



## RESOURCE EXTRACTION AND CAPITAL FLIGHT: EXAMINING REPATRIATION OF PROFITS BY CHINESE FIRMS IN NIGERIA

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### ABSTRACT

*Despite having a wealth of natural resources, Nigeria is still grappling with underdevelopment, primarily due to ongoing capital flight linked to extraction activities. This research investigates if the repatriation of profits by Chinese multinational companies plays a role in capital flight and limits local economic progress. The aim is to evaluate how these financial outflows affect Nigeria's development results. The research employs a qualitative approach, utilizing secondary information from financial statements, policy documents, and publications from both national and global organizations, underpinned by Dependency Theory. The results indicate a clear trend of substantial profit repatriation via dividends, royalties, management fees, and transactions between affiliates. These outflows are fueled by inadequate regulatory control, manipulation of transfer pricing, incorrect invoicing in trade, and ambiguous contractual agreements, as well as a lack of motivation for local reinvestment. The research concludes that these activities undermine domestic capital accumulation, decrease government income, and obstruct economic diversification and sustainable progress. It suggests that there should be a focus on enhancing regulatory systems, building institutional strength, improving transparency in contracts related to extraction, and fostering policies that encourage local reinvestment.*

**Keywords:** Resource extraction, Capital flight, Profit repatriation, Chinese firms, Foreign Direct Investment, Extractive sector, Governance

### 1.0 Introduction

Natural resources have consistently been a key topic in discussions about development, especially in the area of development economics. For numerous developing nations, having access to natural resources presents a contradiction: while they can create chances for revenue growth, industrial advancement, and infrastructure development, they may also lead to economic instability, governance difficulties, and reliance on external structures. This complexity is still being explored alongside the concept of the "resource curse," with more recent research indicating that countries rich in resources frequently find it hard to convert their mineral wealth into sustainable economic growth (Venables, 2016; Cust & Mihalyi, 2017; Ross, 2015).

This contradiction is particularly prominent throughout Africa. Nations abundant in resources often struggle with managing income, diversifying their economies, and ensuring that extractive activities result in widespread development benefits. Nigeria is a prime example of this issue. As one of Africa's foremost oil producers, with significant reserves of solid minerals, Nigeria has drawn considerable foreign investment aimed at tapping into its natural resources. In the last twenty years, China has become a vital economic partner, increasing its engagement in infrastructure projects, oil exploration, and mining operations. Companies from China both those owned by the state and private enterprises have obtained

permits in Nigeria's extractive sector, frequently as components of larger bilateral agreements (Alden & Jiang, 2019; Brautigam, 2020).

Foreign direct investment (FDI) is typically seen as a driver of economic growth, bringing in capital, transferring technology, and creating jobs. However, its positive impact on development depends on the way the advantages are shared and kept within the local economy. A significant issue arises when the profits gained by foreign companies are mainly sent back overseas instead of being reinvested in the local area. Although repatriation of profit is a standard aspect of global investments, in environments with weak regulations, it can lead to capital flight. Issues like trade mispricing, tax avoidance, and manipulation of transfer pricing worsen this situation, hindering domestic capital growth and decreasing government revenues (UNCTAD, 2020; OECD, 2021).

In Nigeria, ongoing capital outflows tied to extractive industries have sparked debates over whether foreign investment really benefits the country. Despite many years of resource extraction, Nigeria continues to experience underdevelopment, budgetary challenges, and limited economic diversity. Recent findings indicate that unlawful financial movements and profit shifting have resulted in considerable monetary losses, in some instances surpassing foreign aid inflows (UNCTAD, 2020; United Nations Economic Commission for Africa, 2022). Insufficient institutional capacity, a lack of transparency regarding resource agreements, and poor oversight of multinational corporations only add to these complications. As a result, Nigeria is in a situation where resource extraction brings in foreign currency while also contributing to the loss of local capital.

