THE IMPACT OF OIL AND NON-OIL EXPORT ON ECONOMIC GROWTH IN NIGERIA (1980-2018)

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Abstract

This study examines the impact of Oil and Non-oil export on the economic growth in Nigeria. The study includes oil products such as petroleum, gas etc. as well as non-oil exports such as coal, cassava and palm produce etc. Time series data were used covering the period between 1980 and 2018. Unit root test for the stationarity of the time series data was carried out based on Augmented Dickey fuller (ADF). The result revealed that all the variables were found to be stationary at level I(0). Ordinary least square (OLS) regression was carried out to estimate the variables of the main model. Regression result shows that both Oil and Non-oil exports has positive and significant impact on the GDP which proxied economic growth of Nigeria over the period of the study. We therefore

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recommend that government should come up with a policy which is more export oriented in nature. Thus it should encourage exportation of locally manufactured goods, and provide import substitution industries at home in order to discourage imports. This can improve the balance of payment of Nigeria so as to have Favorable Balance of Trade (BOT).

KEYWORDS: *Oil, Non-oil, Economic growth, OLS, ADF*

Introduction

Growing the economy has become the major objective of most government in the developing economies of the world. Over the years, these governments have adopted a number of measures aimed at accelerating growth and development in their domestic economy.

The need to improve the living standard of the citizenry, reduce unemployment, increase capacity utilization which leads to increased productivity as well as increase in Foreign Exchange Earnings, etc has led to the introduction of vibrant economic policies in Nigeria and other developing nations of the world. According to Azam (2009), the drift from trade restricted economy to trade liberalization is attributed to positive relationship that exists between export and economic growth. Bhagwati (1973) noted that for efficient utilization of available scarce resources and for expanding global trade volume, freer trade in goods and services is highly beneficial. And so, to enjoy the advantage of this free trade, Nigeria has adopted trade liberalization policy with a view to increase export of goods and services which increases capacity utilization as well as foreign exchange earnings. Economists often assert that trade liberalization improves social welfare and alleviates poverty, because it generates jobs opportunities, fosters economic growth and improves consumer choice and living standard of the societies. Additionally, Verdoorn (1949) dwells on the argument that export growth may generate specialization in the production of export commodities. By extension, specialization is argued to lead to efficiency gains in the export sector owing to the rise in skills due to learning-by-doing.

Consequently, resources would flow from the relatively less productive and non-trade sector to the highly productive exports sector, leading to economic growth. On the same vein, Futher, Chenery and Strout (1966), Balassa (1978), Buffie, (1992) and Riezman (1996), dwell on an indirect argument linking exporting to economic growth. They argue that exporting activities generate foreign exchange that is required to import capital goods. Increase in capital goods imports in turn stimulate a country's capacity to produce.

However, there is quite scanty literature investigating the role of export composition on economic growth (Feder, 1983; Fosu, 1990; Ghatak et al., 1997; Hussain, 1998; Greenaway et al., 1999; Srinivasan et al., 2001; Herzer et al., 2004; Giles and Williams (2000); Bbaale and Mutenyo, 2011; and Wörz (2005). Additionally, the literature addressing the subject, apart from Fosu

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(1990), and Bbaale and Mutenyo, 2011 is overly concentrated on Asia, Latin America, and Europe. This leaves a huge knowledge gap for Africa and Nigeria in particular and this gap is what this paper seeks to fill.

It is believed by most writers (Arnade et al., 1995; Fosu 1996; Thornton 1996; Wörz (2005)) that export of goods and services has a positive impact on the growth of the economy. This implies that growth in export will bring about growth in the economy. In other words, export drives the economy. This is what the classical school of thought regarded as export-led-growth hypothesis. Other writers (Lancaster, 1980; Krugman, 1984; Henriques and Sadorsky 1996; Al-Yousif 1999; Kemal et al., 2002) are of the opinion that it is economic growth that brings about increase in export of goods and services and not the other way round. This however is in line with growth-led-export hypothesis which believes that the growth in the economy will bring about knowledge and technological development in various sectors of the economy and will lead to increase in export of goods and services. Promotion of economic growth is one of the objectives of foreign trade but in recent times, this has not been the case because the Nigerian economy still experience some element of economic instability such as high level of unemployment, price instability and adverse balances of payment to mention but a few. This has raised doubt if foreign trade has actually benefitted the overall growth of the Nigerian economy.

RESEARCH OBJECTIVES

This research work outlined some objectives which need to be achieved at the end of the work. The outlined main objectives include the followings.

- To examine the impact of oil products export on economic growth of Nigeria over the period of the study
- To examine the impact of non-oil exports on economic growth of Nigeria

METHODOLOGY AND RESEARCH DESIGN

This section presents the type, nature and sources of data and information used in the study. This study utilized the secondary time series data covering the period between 1980 and 2019. Data on all the variables used in this study were sourced or obtained from central bank statistical bulletin of 2020. With respect to the technic of data analysis, this study involve the use of Unit root test (Augmented Dickey-fuller method) for the stationarity of

the data across the period, then famous OLS regression analysis was used to estimate the main model. The functional form of the model is as follows GDP= f(OEXP, NOEXP), mathematically the model is specified as follows GDP= f(OEXP + NOEXP), econometrically the final model is specified as GDP= $\beta_0 + \beta_1$OEXP + β_2NOEXP + ε where;
GDP= gross domestic product, OEXP= Oil export in billion naira and NOEXP= Non-oil export

RESULTS PRESENTATION & DISCUSSION

As usual the unit root results is presented first and it can be presented in the Table 1 below

Table 1 Unit Root Test Results (ADF)

Variable	Level		First Difference	
	Constant	**Constant and Trend**	**Constant**	**Constant and Trend**
GDP	-4.198** (0.003)	-4.255* (0.012)	-7.854*** (0.000)	-7.703*** (0.000)
OEXP	-2.817* (0.062)	-2.869* (0.039)	-4.399** (0.001)	-4.007** (0.009)
NOEXP	-2.883* (0.016)	-2.298* (0.019)	-4.840** (0.003)	-4.553** (0.007)

Note ***, **, * denotes significance at 1%, 5% and 10% respectively.

