and/or for other purpose (IMF, 2010). The mandate of managing the reserve is bestowed on the central bank of each country. The recent trend of accumulation of external reserve was as a result of the Asian financial crises of the 1990''s. This marked the beginning of the era of financial globalization (Krušković & Maričić, 2015).

External reserves accumulation has much benefit among which are: Enhances foreign debt service and international trade activities, serves as self-insurance against external shocks, serves as a tool for maintaining low exchange rates, promotes trade and international competitiveness, shows the creditworthy in the eyes of other countries, creditors and donors

payments, supports monetary policy operations, enhances transaction needs, fosters confidence in the government policy framework and its capacity to meet external obligations (Elhiraika & Ndikumana, 2007; Kashif, Sridharan & Thiyagarajan, 2017; Aizenman & Lee, 2005; World Bank, 2019; Drummond, Mrema, Roudet, & Saito, 2009; Nugee, 2000; Soludo, 2005).

(iii) External Debt

The external debt levels of Sub-Saharan African countries have been on the rise in the past two decades, generating concerns among analysts and policy-makers about a looming debt distress threatening the region. Despite recent tightening of concessionary terms associated with bilateral and multilateral loans, Sub-Saharan Africa countries to which Nigeria belongs still continue to rely heavily on external borrowing for fiscal sustainability in order to accelerate economic growth. The impacts of the global economic downturn in the 1980s on developing economies, including the debt crisis, were such that the 1980s is often referred to as the "lost decade" for Africa (Iyoha, 1999).

The causality between external debt and capital flight has many facets, though all the possible relationships result in capital flight. Ajayi (1995) and Boyce (1992) distinguish four possible linkages between the two: debt-driven capital flight, debt-fuelled capital flight, flight-driven external borrowing and flight fuelled external borrowing. Beja (2006) analysed the relationship between the two using what he termed 'revolving door model'. Beja's model posits direct and indirect linkages between external debt and capital flight. One of the linkages posits a direct causal effect, whereby external debt provides the fuel and/or motivation for capital flight, and vice versa. Thus, external borrowings are transformed sometimes instantaneously from capital inflow to capital flight, ultimately ending up abroad, usually in a private foreign account.

(iv) Capital and Financial Account

The Capital Account registers the acquisitions or disposal of non-financial and non-produced assets (Yalta & Yalta, 2012). This includes the exploitation of natural resources, such as mineral, forest, or airspace. Notice that to be registered on the capital account, there should be a change in the ownership of the right to exploit. If the use is temporary, the registration is made on the secondary income account of the current account. Also registered on the capital account are marketing assets transactions, such as brand names, trademarks, and contracts that give exclusive rights over future goods and services, such as the amount paid by a foreign soccer club for a player.

The offsetting financial account is named the *Financial Account* (formerly called Capital Account). Large current account deficits imply large financial account surpluses. The financial account transactions are recorded below the current account items in the balance of payments. Some financial account transactions are a direct result of trade in merchandise and services. The recent financial account transactions are very interesting from an economic viewpoint. In general, one can see that globalization is evident in the sharp increases in the overall size of the transactions. Only a small number of countries have resorted to policies to restrict cross-border movements of capital despite the turmoil in global financial markets (Kunieda, Okada & Shibata, 2014).

Similarly, inward flows that manage to circumvent capital account restrictions are much less likely to convey many of the indirect benefits of financial integration. In addition, although there is little evidence that capital controls are effective at achieving their macroeconomic objectives beyond a limited period, they are associated with substantial microeconomic costs

that would likely eliminate the productivity gains associated with financial integration, especially when they are sustained for a prolonged period of time (Lawal, Somoye & Babajide, 2016).

2.1.3 Unemployment Rate

According to Salami (2013), unemployment or joblessness, as defined by the International Labour Organization (1982) occurs when people are without jobs and they have actively sought work within the past five weeks. The unemployment rate is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labour force. The Newsweek (2011) reported that more than 200 million people globally are out of work, a record high, as almost two-thirds of advanced economies and half of developing countries are experiencing a slowdown in employment growth.

Dependence on jobs to make money to buy food and shelter was the beginning of unemployment (Olayiwola & Okodua, 2007). Because it has not always been acknowledged or measured systematically, there are limited historical records on unemployment (Okodua, 2009). Recognition of unemployment occurred slowly as economies across the world industrialized and bureaucratized. An individual who cannot either join an enterprise or create a job is unemployed, as individual farmers, merchants, and artisans organize themselves into large enterprises, those who cannot join or compete favourably become unemployed (Shiro, 2009).