Given this backdrop, the increasing involvement of Chinese companies in Nigeria's extractive sector warrants careful examination. It is uncertain whether their investment activities promote sustainable development or further establish patterns of capital flight through profit repatriation. Thus, this research aims to explore how profit repatriation by Chinese firms in Nigeria's extractive sectors leads to capital outflows and to identify the institutional and policy weaknesses that allow such practices to flourish. By examining financial transactions, regulatory systems, and governance frameworks, this study intends to offer insights into how Nigeria can more effectively utilize foreign investment for sustainable development in the long run. This paper is structured as follows. The subsequent section reviewed key studies on the resource curse, foreign direct investment, and capital flight. The next section outlined the methodology employed in the study, followed by a discussion of the theoretical framework. The subsequent sections presented and analyzed the empirical findings, and the paper concluded with policy recommendations and a discussion of their implications for the sustainable management of resources.

## **2.0 Conceptual Review**

### **2.0.1 Concept of Resource Extraction**

Resource extraction involves taking natural resources like oil, gas, and minerals from the ground for business use. In emerging markets, this process is frequently led by global companies because it requires significant investment and advanced technology. Definition based on Ali I. Naibbi and Murtala Chindo (2020) Resource extraction involves the processes necessary for obtaining, producing, and distributing natural materials from the environment for commercial purposes, often resulting in notable effects on both the environment and the communities that host these activities. This includes practices like mining, drilling, and refining, which not only alter natural habitats but also create economic worth. Osazuwa and Audu (2024) posits that resource extraction can be viewed as an economic and political endeavour focused on the use of natural resources especially oil, gas, and minerals operating

within a context of power dynamics that frequently leads to social tensions, protests, and disputes regarding the control and distribution of resources and their advantages. This concept emphasizes the connection between environmental usage and socio-political aspects in areas rich in resources. Osawe and Osimen (2023) assets that resource extraction is described as the organized appropriation of natural resource assets by both governmental and non-governmental entities within a political economic structure, where the governance, allocation, and regulation of the wealth gained from extraction influence development trends, disparities, and conflicts. It mirrors larger issues related to governance, the capture of resources by elites, and the distribution of income generated from natural resources.

### **2.0.2 Concept of Capital Flight**

According to Uche Uwaleke (2021) Capital flight is the significant and frequently unrecorded transfer of financial resources out of a home economy into overseas regions, triggered by economic instability, inconsistent policies, and perceived risks in investment, which ultimately hinders domestic capital growth and overall economic progress. Olawale (2022) posits that capital flight can be understood as the intentional relocation of locally sourced financial funds to other countries to escape adverse economic circumstances like heavy taxation, currency devaluation, and fragile institutional systems, leading to a reduction in national savings and diminished financial capabilities. Soludo (2023) see capital flight as on ongoing departure of private capital, both legitimate and illegal, from an economy to more stable and lucrative international markets, influenced by weaknesses in governance, fluctuations in exchange rates, and a lack of trust among investors, carrying important consequences for economic stability and development funding.

### **2.0.3 Concept of Profit repatriation**

Oyinlola (2021) opined that profit repatriation involves the method by which international companies move profits made in a foreign country back to their home nation, typically as dividends, royalties, or management charges, impacting foreign currency reserves and the ability to invest locally. To Okafor (2022) profit repatriation is characterized as the lawful and financial process that allows foreign investors to send profits acquired in the local economy to their parent organizations overseas, shaped by factors such as currency exchange policies, tax regulations, and legal structures. Ajayi (2024) Profit repatriation signifies the movement of after-tax profits by foreign businesses from the host nation to their native country, which can influence the retention of local capital, the stability of the balance of payments, and the prospects for long-term economic growth.

