Export and Economic Growth: The Nigerian Perspective

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ABSTRACT

Mercantilism, the mercantilist theory of Adam Smith that trade increases wealth hold till the present day. The increased wealth is in terms of human, economic and technological development. The significance of foreign currency reserve to the economic development of any nation especially developing ones cannot be overemphasised. The major source of foreign currency has been from export of goods and services to nations of the world. Debates on the nexus of export and economic growth, has been on for decades, and continuing till date. The premise of this paper is the evaluation of export and its implications for the development of Nigerian, a mono export economy, between 2006 and 2015. Secondary data sourced from statistical bulletin of the Central Bank of Nigeria and National Bureau of Statistics for ten years to 2018 was used in this study. Ordinary least square technique of the SPSS was employed in analysing the data. A positive correlation exists between export and gross domestic product (GDP). Generally, export positively impact on economic growth which was the case in Nigeria context due to enormous income from oil export, the major export item of the country. Impact of export on Nigerian economic development would have immensely manifested if other non-oil exportable items were developed. The government should improve on the available infrastructure and provide other enabling environment to encourage enterprise in non-oil exportable goods.

Keywords: non-oil export, technology, mercantilism, foreign reserve

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1. INTRODUCTION

The concern of economist and leaders either military or politician is how to grow the economy of their country. According to Karabou (2017), the pursuit of the high and the sustained economic growth is one of the major concerns of States, especially the developing countries to achieve their economic development. Mercantilism, the mercantilist theory of Adam Smith that trade increases wealth hold till the present day because as globalisation brings countries closer to each other the types, quality and quantity of goods and services involve in international trades increases. This support the Adam Smith's assertion that countries cannot have, absolute advantage, having complete economic advantage over another if it can produce the same amount of goods with fewer resources. It is believed that no nation can be an island unto itself; none can be self-sufficient, especially given the dynamic nature of technology. Goods and services offered by a particular country can be more and/or better than what is offered by another country thereby necessitating the low technological innovative country to import more from that other country with higher technological innovative capability.

Import dependent countries may have a low development rate because export promote industrial growth, employment and infrastructural development. Kromtit, Kanadi, Ndangra & Lado (2017) stated that exportation is needed by an economy to boost revenue and usher in growth in the economy. Chenery, Strout, (1966) in Elbeydi, Hamuda and Gazda (2010) also believed that an increase in exports will improve the balance of payment and enlarge the foreign monetary reserves, which will consequently enable the increase of investment goods import and facilities necessary for the domestic production growth.

With advancement in technology, nations are in competition and exhibiting their innovative capability by providing goods and services that can be exchanged between them. Adam Smith believed that "it is impossible for nations to become rich simultaneously by following mercantilism because the export of one nation is the import of another nation." This refers to the fact that as goods and services are being exchanged; payments are made thereby bringing about the need to manage trade and payment for it, hence balance of trade and balance of payment. A well-managed balance of trade and balance of payment will eventually create wealth. According to Onuorah (2018) the development of any economy is a direct function of the level of growth in the activity sectors. International trade brings interchange of goods and services and with these goods knowledge is transferred to importing country. Ricardo in 1817 established in his mercantilist theory that foreign trade creates an avenue for foreign capital to flow into an economy. This is especially so when the value of exported goods of such an economy exceeds the value of the imported goods. Adenugba and Dipo (2013) asserted that when the demand for exports is high more production is required, this therefore creates more employment, raises national income and also helps attain a favourable balance of trade and balance of payment position for the exporting economy. This underlines the importance of exports in the growth of an economy.

Nigerian nation is a mono-export country with crude oil exportation its mainstay which forms greater percentage of the country foreign exchange earnings. According to Dode (2012) Nigeria depend on export of crude oil for more than 90% of its foreign exchange earners. The effect of crude oil export on the country's total value of exports is large because Nigeria continues to rely heavily on revenue generated from oil and gas exports (NBS 2018). The importance of international trade to every participating country will manifest level of unemployment, development of markets, poverty level and other infrastructural development.

Diverse discourses exist on the contribution of export to economic development. While a school of thought believed that export contribute positively to economic growth another school of thought believed that exports impact negatively on economic growth, others believed it does not have any impact at all. The export-led growth principle support the fact that no country can provide all its needs by itself and that international trade help in the interchange of goods and services between countries. This may be true for country with export potential but otherwise for developing countries with little or nothing to offer to other part of the world. The premise of this paper was to critically evaluate exports and economic growth relationship in a large developing, mono-export country like Nigeria. In order to achieve this, the remaining sections of this study is comprised of literature review, methodology and data while the analysis, conclusion, policy implications of study and recommendations concludes the study.