Youth unemployment in Africa also has a geographical dimension. It is generally higher in the urban areas than in rural areas (Solomon & Eka, 2013). Several factors account for higher youth unemployment rate in Africa, most notably low economic growth, low economic activity and low investment (Macaulay, 2012). These related factors contribute to low job creation and because of sustained (increase in some cases) population growth the small labour market is unable to absorb the resulting army of job seekers (Onu, 2012).

With respect to age group, education and sex NBS (2010), data showed that persons aged between 15 and 24 years had 41.6% unemployed. For persons between 25 and 44 years, 17% were unemployed. For persons with primary education 14.8% were unemployed while those with post-secondary education had 21.3% unemployed (Omankhanlen, 2011). As regards sex, data showed that males constituted 17% of the unemployed while females constituted 23.3% (Nwankwo, Ademola & Kehinde, 2013). It is clear that unemployment negatively affects economic growth and development. This is because a smaller number of youths contributes to the development of the economy. They only serve as leakages to the economy and this is one of the major problems facing the economic development of any nation.

2.2 Theoretical Framework

2.2.1 The Investment Diversion Theory

This theory postulates that due to the macroeconomic and political uncertainty in developing country and the simultaneous existence of better investment opportunities in advanced countries like high foreign interest rate, wide array of financial instruments, political and economic stability, favourable tax climate and secrecy of accounts. Some, unscrupulous, corrupt leaders and bureaucrats usually siphon scarce capital resources from their countries to advanced countries. These funds are therefore, not available for investment at home leading to

decline in aggregate investment, low economic growth, hence declining the employment, increase in dependency ratio and high death rate. These negative macroeconomic effects on these countries sometimes motivate the necessity to borrow from abroad to reactivate the domestic economy, which is sometimes further siphon thereby perpetrating external dependency and indebtedness. The liquidity constraint or crowding – out effect may result to depreciation of the domestic currency if the authorities are operating a floating exchange rate system (Ajayi, 1992). An attempt to defend the exchange rate at this time leads to loss of international reserves. The investment diversion thesis provides one of the well-known negative consequences of capital flight in the countries involved.

2.3 Empirical Review

Anetor (2019), carried out a study on macroeconomic determinants of capital flight; evidence from the sub-Saharan African countries between the periods 1981-2015; the data for the study were obtained from the World Bank development indicators (WDI), and the autoregressive distributed lag (ARDL) model techniques was used to determine the macroeconomic factors influencing capital flight from the sub-Saharan African region. The results of the study showed that economic growth had a significant negative relationship with capital flight in both the long run and short run.

Makwe and Oboro (2019), examined capital flight and economic growth in Nigeria between 1990 and 2017, using ordinary least square analysis, augmented dickey fuller test, granger causality test and co-integration test. The study revealed that net foreign investment abroad, external debt servicing and external reserves being proxies for capital flight; all have an impact on economic growth proxied by gross domestic product.

Bredino, Fiderikuma and Adesuji (2018), studied the impact of capital flight on economic growth in Nigeria using an econometric approach over the period 1980 to 2012 using the Ordinary Least Square (OLS) and co-integration/error correction methods of analysis. The research findings showed that capital flight have adverse impact on the cross domestic product, while exchange rate impacts positively on GDP in Nigeria

Salandy and Henry (2018), examined the determinants of capital flight from Trinidad and Tobago between 1971 and 2011. Using the OLS and the Generalized Method of Moments (GMM) techniques of estimation, the study noted that the major causes of capital flight include the lagged external debt, lagged capital flight, external debt, GDP growth, interest rate differential, and excess liquidity.

Anaya, Hachula and Offermanns (2017), used a structural global VAR model to analyse the impact of US unconventional monetary policy shock as defined by changes in the central balance sheet. It was on the financial and economic conditions of emerging market economies. It also investigated whether or not international capital flight flows were an important channel of shock transmission. They observed that an expansionary policy significantly increased portfolio flows from the US to emerging economies for the periods studied. This was accompanied by a persistence movement in real and financial variables in the receiving emerging economies.

