European Journal of Accounting, Finance and Investment
Vol.9, No. 2; February-2022;
ISSN (3466 –7037);
p –ISSN 4242 –405X
Impact factor: 6.34

INTERNATIONAL CAPITAL FLOW AND ECONOMIC DEVELOPMENT: THE CASE OF THE NIGERIAN ECONOMY

Omekwe Sunday and Omiekuma Paul
Niger Delta University, Bayelsa State, Nigeria
Niger Delta University, Wilberforce Island, Bayelsa State, Nigeria

Abstract: Boosting per capital gross domestic product (GDP) remains central to Nigeria's development goal and overall macroeconomic policy target. Thus, for an economy to developed, there is the need for increasing mobility of international capital. Based on this background, this paper used library science approach to examine international capital flow and economic development in Nigeria. Information's for the study were gathered from secondary source and the findings revealed that inflow of capital in the forms of remittances and foreign direct investment have positive effect on economic development via increase in per capita GDP in the long run. Similarly technical cooperation grants as well as good economic and political conditions are positively linked to economic development. On the other hand, multilateral debt negatively affects economic development in both short and long run. Owing to the findings, is suggested that policy makers should initiate policies that are helpful for mobilizing international resources and allow for a paradigm shift that will ensure the allocation of the resources to key sectors with high potentials for development via growth of the t per capita GDP.

Key Words: Capital Flow, Development, Foreign Capital, International, Policy

1. INTRODUCTION

There is fundamentally no nation in the world without the singular aim of accomplishing economic growth and development. However, this can only be possible if a country has adequate resources at its disposal (Chimobi & Igwe, 2010). In many developing countries, the resources to finance the optimal level of economic development are in short supply. This is because their economies are plagued with problems associated with vicious cycle of poverty, low domestic savings, low tax revenue, low productivity and limited foreign exchange earnings. As a result of this, developing countries inevitably resort to policy that will enhanced the flow of foreign/international capital to bridge the gap between the resources available to them and what is required for their advancement. Thus, the movement or flow of financial resources from one country to another either for the adjustment of balance of payments (BOP) disequilibrium or for expanding the production frontier in a country denotes international capital flow or movement (Ewubare & Ozigbu, 2017).

Meanwhile, over the last two decades, the world has witnessed widespread removal of capital controls in both developed and developing countries. Consequently, countries have become more financially integrated over time. Conventional wisdom predicts that countries can better insure macroeconomic risk when they are more financially integrated. With the recent shift in policy towards a market based system of resource allocation, increasing attention has been switched to the development of efficient financial systems in both developing and socialist countries. According to Levine (2001), financial integration strengthens domestic financial sector, making way for more efficient capital allocation and higher investment and growth opportunities.

Since it is believed that having access to a broader base of capital is a key requirement for the growth of an economy, then financial integration is necessary because it expedites flows of capital from developed economies with rich capital to developing economies like Nigeria with limited capital (Ozigbu, 2020). Such capital inflows can significantly reduce the cost of capital in capital-poor Nigeria leading to higher investment. Through interaction with advanced wealth creating nations, Nigeria may pull itself out of its vicious circle of poverty.

International capital flow may be beneficial to receiving countries as they gain access to cheaper sources of financing. At the same time, they increase a country's vulnerability to international financial crises which occurs during spontaneous reversals in international capital flows. The financial crisis of the 1980s, Latin America and East Asia in the 1990s and Argentina in 2001-02, are examples of the disruptive effects of fluctuations in international capital flows (Chen & Quang, 2012). International capital flows, move in the opposite direction to the goods and services trade claims that give rise to them. Thus, a country with a current account deficit necessarily has a capital account surplus (Oyejide, 2005).

In spite of the benefit of capital flow to the Nigerian economy, the instability of capital flows as a result of unfriendly business environment and poor infrastructural development have been some of the factors that retard growth and structural developments. This is because, private capital usually flows to countries where the business environment and investment climate are perceived as attractive in terms of macroeconomic and political stability, infrastructure and availability of factors of production and access to markets (Summers, 2000).

Given the above, the study examined international capital movement and the development of the Nigerian economy. Thus, the remaining parts of this work examines, concept of international capital movement, theoretical review on capital flow, classifications of international capital movements, determinants of international capital movement, international capital movement and the Nigerian economy as well as the concluding remarks.