### **2.0.4 Concept of Transfer pricing**

According to Eze (2020) transfer pricing is the system used by global companies to set prices for transactions that involve goods, services, or intangible assets shared between connected businesses across different tax regions, which significantly impacts how tax responsibilities are divided and adherence to regulations. Bello (2022) asserts that transfer pricing is understood as the organized method for establishing prices in transactions occurring between companies within the same corporate group, based on the arm's length principle, and shaped by local tax rules, global standards, and regulations designed to prevent profit shifting. Adeyemi (2024) posits that transfer pricing is the financial and management approach that leads affiliated firms in a multinational organization to determine the value of transactions between them that cross borders, which influences the allocation of income, taxable earnings, and the economic interests of both the countries where they operate and their home nations.

### 3.0 Methodology

This research utilizes a qualitative framework that relies on secondary data, following the principles of Dependency Theory (Frank, 1967), to investigate the repatriation of profits by Chinese companies operating in Nigeria's resource sector. Information is gathered from the financial documents of firms controlled by Chinese entities, audit reports of international subsidiaries, and various official sources, including the Central Bank of Nigeria (CBN), the Nigerian Extractive Industries Transparency Initiative (NEITI), governmental policy papers, and reports from global institutions like the World Bank and IMF. Relevant academic literature offers further theoretical and contextual insight. The data is examined through thematic content analysis to reveal trends related to profit repatriation, capital flight, and their effects on local economic growth. This method allows for a detailed evaluation of the structural and institutional elements affecting capital retention and corresponds with the theoretical framework of the study.

### 3.1 Theoretical Framework

This research is based on Dependency Theory, which was created by Andre Gunder Frank during the 1960s. Frank suggested that worldwide economic systems consistently place less developed countries in subordinate positions, enabling them to provide raw materials, labour, and resources to industrialized "core" nations. In exchange, these core countries send back manufactured products and financial investments, thus establishing a continuous cycle of economic dependency. Frank believed that this structural setup hampers the ability of peripheral nations to gather domestic capital, broaden their industries, and reach independent development.

In the case of Nigeria, Dependency Theory offers a perspective on how Chinese multinational corporations in the extraction industry contribute to capital outflow through the repatriation of profits. These companies extract essential natural resources like oil, natural gas, and minerals, sending large profits back to their home countries. Although local jobs, infrastructure, and tax income are generated, the majority of profits are sent overseas, deepening Nigeria's dependence on foreign investment and restricting domestic reinvestment. Such financial outflows illustrate Frank's claim that peripheral nations are structurally at a disadvantage within the global capitalist framework, remaining reliant on the decisions and economic aims set by core states.

Furthermore, Dependency Theory points out that capital outflow and resource extraction are not merely financial occurrences; they represent more profound structural inequalities. Countries hosting these operations, which may have limited regulation, ineffective enforcement, or low negotiating power, struggle to secure the full economic advantages from their natural resources. Using this framework to examine Chinese investments in Nigeria reveals the connections between multinational corporate approaches, local institutional strengths, and worldwide economic hierarchies, demonstrating how resource extraction can lead to continued underdevelopment instead of fostering genuine economic growth. By analyzing profit repatriation through the lens of Dependency Theory, this research highlights the structural limitations that influence Nigeria's dealings with Chinese companies, providing insights into the dynamics of capital flight and its effects on local economic progress.

### 3.2 Analysis

#### Profit Repatriation as a Major Pathway for Capital Outflow

The repatriation of profits by Chinese multinational companies operating in Nigeria's resource sectors represents a significant and ongoing means of capital outflow, which

profoundly affects local capital growth and structural change. These Chinese enterprises capitalize on Nigeria's abundant resources and the capital-heavy nature of extraction, generating considerable income from their oil, gas, and solid minerals operations. Although these businesses make contributions to the national economy via taxes, royalties, infrastructure collaborations, and job creation, the way profits are shared across global production networks is notably uneven, with a disproportionately large portion sent back to their parent companies outside Nigeria.