Auzairy et al. (2017), investigated the dynamic relationship between capital flight and macroeconomic fundamentals in Malaysia between 1992 and 2012. Using co-integration and

vector auto-regression methods of estimation, the study noted that Consumer Price Index (CPI), GDP, interest rate and exchange rate constitute the macroeconomic fundamentals determining capital flight.

Gunter (2017), examined the impact of corruption and family effects on capital flight in economic growth of nexus in China based on data from 1984 to 2014. The research used both the Cuddington's balance of payments and residual measures to investigate this relationship by adjusting and reflecting the legitimate assets of the Chinese banking industry, miss-invoicing of China's trade with its major trading partners, exchange rates, and the weakness of the official debt data among others. The research observed that capital control had little or no long term impact on the volume of capital especially the capital flight route in Hong Kong. The research also observed that corruption, transaction costs, migration facilitation process were the prime driver of capital flight from mainland China.

Aderoju (2017), studied an empirical investigation of capital flight and domestic investment in Nigeria between 1980 to 2015. The study made use of secondary data from CNB statistical bulletin of various issues and the National Bureau of Statistics. The Augmented Dickey Fuller test, Philip-Perron test, Johensen Co-integration test and Ordinary Least Square estimating technique (OLS) were employed to carry out a detailed analysis of the endogenous and exogenous variables of the model. The overall results showed that capital flight has a statistically significant positive relationship with gross domestic investment in Nigeria. The result also showed that there exists a statistically significant positive relationship between exchange rate and gross domestic investment.

Uddin, Yousuf and Islam (2017), carried an econometric analysis of the determinants of capital flight in Bangladesh between 1973 and 2013. They used OLS and noted that the major causes of capital flight are foreign direct investment flows, external debt, interest rate differentials, foreign reserves, and current account surplus. The study also concluded that there is a strong positive correlation between interest rate differential and capital flight and between change in external debt and capital flight.

2.4 Hypotheses

H_{o1}: There is no significant relationship between foreign direct investment outflows and unemployment rate in Nigeria.

H_{o2}: There is no significant relationship between external reserves and unemployment rate in Nigeria.

H_{o3}: There is no significant relationship between external debt servicing and unemployment rate in Nigeria.

H_{04}: There is no significant relationship between capital and financial account deficits and unemployment rate in Nigeria.

3. Methodology

The research design for this study thus, was based on the use of time-series data in the analysis. Therefore, the study adopted the quasi-experimental research design in determining the structural relationship existing between capital flight and unemployment in Nigeria. Quasi-experimental design is also referred to as survey. According to (Cook, 1983 cited in Baridam, 2008), quasi-experimental design constitutes a set of empirical studies involving human beings

that lack the true major attributes of experimentation. First, they rarely occur in a laboratory, and they do not involve the random assignment of unit to the treatments being contrasted.

The major source of data used in this study was the secondary source. Thus, the data for this research analysis was obtained from various issues of the Central Bank of Nigeria Statistical Bulletin, the National Bureau of Statistics Summary of Abstract (1990 to 2020) and the United Nations Development Programme Reports. These data covered information on Foreign Direct Investments Outflows, External Debt servicing, external reserves and capital and financial account deficits serving as the dimensions of Capital Flight, and Unemployment Rate serving as the dependent variable.

3.1 Model Specification

3.1.1 Unemployment Model

We adopted the model of Uddin, Yousuf and Islam (2017). Uddin, Yousuf and Islam estimated a model where unemployment rate was a function of Capital flight in Bangladish. They specified their model as; $UNP = f(EGR, EXD, INF, IRS, TOP)$. This model was adopted and Capital Flight disaggregated into flows of foreign direct investment outflows, external debt servicing, external reserves and capital and financial account deficits. Thus, our unemployment model was stated as:

$UNE = f(FIA, EXR, EXD, CFA)$ --(3.4)

Stating the exact or mathematical form of (4) above we had:

$UNE = \beta_0 + \beta_1(FIA)_t + \beta_2(EXR)_t + \beta_3(EXD)_t + \beta_4(CFA)_t$ ----------------------------(3.5)

Economic relationships are inexact therefore stating (5) above in econometric form we had:

$UNE = \beta_0 + \beta_1(FIA)_t + \beta_2(EXR)_t + \beta_3(EXD)_t + \beta_4(CFA)_t + U$ ------------------------(3.6)