2. RELEVANT LIUTERATURE REVIEW ON CAPITAL FLOW

2.1 Conceptual Clarification: International Capital Flow in Focus

According to Ewubare and Ozigbu (2017), international capital movement is the movement or flow of financial resources from one country to another either for the adjustment of balance of payments (BOP) disequilibrium or for expanding the production frontier in a country. The international trade and the movements of productive resources such as labour, capital and technology are substitutes for one another. A relatively capital-abundant country like the United States can export either capital-intensive commodities or export capital itself.

The conditions of capital-scarce countries require them to either import capital-intensive goods or procure the desired flow of capital from abroad. The movement or flow of financial resources from one country to another either for the adjustment of BOP disequilibrium or for expanding the production frontier in a country denotes international capital flow or movement.

Meanwhile, there is a distinction between international capital movements and the payments for imports; while capital movements may either be meant to bring about a net increase in productive capacity in the economy; in the case of balance of payments for imports, the international capital movements can be treated as a factor of production. If the sufficient inflow of capital fails to take place from abroad, the productive activity is likely to be adversely affected.

These capital movements have taken place on private account through multinational corporations (MNCs), on bilateral government to government basis and on multilateral basis through international monetary and financial institutions such as World Bank, International Monetary Fund, International Finance Corporation and the regional financial institutions like the Asian Development Bank.

2.2. Theories of Capital Flow: The New Trade and Dependency Theories in Focus

The new trade theory was propounded by Tejvannne (2013) in determining international patterns of trade are the very substantial economies of scale and network effects that can occur in key industries. These economies of scale and network of effects can be so significant that they outweigh the more traditional theory of comparative advantage. Economies of scale are factors that cause the average cost of producing something to fall as the volume of its output increases. Economies of scale were the main drivers of corporate gigantism in the 20th century. They were fundamental to Henry Ford's assembly line and they will continue to be the spur to many mergers and acquisitions today.

The new trade theory is a factor that explains the growth of globalization which multinational corporations serve as main agents. It means that poorer, developing economies may struggle to ever develop certain industries because they lag too far behind the economies of scale enjoyed in the developed world. The theory suggests that government might have a role to play in promoting new industries and supporting the growth of key industries. A developing economy may need tariff protection and domestic subsidy to encourage the creation of capital intensive industries. If the industries get support for few years, it will be able to exploit economies of scale and then be competitive without government support. New Trade Theory advocated that economies of scale are a key factor in influencing the development of trade. It also suggested that free trade and laissez fair government intervention may be much less desirable for developing economies who find themselves unable to compete with established multinationals.

Moreover, the Dependency Theory which was developed by Boxborough (1974). Showed that a parasitic relationship exists between the highly industrialized and the less developed ones in a manner that ensures the continuous advancement of the former to the detriment of the later. Thus, this theory defines the relationship between Nigeria and the multinational corporations, especially their owners, as it represents the complex politico-economic relationship that binds the advanced capitalist countries of the centre and the other countries in the periphery such that the movement and structure of the former decisively determine those of the later in a fashion somehow detrimental to the economic progress of the other societies. For instance, Ghana once experimented with the dependency theory, but achieved neither prosperity nor greater economic independence but rather, poverty, misery and greater dependence on international aid was experienced (Moses & Adeyemi, 2013).

2.3 Empirical Evidence on the International Resources and Per capita GDP in Nigeria

According to Ozigbu (2020), there is a bidirectional link between migrants' remittances and per capita GDP in Nigeria. Hence, both variables are useful in forecasting changes in each other. But Okafor, Ugwuegbe and Ezeaku (2016) found no evidence of causality between the two variables in Nigeria. Meaning that there is no causal links exist between multilateral debt and per capita GDP. Meanwhile, in a related study Ewubare and Ozigbu (2017) found that unidirectional causality flows from technical cooperation grants to GDP per capita. This is consistent with the finding of Al-Foul (2013) for Egypt and Jordan. It therefore, follows that technical cooperation grants have forecasting ability for changes in per capita GDP.

3. THE INTERNATIONAL CAPITAL FLOW AND THE NIGERIAN ECONOMY: THE TELECOMMUNICATION IN EXPERIENCE

Globally, economists tend to favour the free flow of capital across national borders because it allows capital to seek out the highest rate of return. Nigeria is reputed to be buoyantly blessed with enormous mineral and human resources but believed to be a high-risk market for investment.