This trend reflects the ideas found in Dependency Theory, which argues that the world economy operates as a tiered system where developing countries primarily provide raw materials while developed nations engage in more lucrative activities such as refining, innovating, and profit generation. Nonetheless, it's critical to recognize that Dependency Theory has faced criticism for not adequately considering the potential positive impacts of foreign direct investment (FDI), especially where there are strong institutional frameworks and the ability to absorb such investments. Yet, in Nigeria, frail institutional structures and a lack of industrial connections severely diminish the chances of beneficial outcomes occurring.

Study indicates that foreign investments in Nigeria's extractive industries have not led to a corresponding increase in domestic reinvestment or industrial diversification. The oil and gas industry represent more than 80% of the country's export revenue, but it contributes considerably less to job creation and wider industrial progress, underscoring a fundamentally enclave-based economy. In this scenario, substantial profit repatriation diminishes the amount of domestic capital available for spending on infrastructure, manufacturing, and human capital improvement, thus limiting potential long-term economic transformation.

In practical terms, Chinese companies involved in joint ventures and production-sharing agreements send large amounts of money abroad as dividends, management fees, technical service payments, and intercompany transfers. While these financial movements are legally organized via international investment agreements, they still lead to ongoing capital outflow. Various studies suggest that Nigeria's total capital flight may exceed several billion dollars each year, with the extractive sectors significantly contributing to this trend (Ndikumana & Boyce, 2018).

Over time, this situation creates a reinforcing cycle of dependence: the process of resource extraction leads to minimal domestic capital growth, which then requires ongoing dependence on foreign capital injections. This dynamic undermines economic independence and hinders structural change. It's worth noting, however, that FDI has also facilitated infrastructure improvements and increased government revenue in Nigeria, suggesting that the challenge lies not in the presence of foreign investment itself but in the governance systems that shape its overall developmental effects.

### **Weak Regulatory Frameworks and Transfer Pricing Abuse**

A significant underlying issue contributing to capital flight is the fragility of Nigeria's regulatory and fiscal institutions. This weakness facilitates the manipulation of transfer pricing and trade mis-invoicing by international companies. Transfer pricing involves setting prices for goods, services, and intangible assets traded within corporate groups. Ideally, these prices should reflect fair market values, but in reality, they are frequently adjusted to shift profits from higher-tax areas like Nigeria to jurisdictions with lower taxes or back to parent companies (Cobham, Gray, & Murphy, 2019).

In Nigeria, research shows that multinational companies take advantage of the country's institutional weaknesses, insufficient auditing capabilities, and weak enforcement to lower

their taxable income. They do this by inflating costs or reporting lower revenues during intra-group transactions (Onyeiwu and Shrestha, 2004). Although the Federal Inland Revenue Service (FIRS) has enhanced its technical abilities, it still struggles with overseeing intricate cross-border financial arrangements, especially in industries like extraction where confirming pricing for intangible services and technical fees is challenging.

The issue of trade mis-invoicing amplifies capital outflows. This entails purposely distorting trade values to dodge taxes or unlawfully transfer capital overseas. Global data indicates that developing nations lose enormous sums of money annually due to illegal financial flows, with Africa making up a considerable portion of these losses (Kar and Spanjers, 2015). Nigeria is often highlighted as one of the country's most impacted by these outflows, particularly regarding its oil-related trade (Ndikumana and Sarr, 2015).

However, it is essential to understand that not all revenue shortfalls arise from illegal actions. Some losses are the result of structural trade dependencies, fluctuations in global prices, and lawful profit shifting within legal tax planning methods. Recognizing this difference is vital for effective policy creation, as overly harsh policies might scare off investors. Hence, the primary challenge lies in differentiating between valid financial strategies and exploitative tax avoidance.