Table 1 above present the stationarity or the unit root test results, and the results shows that all the variables were found to be stationary at level I(0). This permit us to proceed to the estimation of our main model using Ordinary Least Square Method. The regression results of the main model is presented in the Table 2 below;

Regression results using OLS

Table 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2820.990	2568.725	1.098206	0.2798
OILEXP	5.391303	0.512250	10.52475	0.0000

NOILEXP	83.03023	15.45465	5.372510	0.0002
R-squared	0.870140	Mean dependent var		21789.50
Adjusted R-squared	0.862501	S.D. dependent var		31067.69
S.E. of regression	11520.18	Akaike info criterion		21.61919
Sum squared resid	4.51E+09	Schwarz criterion		21.74981
Log likelihood	-396.9551	Hannan-Quinn criter.		21.66524
F-statistic	113.9097	Durbin-Watson stat		0.736352

The regressed model is presented now as; GDP=2820.990+5.391303OEXP+83.03023NOEXP

Given the R^2 estimate as 87.01%, it shows that the variables are perfectly fitted, that is, 87.01percent of the model falls within the regression line. The adjusted R^{-2} found to be 86.25%, which also indicates that 86.25 percent of the total variation found in GDP is explained by oil export and nonoil export. The F Statistics shows a result of 113.9097 with a prob value of 0.0000, this suggests that all the independent variables jointly impacts on GDP and the regression is statistically significant indicating that the export sector plays significant role in developing the Nigeria's economy. The Durbin Watson result was 0.736352 which suggests the presence of positive autocorrelation in the regression. Having examined the joint impact of the indicators of export sector, the study goes further to analyses the impact of the various indicators in order to determine their level of relationship with GDP. GDP is a positive function (coefficient value of 5.391303) of oil export. That is, a unit increase in oil export, leads to 5.391303 unit increase in GDP, which support a priori expectation.

Using the standard error test, the result showed that standard error for OILEXP is 0.512250, which is less than half the coefficient estimated as 2695651. This indicates that oil export is statistically significant on GDP. The t-Statistics for OILEXP is 10.52475 with a Prob-value of 0.0000, which is less than 5% level of significance hence we reject the null hypothesis and accept that Oil export has significant impact on Nigeria's GDP.

GDP is a positive function (coefficient value of 83.03023) of Nonoil export. That is, a unit increase in Nonoil export, leads to 83.03023 unit increase in GDP, which support apriori expectation. Using the standard error test, the result showed that standard error for NOILEXP is 15.45465, which is less than half the coefficient estimated as 2695651. This indicates that oil export is statistical significant on GDP.

The t-Statistics for OILEXP is 5.372510 with a P-value of 0.0002, which is less than 5% level of significance hence we reject the null hypothesis and accept that Nonoil export has significant impact on Nigeria's GDP.

Conclusion and Recommendations

The developmental role of exporting can be appreciated from the fact that it earns foreign exchange, increase firms' sales/profit, lower production cost, create employment, earn international recognition, enhance reputation, and improve living standard of both the exporting and importing firms/nations.

Foreign trade is considered a viable trade between two countries who exchange who each cannot produce at a relative advantage and by so doing they are able to meet local demand and to also earn foreign revenue for the government and the citizens. Nigeria is a country blessed with abundant natural resources such as crude oil, coal, and agricultural produce such as cassava, maize, oil palm, groundnut and yam. Over the years, it has engaged in importation and exportation which was examined in this study. From the period reviewed, findings have shown that the Nigeria economy has not benefitted from import and exportation. Rather, the country's GDP witnessed an indirect growth relationship with export and import thus raising more questions on the impact of foreign trade on its economy.

Earnings from the export sector are the main source of the Nigerian government's revenue, thus, the significant importance of the export sector cannot be over-emphasized. That is, the higher the earnings from the export sector, the higher the expected growth of the Nigerian economy. It is important to conclude that the export sector remains a viable sector and source of revenue for the overall development of the Nigerian economy, while excessive importation does not do well for economies such as Nigeria. Based on the findings of this research work, it is necessary to provide a set of policy recommendation that would be applicable to the Nigerian economy.

The following recommendations have been made for the study:

1. The government should encourage export diversification. Non-oil sector exports should be encouraged and concentration on oil sector export should be minimal. The development of the nonoil export sector will further improve the volume of exports and balance of

trade in Nigeria. To improve on its export trade position, the Nigerian government must review its trading partners and open new frontiers with countries not engaged in trading to encourage more external trading. Therefore, bilateral relations and trade should be opened with countries that are not on the present list of trading partners.

2. Export promotion strategy should be review and import substitution strategy should also be review so that import and export will change its dimension. To reduce import, Nigerians should be educated and encourage to reframe from excessive consumption of foreign goods and services so that their imports might be cut-off. This is because a higher import rate increases the balance of trade negative position of Nigeria as observed by the study. To further boost export, government must provide incentives and invest on infrastructures as this will make production cheaper and make the value more competitive at the international market.
3. The present value of the Naira puts exportation at a disadvantage while also making importation more expensive, therefore efforts should be made to stabilize the currency in order to minimize the potential negative efforts of these two sectors on the Nigerian economy since Nigeria is presently not self-sufficient in consumable goods. Importation of capital goods that are essential should be encouraged, since not all importation is necessary for economic growth.

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