According to Essien and Onwioduok (2018), positive developments have occurred in Nigeria since May 29, 1999 when democracy replaced the spate of military governments. This has resulted in a number of spirited moves to attract investors-local and foreign into the country. The former President, Olusegun Obasanjo in a bid to achieve this end embarked on a globe-trotting mission that saw him interacting with other fellow Presidents and the business community of different countries. With a more relaxed taxing system, incentives and the creation of Nigerian Investment Promotion Commission (NIPC), the country was set to lure private sector finance. As a first step, the Government took a bold move to privatize all the ailing public enterprises; Decree No. 25 of July 1996 backs this scheme. The Government set up the Bureau of Public Enterprise (BPE) to oversee this crucial venture and the National Council on Privatization (NCP) headed by the Vice-President to formulate pragmatic policies in this area. This privatization drive led to the recent 51 per cent botched share sale of Nigerian Telecommunication Limited (NITEL) to Investors International Limited (IIL) for the sum of USD $1.317 billion. However, IIL was only able to come up with 10 per cent of this payment and as penalty for default lost this initial payment. A number of other enterprises have been earmarked for the same process in a bid for government to divest its investment in public service sector. Perhaps the most successful of the Governments bid to attract foreign direct investment finance is the license granted for Global System for Mobile Communication (GSM) to three Service Providers - ECONET WIRELESS, MTN and NITEL -at a handsome sum of USD $285 million each. This has really boosted the teledensity of the country and their impacts are felt in the employment market, in terms of massive job creation. There have been countless foreign direct investment in-roads into the country, which cut across all sectors -oil and gas industry, capital market, agriculture, solid minerals, and information and communications technology -of the economy.

On assumption of office in May 1999, the Olusegun Obasanjo administration swung into action to make a reality the complete deregulation of the telecommunications sector, most especially the much touted granting of license to GSM service providers. The government also put in motion the privatization of NITEL. This proactive approach by the government and the telecommunication sector had made it possible for over 87million Nigerians to clutch GSM phones today (CBN, 2015).

Since the liberalisation of the telecommunications industry in 2001, capital investments in mobile networks and operations have constituted 80 per cent of overall investment going into the telecommunications sector – a total of more than $12bn by the middle of 2008. Total figure for the industry, as of March 2010, according to the Nigerian Communications Commission (NCC), reached $18bn, of which $16bn is related to mobile.

There have been significant increases in the level of foreign direct investment in the Nigerian telecommunications industry, especially since 1999. From a mere US$ 50 million at the end of 1999, total private investment in the sector rose to about US$ 2.1 billion by the end of 2002, out of which about 75% was attributable to mobile networks. At the end of 2003, total industry investment was estimated at about US$ 3.8 billion. The industry investment was estimated at about $18 billion in 2009 (CBN, 2015).

Since 1999, Nigeria has demonstrated the highest potential for ICT investment in Africa; the NCC reported 64 million SIMs in operation at the beginning of January 2009, with 23 million new subscribers signing up in 2008. This growth of 55% in 2008 alone has encouraged a flurry of local and multinational investors into the industry. In 2007, Telecommunications attracted the most private participant investment in Africa (86% of total). Nigeria claimed the dominant share of the $9.5 billion (reportedly the highest since 1990) at 28% ($2.66 billion) followed by South Africa at 11% ($1.045 billion).

Deregulation of the Nigerian Telecommunications system in 2001 gave way to private involvement which in turn led to emergence of major players in the field - both local and foreign companies. These include MTN, Zain, Etisalat, Globacom, Mtel, Multilinks, Reltel and Visaphone. These providers offer telecommunications services in the area of telephony service, Global System of Mobile Communication Services (GSM), fixed wireless access and VSAT.

The explosion of the telecommunications sub-sector of Nigeria propelled by foreign investment, has seen significant contribution to the growth and development of Nigerian economy. The banking and finance sector is reaping the benefits of deregulation as the telecommunications sector is creating more opportunities for investment. VSAT companies offering satellite-based services have also become operational, providing support for online banking and funds transfer services in the country The level of investment in the country due to telecommunications liberalisation is currently valued at about $18 billion. This is expected to rise with more operators coming on stream (Solomon & Eka, 2013)

Foreign investments in the telecommunications sub-sector have also contributed to the creation of jobs in the economy. Employment opportunities created in the country as a result of telecommunications liberalisation is estimated to be in excess of 8,000 jobs. However, for a sub-sector that has been in the limelight of the national economy in the past ten years, 8,000 jobs seems to be paltry given the growing number of educated youths that needs jobs. The truth is that the sub-sector is technologydriven and as such cannot be expected to create enormous job openings.