### **Extractive Contract Structures and Limited Domestic Reinvestment**

The nature of extractive contracts in Nigeria significantly influences the trends in capital retention and outflow. Numerous contracts in the oil, gas, and mining sectors are structured as production-sharing agreements, joint ventures, or concession deals that focus on allowing foreign investors to recover costs and maximize profits, while setting minimal binding requirements for domestic reinvestment or industrial development (Akpan, 2020; Salaudeen & Dipo, 2023). These contractual arrangements enable multinational companies to recuperate their capital investments swiftly, after which the repatriation of profits takes precedence. This situation restricts the growth of locally retained profits, which could otherwise be invested in industry diversification and infrastructure development. Without strong reinvestment clauses and enforcement methods, extractive activities typically exhibit weak connections to the rest of the economy.

Still, it is crucial to acknowledge that the design of extractive contracts is influenced not only by foreign corporate interests but also by domestic negotiation limitations. Nigeria's reliance on foreign exchange and the need for fiscal stability often undermines its bargaining power, resulting in contracts that favour immediate revenue increases over long-term development goals. From a structural viewpoint, this illustrates the traditional dependency theory outlined by Frank in 1967 and Dos Santos in 1970, where economies on the periphery are trapped in extractive roles. Nonetheless, recent academic research highlights that the quality of governance, the ability to negotiate, and the capacity for institutional learning can drastically change the results of contracts, indicating that dependency is not fixed but rather contingent.

### **Capital Flight and Its Impact on Economic Development**

Capital flight carries considerable macroeconomic and developmental implications for Nigeria. Ongoing profit repatriation, manipulation of transfer pricing, and inaccurate trade invoicing diminish domestic savings and restrict the availability of funds needed for productive growth. As time passes, this limitation curtails industrial diversification and deepens dependence on the extractive industry, which in turn heightens vulnerability to fluctuations in global commodity prices.

Nigeria's significant reliance on oil accounting for nearly 80% of its foreign exchange earnings and approximately 50-60% of its government income in recent times highlights the inherent weaknesses linked to a lack of economic diversification. The outflow of capital worsens this fragility, diminishing the ability to invest domestically and limiting the fiscal capacity for development spending. On a larger economic scale, ongoing capital flight strains foreign exchange reserves, leads to currency devaluation, and raises the risks of inflation. Research indicates a correlation between these factors and illicit financial activities along with poor financial governance, underscoring the fundamental nature of the issue (Ndikumana & Boyce, 2018).

### **Strengthening Institutional Oversight as a Response Strategy**

Addressing capital flight necessitates bolstering the capacity of institutions instead of limiting foreign investments. Key reforms should focus on enhancing the auditing skills of tax agencies, fostering better data exchange among agencies and implementing digital systems to track international financial movements. Furthermore, agreements in the extractive sector should be modified to incorporate enforceable clauses regarding local content creation, technology transfer, and mandatory reinvestment rates. Increasing transparency in accounting practices for extractive activities would also help minimize chances for manipulation via transfer pricing and illicit financial inflows (Alade, 2021; Akinboade & Braimoh, 2010).

It is crucial to design policies that strike a balance between protecting revenues and attracting investments. Overly strict regulations might deter genuine foreign direct investment, whereas overly lax ones could cause capital to escape. The best strategy involves strengthening regulations that enhance state capabilities without compromising investor trust. In the end, better governance would allow Nigeria to retain more of its resource wealth, boost industrial growth, and gradually shift towards a more diverse and robust economic framework. Thus, the concern extends beyond capital flight; it also encompasses the institutional factors that influence how global capital integrates into the local economy.

## **4.0 Discussion of Findings**

The results of this research closely mirror recent empirical studies concerning capital flight and illegal financial transactions in developing countries rich in resources. Aligned with UNCTAD (2020) and Ndikumana & Boyce (2018), the findings indicate that FDI inflows into Nigeria's extraction sector are generally neutralized by substantial outward financial movements through profit repatriation and internal financial strategies. However, this research expands upon existing literature by concentrating specifically on Chinese multinational corporations, thereby enriching the limited but growing field of study concerning investors from emerging economies in Africa's extraction sectors. Recent investigations show that such companies typically function within intricate global value networks that enable profit shifting through dividends, royalties, and management fees (Cobham et al., 2019; OECD, 2021).