2. LITERATURE REVIEW

Past theoretical and empirical literature on the implications of export for economic development and specifically Nigerian economy was reviewed in this part of the study. Export has material effects on economic growth of every nation either as a medium for transferring from countries with surplus production to others deficient in supply. A lot of studies conducted on export concluded that export played a prominent role in rapid and consistent growth of many countries economy.

According to Adam Smith and Ricardo trades, especially between countries provides participating countries comparative advantage enabling each of them to specialise in its offering to the market at best with minimal resources. However, this theory has been variously criticised by many economists who believed that the "classical foreign trade theory" is not appropriate for real, dynamic conditions, especially in terms of poor countries that need development. Their argument according to Serin (1981) in Kilavuz and Altaytopcu (2012), these countries are only dealing in export of primitive substances brought into their country and therefore the hypothesis of foreign trade is not relevant to developing countries.

Despite this assertion, Tri-Dung (2015) believed that if a poor developing country can trade, there is some prospect of industrialisation and of dispensing with traditional methods of production. A poor developing country may not develop yet have abundant unutilised resources wasting away. Mercantilist economists maintained that an underdeveloped country may have, in the absence of international trade, a surplus domestic productive capacity on account of its unutilised or underutilised natural resources, labour resources and to a small extent of domestic market. According to the classical trade theory, the gains that might accrue to nationals of developing countries are enjoyed by foreign investors who own mines and plantations of such countries.

Helpman, Krugman, (1985), Boomstorm (1986) in Awujola, Samuel and Alumbugu (2015) stated that international trade promotes specialisation in production of export products which in turn boosts the productivity level, and causes the general level of skills to rise in the export sector.A great number of empirical studies have been carried out on the impact of export on economic development and are based mostly on export-led growth hypothesis of countries both severally and individually. However, results from these studies conflicts with each other either due to the time of the studies, the country under consideration, etc. This made the topic current, still topical and deserve further studies. In the study of Kilavuz and Altaytopcu (2012) "export and economic growth using the manufacturing industry as reference point employ panel data analysis of developing countries differentiating impact of an high and low-tech manufacturing industry exports and imports based economy would have on22 developing economy for 1998 to 2006. Two models: effect of high and low-tech manufacturing industry exports on growth; effect of high and low-tech manufacturing industry. Imports were included in the second analysis along with the exports.

The outcome of the first model was that export variables significantly impacted on economic growth while the result of the second model revealed positive and meaningless. Kilavuz and Altaytopcu (2012) concluded that this outcome is consistent with the internal growth model. The role of export in the economic growth process of Jordan was examined by Ruba, Thikraiat & Shatha (2014) using causality tests for data over the period 2000 to 2012 economic growth. Result from their study revealed evidence of uni-directional causality between export and economic growth in Jordan. The causality is economic growth led export rather than vice versa which they stated supports the growth-led export in the case of Jordan. Though a developing country can only benefit from this thinking if resources are profitably employed for production of exportable goods.

Elbeydi, Abdulbaset, Hamuda and Gazda (2010) concluded from their study that any rise in export impact positively on economic development in both the long-and short-run. Elbeydi, *et al* (2010) stated further that the result of their study indicated that export promoted via export promotion policies will immensely contribute to Libya's economic growth. Nigeria is a mono-product export country with oil contributing greatly to its gross Domestic Product (GDP), employment rate, foreign exchange earnings, etc. Nigeria depended on the export of oil for more than 90% of its foreign exchange earners (Dode 2012).

Despite slowing significantly, Nigeria's economy remains driven by the non-oil sector (PWC 2016). It was stated in the APRM country review report no. 8 on Nigeria that oil sector contributed 95 per cent of export revenue, 78 per cent of government revenue, and 21.93 per cent of gross domestic product (GDP) in 2006. Dode (2012) wrote on identifying the dangers posed to a nation by economic recession, especially, where the country operates a mono-product economy. his conclusion pointed to the fact that excess crude oil revenue is not been properly managed. This statement on the mismanagement of crude oil export caused the humongous oil earnings not reflecting in the industrial sector of the economy of Nigeria.

Awujola, Adam and Alumbugu (2015) examined the economic impact of oil exportation on Nigerian economy from 1970-2012. Intended to evaluateThe objective of the study is to look at the impact of oil exportation on the economic growth in Nigeria. The result obtained from the empirical analysis showed that there exist a long run relationship between economic growth and export. Their study did not support export-led growth and therefore advised that export should be promoted but rather ensure proper and effective allocation of resources. Ewetan and Okodua (n. d.) researched into the "econometric analysis of exports and economic growth in Nigeria". They test the applicability of the export led growth (ELG) hypothesis for Nigeria using the Granger causality test in ascertaining the relationship of export and real GDP between 1970 and 2010.