3.1.2 Apriori Expectation

Nigeria as most of the developing countries lack the required capital for investment that would ultimately create jobs. Therefore, the indiscriminate movement of investable capital in form of capital flight will create an adverse negative effect on the country's economy which will result in low production capacity and unemployment. Therefore, capital flight will contrast the production capacity of a country as it will limit the available investable capitals which will in turn bring about a situation of increased unemployment. Thus, in the unemployment model, we expect a positive relationship between capital flight and unemployment rate. Therefore,

$$\beta_{1>0;} \beta_{2>0;} \beta_{3>0;} \beta_{4>0.}$$

Where:

FIA	=	Foreign Direct Investment Outflows
EXR	=	External Reserves
EXD	=	External Debt Servicing
CFA	=	Capital and Financial Account Deficits
UNE	=	Unemployment Rate

3.2 Methods of Data Analysis

This study adopted the econometric technique. According to Theil (1971), cited in Gujarati and Sangeetha (2007), econometrics is concerned with the empirical determination of economic laws. It is a combination of economic theory, mathematical economics and statistics, but is completely distinguished from each of these three branches of science (Koutsoyianis, 1977).

For the purpose of our analysis here, the Autoregressive Distributive Lag (ARDL)/bond test approach developed by Peseran et al (2001) was adopted as our data sets consisted of variables integrating both at level (0) and at first difference (order I).

The Autoregressive Distributive Lag (ARDL)/bond test approach was used to establish a long run relationship between the variables in each model. This approach was adopted at this instance because it is suitable for use with a mixture of variables integrated at level I (0), variables integrated at first difference I (1) or variables that are fractionally integrated (see Peseran et al, 2001).

However, for the avoidance of having any variables integrated at order 2, we made use the Augmented Dickey Fuller (ADF) test to formally explore the stochastic properties of each individual series. Another reason for the suitability of the ARDL approach is because it involves a single equation setup, making it simple to implement and interpret. Also, different variables can be assigned different lag lengths as they enter the model. And finally, because of its extra robustness and better performance for small sample size such as this study period (see Peseran & Shin, 1997).

The bond test is based on the f-test which has a non-standard distribution and with two sets of critical bounds provided by Peseran et al (2001). The lower critical bound assumes that all the variables are integrated at level I (0), while the upper bound assumes all the variables to be integrated at first difference I (1).

4. Data Presentation and Analysis
4.1 Analysis and Results
In this section, pre-estimation, estimation and post estimation tests were carried out and presented in an orderly manner to address the objectives and hypotheses of this study, where necessary, tables and figures were used to buttress the point of the researchers.

Table 4.1: Descriptive statistics

STATISTIC	CFA	EXD	EXR	FIA	UNE
Mean	-325.8476	1.85E+05	2.42E+10	0.371715	12.49194
Median	-201.9711	6.14E+04	2.80E+10	0.252235	14.7
Maximum	1932.2530	1.17E+06	5.36E+10	1.919487	21.1
Minimum	-2496.880	-4.08E+0	1.20E+09	-0.07816	1.90
Std. Dev.	978.2561	3.22E+05	1.88E+10	0.401732	6.552914
Skewness	-0.062590	1.980029	0.109755	2.248782	-0.51224
Kurtosis	4.121626	7.042764	1.347289	8.520115	1.702378
Jarque-Bera	1.645215	41.36692	3.590364	65.48717	3.530651
Probability	0.439285	0.000000	0.166097	0.000000	0.171131

Sum	-10101.28	5.74E+06	7.49E+11	11.52316	387.2500
Sum Sq.Dev.	2.87E+07	3.11E+12	1.06E+22	4.841668	1288.220
Observations	31	31	31	31	31