The GSM Service Providers have completely changed the tempo of the Nigerian business terrain by creating countless opportunities for small and medium businesses in franchise, dealerships, and retailer ships, street re-charge/refill card hawkers, to individuals selling second-hand handsets, accessories and value added services within the GSM market. It has employment explosion both directly and indirectly. Over 87 million Nigerians now have a convenient way of communication. This development has greatly affected positively the business environment. MTN for instance, appointed over 350 dealers nationwide. GSM has actually created the habit of time management in Nigerians.

GSM contributed to the reduction of motor accidents on major Nigerian highways due to the elimination of long journeys for pleasure and business. It is now convenient to place a call to business associates rather than waste valuable time embarking on sometimes, needless journeys. It has also improved internet and information technology awareness through WAP (Wireless Application Protocol) Services, E-commerce through Mobile Payment Systems called M-Payments among others.

The contribution of foreign direct investment in the telecommunications sub-sector of Nigeria to her economic growth and development can best be captured by the table below:

Table 1: Trend of Foreign Direct Investment in Telecommunication Sector and the Contribution of the Telecommunications Sector to the Gross Domestic Product of Nigeria (1999 – 2019)

Year	Foreign Direct Investment in Telecommunications Sector (N'm)	Contribution of the Telecommunications Sector to the Nigerian Economy
1999	820.30	195.50
2000	820.30	207.50
2001	955.30	2398.68
2002	1736.30	2983.07
2003	2890.50	3785.47
2004	4281.10	6015.91
2005	5565.40	7851.66
2006	8291.00	10567.90
2007	10758.20	14226.75
2008	7996.80	19159.16
2009	13238.10	25812.44
2010	72073.30	35674.18
2011	7564.4	291712.09
2012	6519.6	331502.79
2013	85606.6	6621734.16
2014	8506.4	5420654.36
2015	80.40	129.40
2016	75.60	130.70
2017	160.60	131.90
2018	158.20	134.60
2019	240.50	137.30

Source: *Central Bank of Nigeria Statistical Bulletin & Statement of Accounts for various years*

4. CLASSIFICATION AND DETERMINANT OF INTERNATIONAL CAPITAL FLOW

4.1 Classification of International Capital Flow

1 Domestic and External Capital: The investments undertaken by the residents of the home country in foreign countries denote the domestic capital. On the other hand, the investments undertaken by the foreigners in the home country imply the external capital. The point here is that, there is a movement of capital from home country to foreign countries and in the latter case, there is a capital movement from foreign to the home country. The records of both domestic and foreign movement of capital are recorded in the balance of payments (BOPS) account (Ozigbu, 2020). In the BOP account, the inflow of capital from abroad is the credit item whereas the outflow of capital to foreign countries is the debit item. The difference between the debits and credits on account of capital movements represents the net foreign investment which may be either positive or negative (Ozigbbu, 2020).

2. Government and Private Capital: The government capital refers to the lending and borrowing from foreign countries by the government of a given country. On the opposite, the lendings made by the private individuals and institutions to the foreigners and borrowing by them from abroad signify the private capital. The private capital transfers from one country to another are many often guaranteed by the government or central bank of the borrowing country.

3. Short-Term and Long-Term Capital: Short- term international capital movements consist of such credit instruments that have a maturity of less than one year. The short term capital movements can take place through currency, demand deposits, bills of exchange, commercial papers and time deposits up to a maturity of one year. Also, the short-term capital movements bring about some important changes in the money supply of a country. These changes take place in the forms of primary, secondary and tertiary effects-

4. Direct and Portfolio Capital: Foreign direct investment (FDI) means the direct investment by foreign capitalists and business institutions in other countries. The essence of foreign direct investment is that the ownership, control and management of business or firms are vested with the foreign investors. Such concerns or firms which operate in different countries and are under a centralized management are termed as transnational corporations (TNCs) or multi-national corporations (MNCs). On the other hand, portfolio investment or portfolio capital consists mainly of investment in the form of holding of transferable securities, shares or debentures by the foreign investors. In case of this type of investment, the foreign investors have only the ownership of capital. The control and management rests with the capital-importing country. The foreign investors are entitled to dividends or interests on their holdings of equities, bonds or debentures.

