Article

An Empirical Re-examination: Non-oil Export, Capital Formation and Economic Growth Nexus in Nigeria

Journal of Infrastructure Development
9(1) 36–48

SAGE Publications
sagepub.in/home.nav
DOI: 10.1177/0974930617706809
http://joi.sagepub.com

Onyinye I. Anthony-Orji[1]
Anthony Orji[1]
Jonathan E. Ogbuabor[1]
Emmanuel Nwosu[1]

Abstract

The current decline in global oil prices and the attendant economic distortions it has caused in many oil-dependent economies, such as Nigeria, have become a cause of concern to researchers and economic managers alike. This research work, therefore, investigates the impact of non-oil export (NOIL) on capital formation and economic growth in Nigeria. It adopts a classical linear macroeconomic model using aggregate data time series from 1980 to 2013. Empirical results from the estimated model show that NOIL has a positive impact on capital formation and economic growth in Nigeria, respectively. However, the level of statistical significance differs between capital formation and economic growth. The study, therefore, recommends that there is a need for diversification of the economy as this will go a long way in boosting the growth of the Nigerian economy. Furthermore, the government should create an enabling environment that will ensure the survival and functioning of the ailing industries in order to diversify the economy. Finally, the problem of infrastructural deficits (water supply, transport system, telecommunication and energy) should be tackled by massive public expenditure and private investment, as this will enhance productivity in the non-oil sectors.

JEL Classification: E22, F43, H54, O16, O41

Keywords: Non-oil export, capital formation, gross capital investment, growth

1. Introduction

The pursuit of a sustainable growth has been a major macroeconomic goal prioritised by many economies. One among the numerous ways of achieving this macroeconomic objective is by maintaining a good trading position through the application of a sound export and import policies as complementary

[1] Department of Economics, University of Nigeria, Nsukka, Nigeria.

Corresponding author:
Anthony Orji, Department of Economics, University of Nigeria, Nsukka, Nigeria.
E-mail: anthony.orji@unn.edu.ng

policies. Nigeria, since the 1970s, has remained a mono-cultural economy relying heavily on oil for revenue generation. The implication is that the dynamics of the economy is at the whims and caprices of the price of oil, which for the most part, has been volatile (Enoma and Mustafa 2011). Economists, such as Sachs and Warner (1999), Lal and Myint (1996), Auty and Alan (2002) and Nafziger (2006), have formally put up arguments that economies with natural resources, such as oil tends, to witness a slow growth. This is embodied in the famous concept of 'Oil resource curse or paradox of plenty' that gained entrance in economic literature in the 1980s following the Dutch economy's experience. Auty (1993) first used the term in his thesis. This refers to the paradox that countries and regions with an abundance of natural resources, specifically non-renewable resources, such as oil, tend to have less economic growth and worse development outcomes than countries with fewer natural resources. This is hypothesised to happen for many different reasons, including a decline in the competitiveness of other economic sectors (caused by appreciation of the real exchange rate (REXR) as resource revenues enter an economy, a phenomenon known as 'Dutch disease'), volatility of revenues from the natural resource sector due to exposure to global commodity market swings, government mismanagement of resources, or weak, ineffectual, unstable or corrupt institutions (possibly due to the easily diverted actual or anticipated revenue stream from extractive activities), thus often raising the question whether natural resource like oil is a blessing or a curse especially to developing economies?

Following the adverse consequences of over dependency on oil trade, the need to diversify the Nigerian economy away from oil towards the direction of NOIL trade arose. Proponents of this increased proportion of NOIL argue that the non-oil trade has great potentials to propel Nigerian economy to the desired growth and development (Onodugo 2013). Ulakpa (2013) noted that agricultural sector can assist through the exportation of principal primary commodities which will increase the nation's foreign earnings and which can be used to finance a variety of development projects. The growth of the agricultural sector can make a substantial contribution to the total revenue, as well as having some implications for intersectional terms of trade (Figure 1).

However, oil export (OILX) earning had remained the mainstay of the economy since its discovery. It has accounted for the greater percentage of foreign earnings to the country. Unfortunately, the oil sector engulfs only a negligible fraction of our continuously growing labour force. Moreso, the earnings from this export product are highly volatile. Oil prices often experience up and down swings. It equally depends on the dictates of the importing or patronising nations. However, in recent years, oil prices have continued to witness a decline as a result of the discovery of Shales oil in America. In the Nigerian case specifically, the increasing oil theft has also posed another worry. As earlier pointed out, this export product is the dominant source of revenue for financing government expenditure (GEXP). Thus, with the recent trend in oil prices, the Nigerian budget continues to witness deficit. Table A1 (in appendix) presents the trend of NOIL and OILX over the period 1970–2012. A careful look at the table reveals that the monetary value of OILX volume has been far higher than that of OILX from 1975 to 1986 (pre-1986 oil price shock). Surprisingly, after 1986, the trend remained the same implying that the need for oil exporting countries to diversify did not materialise in Nigeria. Export promotion strategy is a deliberate government policy undertaken to encourage and boast the production of commodities for export. This is meant to diversify the export base that led to favourable economic growth.

From Table A1 (in appendix), we can also see, conspicuously, the shock in oil revenue as a result of fluctuating oil prices. In 1977, the oil revenue was ₦7.0728b but in 1978 it reduced drastically to ₦5.4016b. Although the oil production in 1978 was higher yet the returns were lower than that of the preceding year, reason been that oil price dropped due to the excess supply. In the same vain, revenue from OILX dropped from ₦10.6805b to ₦7.2012b during 1981–83 as a result of the sudden fall in oil