Source: Author's Computation using Eviews 10

From table 4.1 above, it can be seen that both poverty index and capital flights variables have witnessed noticeable disparities over the period under consideration. From the results, Capital and Financial Accounts Deficits (CFA) has mean value of -325.8476, median value of -201.9711, maximum value of 1932.253, minimum value of -2496.880, Standard deviation value of 978.2561, Skewness value of -0.062590, Kurtosis value of 4.121626, Jarque-Bera value of 1.645215 with its associated probability value of about 0.43. The result of the skewness statistic which measures symmetric nature of the data around its mean suggests that the data has a negative tail as its reported statistic is less than zero. The value for kurtosis which measures the peakedness or flatness of the data suggests that the distribution of the data is relatively leptokurtic as the reported statistic is greater than 3. The Jarque-Bera which measures the normal distribution of the data suggests that the data is normally distributed as the test statistic and its associated probability value of 0.43 is greater than the conventional 5% significance level. A further look at Table 4.1 reveal that External Debt servicing (EXD) has a mean value of 185188.6, median value of 61418.27, maximum value of 1165895, minimum value of -408091.5, standard deviation value 321774.4, skewness value of 1.980029, kurtosis value of 7.042764, Jarque-Bera value of 41.36692 and its associated probability value of 0.000000. The skewness statistic which measures the symmetric nature of the distribution of the data suggest that it has a long positive tail while kurtosis statistic that measures the peakedness or flatness of the distribution of the data suggest that it is leptokurtic (peaked) and the Jarque-Bera statistic and its associated probability value suggest the null hypothesis of the variable been normally distributed was rejected.

Again, Table 4.1 revealed that External Reserves (EXR) has a mean value of 2.42E+10, median value of 2.80E+10, maximum value of 5.36E+10, minimum value of 1.20E+09, standard deviation value of 1.88E+10, skewness value of 0.109755, kurtosis value of 1.347289 and Jarque-Bera value of 3.590364 and its associated probability value of 0.166097. The skewness value indicates that the distribution of the data on the variable has a positive long tail and the kurtosis value suggest that the distribution of the data on the variable is leptokurtic (peaked) while the Jarque-Bera statistic value and its associated probability value suggest that the null hypothesis of the variable been normally distributed could not be rejected.

The descriptive statistics for Foreign Direct Investment Outflows (FIA) on Table 4.1 shows that the variable has a mean value of 0.371715, median value of 0.252235, maximum value of 1.919487, minimum value of -0.078157, standard deviation 0.401732, skewness value of 2.248782, kurtosis value of 8.520115 and Jarque-Bera value of 65.48717 and its associated probability value of 0.000000. The skewness statistic suggests that the distribution of the data on the variable is leptokurtic (peaked) and finally, the Jarque-Bera statistic and its associated probability suggest the rejection of the null hypothesis that the distribution of the data on the variable follows the normal distribution was rejected.

Table 4.1 further showed the descriptive statistics for Unemployment (UNE). It has a mean value is 12.49194, median value of 14.70000, maximum value of 21.10000, minimum value of

1.900000, standard deviation value 6.552914, skewness value of -0.512246, kurtosis value of 1.702378 and Jarque-Bera statistic value of 3.530651 with its associated probability value of 0.17. The skewness statistic that measures the symmetric nature of the data around its mean suggests that the distribution of data has a negative long tail. The kurtosis statistics which measured the peakedness or flatness of the distribution of data suggest that the distribution is platykurtic (flat) while the Jarque-Bera statistic which measures the normal distribution of the data suggest that the null hypothesis that the distribution of the data follows the normal distribution could not be rejected as the reported probability value is greater than the conventional 5% significance level.

Table 4.2: Correlational Matrix for Unemployment Model

Variable	UNE	CFA	EXD	EXR	FIA
UNE	1				
CFA	0.076999	1			
EXD	0.066017	-0.64831	1		
EXR	0.722187	-0.08822	0.244422	1	
FIA	-0.62054	0.186509	-0.25909	-0.47823	1

Source: Author's Computation using Eviews 10

Table 4.2 report the correlation matrix for the variables in the unemployment rate model. The correlation coefficient between unemployment rate and capital and financial account deficit was 0.07 suggesting that both variables are positively related (weak correlation) while the correlation coefficient of 0.06 between unemployment rate and external debt servicing suggests a positive relationship between both variables. Similarly, a correlation coefficient of 0.72 between unemployment rate and external reserve suggest a positive relationship between both variables while a coefficient of -0.62 between unemployment rate and foreign direct investment outflows suggest that both variables are inversely related. A correlation coefficient of -0.64 between capital and financial account deficit and external debt servicing suggest a mild correlation between both variables and -0.08 suggest a weak correlation between capital and financial account deficit and external reserve. The coefficient for capital and financial account deficit and foreign direct investment outflows was 0.18 suggesting weak correlation. Similarly, external debt servicing and external reserve has a correlation coefficient of 0.24 which suggest a weak correlation between both variables and the correlation coefficient between external debt servicing and foreign direct investment outflows was -0.25 which suggest negative weak correlation. Finally, the correlation coefficient between external reserve and foreign direct investment abroad was -0.47 indicating a weak negative correlation. Thus, the correlation matrix shows that all the explanatory variables in the unemployment rate model can be sustained.