Instead of serving as a consistent source for domestic capital growth, FDI in the extraction sector increasingly acts as a dual process involving both capital inflow and outflow. This aligns with broader global patterns noted in recent development finance literature, where multinational corporations prioritize optimizing their international tax situations over maximizing reinvestment in the host country. An analysis of trade data further corroborates findings from recent examinations of illegal financial flows in Africa, revealing ongoing issues with pricing discrepancies and misreporting in the trade of extractive commodities (Kar &

Spanjers, 2015; Ndikumana & Sarr, 2015). Such inaccuracies undermine the mobilization of domestic revenue and limit financial resources available for development initiatives.

Importantly, recent studies from institutions indicate that these results arise not only from unlawful practices but also from inherent flaws within tax frameworks, enforcement of contracts, and the coordination of regulations (OECD, 2021). This is consistent with the results of this paper, which demonstrate that the lack of cohesive regulations greatly hampers the capability of Nigerian agencies to effectively oversee intricate financial arrangements of multinational corporations. Furthermore, the absence of clarity in resource extraction agreements reflects insights from literature on global governance, which points out that the lack of transparency in such contracts is a major factor contributing to capital flight in developing nations (UNCTAD, 2020; Alade, 2021).

## 5.0 Summary of Findings and Identification of Research Gap

Previous studies show that Nigeria's resource extraction industry suffers from rising profit outflows, improper trade reporting, and ineffective governance systems. A significant portion of the income earned by multinational companies is sent abroad, which hampers local investment (United Nations Conference on Trade and Development, 2020; International Monetary Fund, 2021). Additionally, inconsistencies in trade statistics indicate a notable amount of illegal financial transactions that diminish government income (Global Financial Integrity, 2019), while lax regulatory systems allow these actions to continue (Extractive Industries Transparency Initiative, 2021). Nevertheless, current research often looks at these issues separately, leaving a lack of understanding about how they are interconnected. This study aims to fill this gap by exploring how the relationship between profit outflows, trade inaccuracies, and governance failures restricts local investment and jeopardizes sustained economic development.

### 5.1 Recommendation:

1. Federal government should improve the legal framework, technical knowledge, and institutional assets to deter profit shifting by multinational companies in the extractive sector.
2. They make sure important aspects such as revenue distribution, taxes, and operational responsibilities are openly available for public scrutiny.
3. Government should encourage teamwork between tax officials, customs agencies, and central banks to oversee income repatriation and prevent trade-related misreporting.
4. Federal Government should implement fiscal and policy strategies that encourage reinvestment of profits in local initiatives and domestic growth.
5. Foster regional collaboration to address illegal financial transactions Work with nearby countries to align regulations, exchange information, and confront cross-border tax evasion.

### 5.2 Conclusion

The extraction of resources is crucial to Nigeria's economic framework, with Chinese companies increasingly influential in this domain. Although foreign direct investment brings in both funds and expertise, the actual growth benefits largely depend on how the earnings are utilized. This research indicates that when profit repatriation occurs amidst inadequate institutional control and unclear financial practices, it can lead to significant capital flight. Ongoing capital outflows hamper local capital growth, limit government revenue, and hinder attempts to diversify the economy. Nevertheless, the issue does not lie in foreign investment itself but in the existing regulatory and institutional framework that governs it. By improving transparency, enforcing regulations on transfer pricing, and ensuring accountability in

contracts related to extraction, Nigeria can more effectively capitalize on the advantages of resource extraction. For development to be sustainable, it is essential to align foreign investments with the country's economic goals. In the absence of targeted policy changes, the wealth generated from resources may continue to create profits for external entities while failing to resolve internal structural issues.

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