4.2. Determinants of International Capital Flow

1. Rate of Interest: Changes in capital both in short and long periods are greatly influenced by the changes in the rates of interest (short or long rates). The capital flow takes place from a country where the interest rates are low to those countries where the interest rates are relatively high and vice-versa. Ohlin affirmed that the difference in interest rates between countries is perhaps the most important stimulus to export and import of capital.

2. Foreign Capital Policy: The capital movements are affected also by the foreign capital policy of the government of a country. If there is regime of restrictions upon foreign capital, the inflow of foreign capital will remain clogged. On the opposite, a liberal policy in this regard can induce a substantial inflow of capital from the foreign countries.

3. Economic and Political Conditions: If a country has well-developed economic infrastructure, including means of transport and communications, power, market structures and financial institutions, along with political stability, peace, law and order, the foreign investors are induced to undertake investments in the home country in a larger measure.

However, if such economic and political conditions do not exist, there will be little possibility of inflow of foreign capital. There is rather a danger that even the indigenous investors will prefer to invest in foreign countries resulting in a flight of capital.

4. Tax Policy: If the tax rates on personal incomes and corporate profits are high, the foreign investments, both direct and portfolio are likely to be discouraged. The lower tax rates, on the other hand, can have a stimulating effect upon the capital inflow from abroad.

5. Marginal Efficiency of Investment: If the expected rate of return over cost related to a given dose of investment in foreign country is higher compared with the rate in home country, there will be outflow of capital to the foreign country. On the opposite, the lower expected rate of return over cost or the marginal efficiency of investment (MEI) than in the home country will result in an inflow of capital from abroad.

5. CONCLUDING REMARKS

This paper used library science method to examine international capital flow and economic development in Nigeria. From the literature, it was realized that boosting per capital gross domestic product (GDP) through increasing mobility of international capital is key to Nigeria's development goal and overall macroeconomic policy target. Based on this background Information's for the study were gathered from secondary source and the findings revealed that inflow of capital in the forms of remittances, portfolio investment, foreign aid, technical cooperation grants and foreign direct investment have positive effect on economic development via increase in per capita GDP. On the other hand, multilateral debt negatively affects economic development in both short and long run. Thus, it was concluded that, inflow of remittances triggers the per capita income growth and helps household in achieving a sustained consumption path. Based on the findings, is was suggested that policy makers should initiate policies that are helpful for mobilizing international resources and allow for a paradigm shift that will ensure the allocation of the resources to key sectors with high potentials for development via growth of the per capita GDP.

REFERENCES

CBN (2015). Central Bank of Nigeria (CBN) Statistical Bulletin, Abuja

Chen, C. & Quang, T. (2012). International financial integration and economic growth new evidence on threshold effects, *Paris School of Economics*

Chimobi, O.P. & Igwe, O.L. (2010). Budget deficit, money supply and inflation in Nigeria. *European Journal of Economics, Finance and Administrative Sciences*. 19(5), 52-60.

Essien, E.A. & Onwioduok, W. (2018). Capital flows to Nigeria: Issues and determinants, *CBN Economic & Financial Review, 37*(I), 1- 20

Ewubare, D.B. & Ozigbu, J.C. (2017). International capital flows and inclusive growth in Nigeria, *International Journal of Economics and Financial Research*, 3(9), 182-196

Levine, R. (2001). International financial liberalization and economic growth, *Review of International Economics, 9(*4), 688-702

Moses, C.E, & Adeyemi, O.A, (2013). Empirical analysis of the relationship between FDI, technology transfer and economic growth in Nigeria. *British Journal of Economics, Management & Trade. 3(3)*

Okafor, I. G., Ugwuegbe S. & Ezeaku H. C. (2016). Foreign capital inflows and Nigerian economic growth nexus: A Toda Yamamoto approach, *European Journal of Accounting, Auditing and Finance Research, 4*(3), 16-26.

Oyejide, T. (2005). Capital flows and economic transformation: A conceptual framework: *A Paper Prepared for the 5th CBN Annual Monetary Policy Conference*, Abuja; Nov.10-11.

Ozigbu, J. C. (2020). Foreign capital mobility and per capita GDP growth in Nigeria, *International Journal of Development and Economic Sustainability, 8(*1), 60-72

Solomon, H.C. & Eka O. O. (2013). Impact of foreign direct investment on telecommunication sector on Nigerian economy. *International Journal of Modern Social Sciences, 2013, 2(3): 195-215*

Tejvanne, P. (2013), New Trade Theory. London

Summers, H. (2000). International financial crises: Causes, Prevention and Cures, *American Economic Review, 90*(2), 1-16.