Table 4.3: Unit Root test result at Level and First Difference using Augmented Dickey-Fuller (ADF) Technique

VARIABLE	LEVEL	FIRST DIFFERENCE	DECISION
CFA	-3.34*	-	I(0)
EXD	-2.74	-5.4*	I(1)
EXR	-1.04	-4.74*	I(1)
FIA	-3.16*	-	I(0)
UNE	-1.45	-5.16*	I(1)

*Indicates significance at 5%
Source: Author's Computation using Eviews 10

The unit root test conducted using the Augmented Dickey-Fuller (ADF) technique gave the result presented in table 4.3 above. It shows that Current and Financial Account Deficits (CFA) and Foreign Direct Investment Outflows (FIA) were stationary at level. That is, their test statistic is more negative than 5% significance level. This implies that these variables have no unit roots at level or they became stable without differencing. Therefore, the null hypothesis that there is unit root in CFA and FIA is rejected. However, the result shows that External Debt servicing (EXD), External Reserve (EXR), and Unemployment rate (UNE) were all stationary at first difference. This implies that these variables have no unit roots at first difference or they became stable after differencing once. Base on this result, the null hypothesis of unit root is rejected at 5% significance level after differencing the variables once.

Table 4.4: Bound test Result for Unemployment rate model

ARDL Bounds Test
Date: 10/12/21   Time: 14:07
Sample: 1994 2020
Included observations: 27
Null Hypothesis: No long-run relationships exist

Test Statistic	Value	K
F-statistic	5.005300	4

Critical Value Bounds

Significance	I0 Bound	I1 Bound
5%	2.86	4.01

Source: *Author's Computation using Eviews 10*

Table 4.4 shows the long run equilibrium relationship between the dependent variable and independent variables in the Unemployment rate model. The Autoregressive-Distributed lag (ARDL) bound test for long run dynamics suggest that long run equilibrium exists between the variables given that the F-statistic of 5.005300 is greater than the critical value at 5%. Thus,

the null hypothesis that 'No levels relationship exists' among the variables in the unemployment rate model is rejected. The confirmation of long run relationship is a pre-condition for estimating the long run coefficients and error correction model (ECM) for the unemployment rate equation.

Table 4.5: ARDL long run result for Unemployment rate Model. Selected model: ARDL (4,0,3,4,4)

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
UNE(-1)	0.729683	0.255479	2.856138	0.0245
UNE(-2)	-1.078139	0.291659	-3.696571	0.0077
UNE(-3)	0.281881	0.207671	1.357348	0.2168
UNE(-4)	-0.287574	0.165254	-1.740197	0.1254
CFA	-0.362100	1.043698	-0.346940	0.7388
EXD	-0.008005	0.024168	-0.331224	0.7502
EXD(-1)	-0.043336	0.030528	-1.419537	0.1987
EXD(-2)	0.040633	0.040505	1.003152	0.3492
EXD(-3)	-0.017327	0.023572	-0.735080	0.4862
EXR	-0.093129	0.162998	-0.571351	0.5856
EXR(-1)	0.043241	0.225711	0.191577	0.8535
EXR(-2)	0.225293	0.262565	0.858048	0.4193
EXR(-3)	-0.319110	0.288503	-1.106090	0.3052
EXR(-4)	0.311831	0.189775	1.643161	0.1444
FIA	-8.161794	3.893103	-2.096475	0.0743
FIA(-1)	-0.512216	1.892945	-0.270592	0.7945
FIA(-2)	-6.101879	1.765615	-3.455952	0.0106
FIA(-3)	1.991031	2.844458	0.699968	0.5065
FIA(-4)	-8.113416	2.464260	-3.292435	0.0133
C	21.98052	5.019531	4.378999	0.0032

Source: *Author's Computation using Eviews 10*

Table 4.6: Long run coefficients with restricted constant and no trend for Unemployment rate model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CFA	-0.267401	0.771721	-0.346500	0.7391
EXD	-0.020703	0.032632	-0.634435	0.5460
EXR	0.124156	0.028497	4.356839	0.0033
FIA	-15.432781	2.124088	-7.265604	0.0002
C	16.231988	1.446991	11.217754	0.0000

