The Impact on Economic Growth of Nigeria's Oil Dependency

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List of Acronyms

CBN	Central Bank Of Nigeria
CPI	Consumer Price Index
DOLS	Dynamic Ordinary Least Squares
EDA	Exploratory Data Analysis
EDP	Entrepreneurship Development Program
GDP	Gross Domestic Product
ISS	Import Substitution Strategy
NBS	Nigerian Bureau of Statistics
NIE	New Institutional Economist
NNPC	Nigerian National Petroleum Corporation
OEC	Observatory Economic Complexity
OPEC	Organization of Petroleum Exporting Countries
PRS	Political Risk Services
SAP	Structural Adjustment Programme
TCP	Technical Committee on Privatization
TFP	Total Factor Production
UNCTAD	United Nations Conference on Trade and Development
US	United States
VAR	Vector Auto Regression
WFYP	Working For Yourself Programs
WTO	World Trade Organization

Abstract

Since the discovery of oil in Nigeria in 1956, the production and dependence of oil has steadily increased and has had a great impact on its economy. With the recent decline in oil price and subsequent fall in economic growth, this research paper aims to show how limiting oil dependency has been for the growth process, which is measured by gross domestic product (GDP). The scope of the paper will touch on the nature and extent of Nigeria's oil dependency in relation to its lack of diversification in the oil sector to the non-oil sector, particularly the manufacturing sector. Through the use of empirical methods such as Exploratory Data Analysis (EDA), and a range of qualitative and quantitative data, the relationship between oil and GDP growth is studied to show the impact oil has had on the Nigerian economy since 1969.

The findings of this research demonstrate there is a positive correlation between oil dependency and GDP growth which is affected by a lack of diversification and the fluctuations in world oil price. The volatility of the economic growth can be attributed to the fluctuations in oil price, meanwhile the lack of sustained growth is a consequence of the lack of diversification. Therefore, it can be concluded that there is a need to introduce policies which promote diversification from the oil sector into the non-oil sector, especially the manufacturing sector, so as to experience a sustained economic growth.

Relevance to Development Studies

This research paper hinges on the importance of infrastructural development and the diversification of the Nigerian economy from its dependence on the oil sector to the non-oil sector, especially the manufacturing sector, in order to experience sustained economic growth. Since the discovery of oil in Nigeria the economy has lacked the necessary push needed for industrialization.

Keywords

Diversification, manufacturing, sustained growth, oil sector, non-oil sector, GDP, economy, volatility, fluctuation, oil dependence, oil price, oil revenue, economic growth.

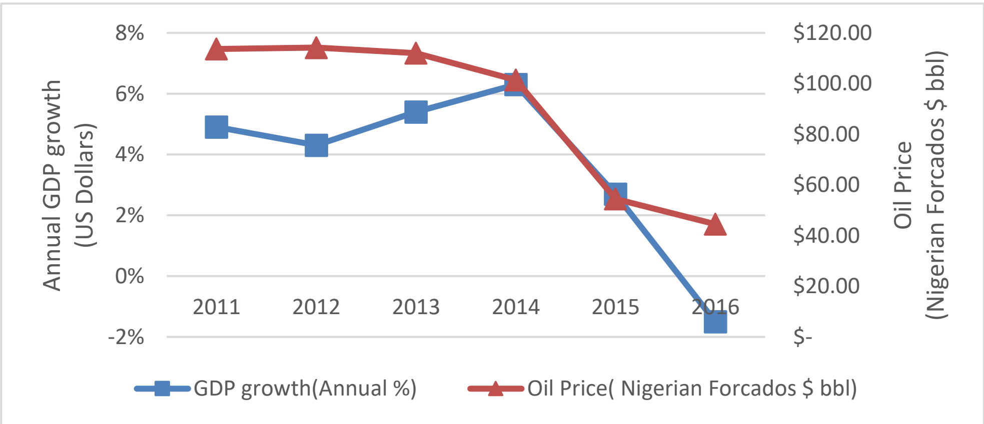
Chapter 1
Introduction

1.1 Background of the study

Shell-BP discovered oil in Nigeria in 1956 at Oloibiri, Delta State of Nigeria. From the time of this discovery to the present, Nigeria has been steadily increasing its production of, and dependence on, oil. Presently, Nigeria is one of the largest oil producers in Africa and the sixth largest producer in the world. It holds reserves of some 37 billion barrels of oil and produces around 2 million barrels per day. Earnings from oil constitute approximately 90 percent of total foreign exchange earnings (see Table 1.1 below) and over 70 percent of government revenues (Adegbite 2015:18-19, Onwe 2012:60-61, Nigerian National Petroleum Commission (NNPC) 2016).