The outcome of the study revealed a uni-directional causality of growth-led export. They therefore advised that the product base of the economy should be diversified to promote non-oil exports.
Iyoha and Okim (2017) investigated the impact of trade on economic growth in ECOWAS countries using panel data. The result of their analysis revealed that export is consistently and positively related to growth and hence the outcome confirms the hypothesis that trade has a positive impact on economic growth in the ECOWAS sub-region. They believed that since expansion of export stimulates growth the result confirms Robertson's 1938 description of exports as an "engine" of growth.

3. METHODOLOGY

According to Ayuba 2014, analysis is the systematic and careful examination of variable/facts so that certain conclusions can be drawn from it. The evaluation of implications of Nigeria's export on the country's economic growth, proxied with GDP, is the premise of this study. In order to achieve this objective time series data for export and real GDP obtained from National Bureau of Statistics (NBS) statistical bulletin for the period 2009 to 2018 was analysed in this study. In establishing the relationship between the independent (exports earnings) and dependent (Real GDP) variables, the OLS regression technique of the SPSS was employed.

3.1 Model Specification and Operational Definition of Variables

Ntui, P, Kiemi, C, Gwatako, T. & Halim M. (2014). Stated that OLS was useful in showing whether the identified linear relationship is significant or not. The regression model formulated for the study is as follows:

RGDP = f (Quarterly GDP)
RGDP = $\beta_0 + \beta_1 + \text{EXPREV}_t + \mu$
$\beta_0 > 0$ and $\beta_1 < 0$
β_0 = Intercept term (parameter) of the equation. With this the average effect of variables not included will be excluded from the model. In essence, if export revenue is set at zero RGDP is of average value.
β_1 = partial regression coefficient or partial slope coefficient (Gujarati and Porter 2009; Gujarati 2006; Osuala 2010 and Osuala and Jones, 2014) in Jones, Ihendinihu and Nwaiwu (2015). It measures the change in the mean value of RGDP per unit of change in export revenue.
μ = the unexplained variables or error term or random or stochastic disturbance term

4. DATA ANALYSIS AND INTERPRETATION OF RESULTS

Data for this study was analysed and evaluated using the OLS method of regression analytical technique and the bivariate correlation of SPSS version 20. This was to ascertain the relationship between the dependent and the independent variable in a bid to determine the extent to which export earnings impacted on economic growth.

Table 1: Summary Data Analysis Output

	EXPOREV
Pearson correlation	-.191
Adj. r^2	-.017
Δr^2	.036
Beta	.548
Sig. (2- tailed)	.420

F (2, 17) = 4.046
Source: Author's computation

The relationship between economic growth (GDP) and the explanatory variable was investigated using Pearson product-moment correlation coefficient. The regression analyses was used to assess the ability of the explanatory variables (exporev) to predict levels of economic growth (GDP) while controlling. Preliminary analysis was performed to ensure no violation of the assumptions of normality, linearity and homoscedasticity. From the outcome of Pearson product-moment correlation coefficient investigation, there was a weak, negative and insignificant correlation between GDP and export revenue, r = -.191, n = 40, p < nil.

Aasland (2008) stated that in a linear regression model, adjusted R square, measures the proportion of the variation in the dependent variable accounted for by the explanatory variables. The outcome of the regression analysis in assessing the ability of the explanatory variable to predict levels of economic growth (GDP) revealed that exporev explained only 24%, R^2 = .243 of the variance in GDP, F (2, 17) = 4.046.

5. CONCLUSION

The implication of export revenue for economic growth was investigated in this study. Academicians believed that export should impact positively on economic growth. Kalaitzi (2013) in Ruba, Thikraiat & Shatha (2014) stated that there exists a long-run relationship between manufactured exports, primary exports and economic growth. Javad, Gholamreza and Bijan (2014), Twumasi-Ankrah and Wiah (2016), etc also concluded that export impact positively on economic growth.

The outcome of this study revealed a weak relationship of export on economic growth. This result negates assertions on export-led growth of economic theory. However, it supported the growth-led hypothesis in respect of Nigeria. This implies that the Nigerian government should intensify efforts at putting in place enabling environment that will engender exports which in turn will improve economic growth. This conclusion is consistent with that of previous authors such as Ewetan and Okodua (n. d.), Ruba, Thikraiat & Shatha (2014), Awujola, Adam and Alumbugu (2015) while Elbeydi, Abdulbaset, Hamuda and Gazda (2010), Kilavuz and Altaytopcu (2012), Iyoha and Okim (2017) concluded that export promotes economic growth.

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