Source: *Author's Computation using Eviews 10*

Tables 4.5 and 4.6 shows the summary of the long run result of unemployment rate model. Capital and Financial Account deficit is negatively related to unemployment rate. This means that an increase (decrease) in capital and financial account deficit would bring about decrease

(increase) in unemployment rate. Similarly, external debt servicing is inversely related to unemployment rate. That is, an increase (decrease) in external debt servicing would bring about decrease (increase) in unemployment rate which is contrary to theoretical expectation. The dependency theorists argued that the dependent position of the third world countries has made them susceptible and vulnerable to the machinations of the Western metropolitan countries. Thus, external debt burdens in the gamut of debt servicing limits the availability of capital for investment that would exacerbate unemployment rate. Going further, external reserve is positively related to unemployment rate. An increase (decrease) in external reserve would bring about increase (decrease) in unemployment rate. Finally, foreign direct investment outflow is negatively related to unemployment rate. This implies that an increase (decrease) in foreign direct investment outflows would bring about decrease (increase) in unemployment rate which is contrary to theoretical expectation. Solow's neoclassical growth theory advocates that foreign direct investment outflow would result in depletion of capital stock of a country that would lead to reduction in production capacity and consequently laying off workers resulting to increased state of unemployment.

Table 4.7: ARDL Error Correction Mechanism (ECM) Result for Unemployment rate model with Selected Model: ARDL (4, 0, 3, 4, 4)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(UNEM(-1))	1.083832	0.267394	4.053305	0.0049
D(UNEM(-2))	0.005693	0.170810	0.033328	0.9743
D(UNEM(-3))	0.287574	0.165254	1.740197	0.1254
D(CFA)	-0.362100	1.043698	-0.346940	0.7388
D(EXD)	-0.008005	0.024168	-0.331224	0.7502
D(EXD(-1))	-0.040633	0.040505	-1.003152	0.3492
D(EXD(-2))	0.017327	0.023572	0.735080	0.4862
D(EXR)	-0.093129	0.162998	-0.571351	0.5856
D(EXR(-1))	-0.225293	0.262565	-0.858048	0.4193
D(EXR(-2))	0.319110	0.288503	1.106090	0.3052
D(EXR(-3))	-0.311831	0.189775	-1.643161	0.1444
D(FIA)	-8.161794	3.893103	-2.096475	0.0743
D(FIA(-1))	6.101879	1.765615	3.455952	0.0106
D(FIA(-2))	-1.991031	2.844458	-0.699968	0.5065
D(FIA(-3))	8.113416	2.464260	3.292435	0.0133
CointEq(-1)	-0.354148	0.300194	-4.510910	0.0028

R- Square = 0.96; Durbin-Watson = 2.98; AIC = 4.38 & SC = 5.34

Source: *Author's Computation using Eviews 10*

Table 4.7 shows the error correction mechanism for unemployment rate model. The contemporaneous effect component of capital and financial account deficit had a negative sign suggesting an inverse relationship between capital and financial account deficit and unemployment rate in the short run. Thus, an increase (decrease) in capital and financial account deficit would bring about decrease (increase) in unemployment rate. However, the coefficient is not significant given its reported probability value. Similarly, the contemporaneous effect coefficient for external debt servicing and its lag 1 are negatively

related to unemployment rate whereas, its lag 2 is positively related to unemployment rate. However, all the coefficients are not significant given their respective probability values.

The coefficients of the contemporaneous effect of external reserves and its lag 1, 2 and 3 are negatively related to unemployment rate while its lag 2 is positively related to unemployment rate in the short run. However, all the coefficients of external reserves are not significant given their respective probability values.

The coefficients of foreign direct investment outflows shows that its contemporaneous effect component and lag 2 of it are inversely related to unemployment rate whereas, lag 1 and 3 are positively related to unemployment rate. However, only the lag 1 coefficient is significant given its reported probability value of 0.01 that is less than the conventional 5% (0.05) significance level.

The error correction term is rightly signed, less than one and significant given its reported probability value of 0.00 that is less than the conventional 5% (0.05) significance level. This implies that the variables in the unemployment model adjust to equilibrium whenever there is disturbance to its long run path at a speed of about 35%.