With the recent sustained decline in oil prices and a corresponding fall in Nigeria's economic growth rate (see Figure 1.1), the debate over Nigeria's excessive dependence on oil exports is gaining in intensity, with several scholars and policy makers questioning the wisdom of this over-reliance on oil. The former finance minister in Nigeria (2003-2006, 2011-2015) and former managing director of World Bank (2007-2011), Dr. (Mrs.) Okonjo-Iweala, is on record as stating, "… We have suffered a great deal in this country from our inability or unwillingness to manage our oil resources properly. When oil prices are high, a great deal of optimism sets in and we tend to spend all that we earn to meet our admittedly tremendous needs" (2004). Hence why some academics believe that the Nigerian economy needs "new investments in growth inducing sectors like [the] manufacturing industry" (Okoroma et al. 2015:13). It is this debate that is the focus of the following study.

Figure 1.1
The economic growth of the Nigerian economy and its oil price movements 2011-2016



Source: BP Statistical Review of World Energy 2017 (https://www.bp.com) and the World Bank Development Indicator (https://data.worldbank.org/indicator) both accessed 12/09/2017, figured by author.

Table 1.1
Fuel, Manufacturing and Agricultural exports (US Dollars)

	Years			
	2011	2012	2013	2014
Fuel exports (% Total merchandise)	89%	84%	88%	91%
Manufacture export (% of total merchandise)	3%	3%	3%	6%
Agricultural raw materials exports (% of total merchandise)	6%	7%	3%	0%

Source: World Bank Indicator from 2011 to 2014 (https://data.worldbank.org/indicator) accessed 12/09/2017

1.2 Objectives, questions and arguments of the study

The aim of this study is:

A. To show the extent and nature of Nigeria's dependence on oil
B. To show how damaging this oil dependence has been for the growth process
   i. In terms of its negative impact on diversification of production particularly towards the manufacturing industry, and
   ii. To show the damage done to public finances and government capital expenditure programs as a result of this oil dependence.

The fundamental research questions of this study are summarised below:

What is the nature and extent of Nigeria's oil dependence?

C. What impact has Nigeria's oil dependence had on its economic growth performance?
D. What is the impact of oil dependence on diversification, particularly towards the manufacturing industry?

The basic line of argumentation I propose to develop in the following paper is that:

1. Nigeria's economy is highly dependent on oil revenue for its economic growth.
2. One cause of this has been the volatile nature of oil prices.
3. Another, more fundamental problem is that Nigeria's oil dependence has blocked industrialisation and diversification of the economy.

1.3 Research methods/Approach

This research paper builds on the critical overview of different theories and empirical findings by identifying and showing the extent of natural resources' impact on economic growth. This is achieved by contrasting the findings with oil performance in respects to its production and exports and how it undermines diversification.

I intend to use qualitative and quantitative data and empirical methods, including the so-called Exploratory Data Analysis (EDA) techniques. The quantitative data used will be secondary data covering the period from 1969 to 2016. The secondary data will be gotten from sources such as Central Bank of Nigeria (CBN), National Bureau Statistics (NBS), World Bank, Nigerian National Petroleum Corporation (NNPC), Organization of the Petroleum Exporting Countries (OPEC), World Trade Organization (WTO), United Nations Conference on Trade and Development (UNCTAD) and Consumer Price Index (CPI). EDA employs the use of graphs and plots to convey the basic sense of the data being studied (Hartwig and Dearing 1979:5). EDA is considered to be most suitable to the requirements of the present study since what is being explained is not growth per se but rather the damaging effect that the over-reliance of oil has on growth.

1.4 The scope and limitations of the research study

This is not an attempt to explain growth in Nigeria, but rather to show how limiting oil dependency has been for the growth performance. Throughout the course of this study, we encountered some few limitations. A major limitation was the could be the interpretation of growth performance; for this study I intend to use GDP growth as the indicator of economic growth however it is important to note that it may not be entirely representative since other factors such as GDP per capita can come into play. A further limitation we encountered was the unavailability of data from certain years such as the 1960s since it is extremely old, but most especially data from the recent years as this data may not be accessible to the public yet. Thus, there may not be entirely consistent timeframes of data in this study due to any limitations in the accessibility of certain data.

1.5 Research Paper Organization

The research paper is structured as follows:

Chapter Two – This is a review of the resource curse discussion as well as the general debate between the New Institutional Economist (NIE) and the structuralist perspectives. This is with respect to Nigeria and its slowing economic growth.

Chapter Three – This chapter details the background of the study, giving an overview of: Nigeria's aggregate and sectoral economic growth, export earnings (US $) and the structure of exports, the balance of trade, the nature of government expenditure and the financing of the expenditure.