Table 4.8: Model Diagnostic test for Unemployment rate model

Diagnostic test	F-statistic	Probability
Jarque-Bera test for normality	1.380	0.501
Breusch-Godfrey serial correlation LM test	1.456	0.094
Breusch -Pagan Godfrey Heteroskedasticity test	0.787.	0.683
Ramsey RESET test for specification error	0.082	0.783

Source: *Author's Computation using Eviews 10*

The results of the diagnostics tests on the residual as reported in table 4.8 reveal that Jarque-Bera test for normality shows that the error term is normally distributed around the mean as the null hypothesis of normal distribution is accepted. The Breusch-Godfrey serial correlation LM test statistic of 1.456 and its associated probability of 0.094 suggest the absence of autocorrelation. Furthermore, the Breusch-Pagan Godfrey test for heteroscedasticity of 0.787 and its associated probability of 0.683 revealed that heteroscedasticity is absent in the model as we accept the null hypothesis of homoscedasticity. The Ramsey RESET test indicated that no variable is missing in the model as the null hypothesis is also accepted. The adherence of the model to the basic assumptions of ordinary least squares estimation affirm that the unemployment model is good for prediction and forecast hence the best linear estimator (the BLUE)

4.2 Discussion of Findings

The outcome of our analysis reveals that, capital and financial account deficit is inversely related to unemployment rate but not significant in both long and short run period. The analysis also showed that, external debt servicing is inversely and insignificantly related to unemployment rate in Nigeria both in the short and long run period. Going further, the result also revealed that external reserves is also positively and significantly related to unemployment rate in the long run. Thus, increased external reserve exacerbate unemployment rate in Nigeria. The study's result also revealed an inversely and significantly relationship between foreign direct investment outflows and unemployment rate in the long run. Thus, Outflow of foreign direct investment decrease unemployment rate in Nigeria, this however did not conform to apriori expectation.

The speed of adjustments of the error correction terms in the unemployment rate model indicate that the socio-economic variables adjust speedily to variations in capital flight variables namely, capital and financial account deficit, external debt servicing, external reserve and foreign direct investment outflows. Going further, the coefficient of determination for the model is an indication that the capital flight variables account for the very high systematic variation in the selected socio-economic variable (unemployment) under study.

5. Summary, Conclusions and Recommendations

5.1 Summary of Findings

This study examined empirically the effect of capital flight and unemployment rate over the period 1990 -2020. The capital flight variables were capital and financial account deficit, external debt servicing, external reserve and foreign direct investment outflows. To achieve the objectives set out in this study, annual time series data for the relevant variables were extracted from the Central Bank of Nigeria statistical bulletin and were analysed using descriptive statistics as well as econometric techniques.

Specifically, the relevant data were examined using descriptive statistics, correlation analysis and the Augmented Dickey-Fuller (ADF) test for unit root. The results of the ADF unit root test showed that some of the variables are integrated at order zero while some are integrated at order one. That is, some of the variables at stationary at level and some stationary at first difference. This informed the decision for the adoption of the Autoregressive Distributed Lag (ARDL) estimation method. The results and findings from the study show that:

> Capital and financial account deficit, external debt servicing and foreign direct investment outflows are inversely related to unemployment rate while external reserve is positively related to unemployment rate. However, Capital and financial account deficit and external debt servicing are not significant but foreign direct investment outflows and external reserves are significant.

5.2 Conclusions

The study examined the effect of capital flight on unemployment rate using Autoregressive-Distributed Lag methodology. Based on the finding enumerated above, the study concludes that capital flight has implication on unemployment rate in Nigeria. Capital and financial

account deficit and external debt servicing are inversely and significantly related to unemployment rate. Thus, external reserve and foreign direct investment outflows could not explain changes in unemployment rate in Nigeria.

5.3 Recommendations

Based on the results and findings from this study, the following recommendations are made:

i.   External debt acquired should be judiciously used for infrastructural development that would encourage investment that would ultimately reduce unemployment and bring about economic growth and development in Nigeria.

ii. There should be concerted efforts geared towards encouraging the inflow of capital as well as financial resources into the Nigerian economy which would reduce the deficit experienced in the capital and financial account, create resources for further investments, reduce the level of unemployment through job creation, as well as spur economic growth and development.

iii. There should be incentive for investors to keep their resources in Nigeria. This incentive can be in form of providing investment friendly environment for businesses to thrive. Provision of social overheads as well as formulating and implementing consistent policies that would serve as the needed incentive. All these would boost investment and reduce unemployment rate in Nigeria.

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