Chapter Four – This chapter includes the analysis of several data and its findings on GDP growth, oil exports and prices, government revenue and expenditure, and the Corruption Perception Index (CPI).

Chapter Five – This chapter presents the conclusions of the paper and makes a number of policy recommendations with respect to the problem of oil dependence.

Chapter 2
Literature Review

2.1 Introduction

This chapter comprises a review of the literature on the link between natural resource production and economic growth. It will include a consideration of the well-known resource curse debate, as well as studies which attempt to test the various hypotheses advanced on the various sides in this debate. The discussion of the resource curse debate will be located in the more general debate between the New Institutional Economist and Structuralist perspectives which attribute poor economic growth to corruption and raw material production, respectively. This discussion will be followed by a consideration of the literature on Nigeria and the problem of slowing economic growth. The chapter will end with a summary of the main points being made in the cause of the literature review.

2.2 The resource curse debate

2.2.1 Structuralist perspective on the resource curse

There is a general consensus among Structuralists that natural resource dependence is characteristic of developing countries where most of their export earnings come from the production of raw materials, most especially oil. Its impact is highlighted by Rodrick (2006) who believes it can impact on economic growth negatively. This is because it hinders diversification, particularly towards the manufacturing sector, thus making it vulnerable to savings and fluctuations in the world oil price.

Structuralists have established a correlation between GDP growth and Natural resource price fluctuations. It is for this reason that Blattman et al (2007:160) stated fluctuations in price cause countries who are engaged in the production of raw materials to experience a decline in economic growth. In turn, this instability in price results in a subsequent fall in government revenue which affects budget financing and infrastructural development. Eichengreen (1996) further echoes that fluctuations in oil prices cause trade imbalances among countries dependent on raw materials leading to a decline in economic growth. Fluctuating oil prices can create export instability for countries who are dependent on raw materials, which leads to lower economic growth in the long term. There is an argument therefore that diversification in exports can have a long-term effect of stabilizing exports earnings (Ghosh and Ostry 1994:214-215) which will in turn promote sustained economic growth.

Various empirical studies illustrate that there is indeed a connection between export diversification and GDP growth. An example of this is seen in Lederman and Maloney's study (2007:4) which established a link between resource dependence and lack of diversification. By studying the GDP per capita and natural resource exports, they found that countries who exported raw materials had a slower GDP growth in comparison to countries who imported raw materials. Similarly, another study focusing on the connection between export diversification and economic growth was conducted by Herzer and Nowak-Lehnmann D (2006), with the focus being in Chile. The results demonstrated that "export diversification on the basis of natural resources can accelerate growth" (2006:1825). In fact, further diversification towards the manufacturing sector could possibly generate a stronger GDP growth. The study was conducted using the dynamic ordinary least squares (DOLS) method proposed by Saikkonen (1991) and Stock and Watson (1993). This strengthens the results of the study because the procedure provides unbiased and asymptotically efficient estimates (Herzer and Nowak-Lehnmann D 2006: 1831). Furthermore, Hesse also conducted his own study using further empirical methods such as the Robustness test, to provide a solid conclusion that specialization based on export hampers economic growth (Hesse 2008:17). In essence, this conveys that export diversification is beneficial to economic growth. Thus, these structuralists demonstrate there is a general consensus that export diversification has a positive impact on economic growth. In the same way, the link can be made that Nigeria's declining economy/GDP is a product of its heavy reliance on oil for export revenues due to its lack of diversification.

Exporting activities such as oil, has received considerable attention in recent times because it revolves around petroleum production (Di John 2011) and this will halt the diversification of the economy. Similarly, the 'staple thesis' shows that growth is stunted in most developing countries even with the initial stimuli that "primary product exports brought in terms of attracting capital and labour and inducing a more diversified production structure". However, despite the importance and appraisal of natural resource abundance in developed economies, recently there has been the subject of wide criticism in developing countries.

After testing for the link between GDP per capita growth and diversification over a five year period, Hesse (2008) argued that the diversification of exports can positively contribute to economic growth. The result conveyed that when focusing on exporting a single product, there is a negative effect in the long term, which is a decline in growth. This is why Structuralists oppose the export concentration of raw materials since it has a hindering effect on growth (Di John 2011:167-168). Prebisch (1949) suggest that for any country to experience economic growth the Government must promote diversification towards industrialization (as cited by Davis 1995:1766). This is why the East Asian countries that have diversified their economies have experienced a relative improvement in economic growth in recent times. Sachs and Warner (1995) support Prebisch's hypothesis, as they also estimated that countries dependent on raw material exports had a slower rate of growth (Hausmann and Rigobon 2003:1). Hence why Hesse (2008:4) claims diversification of the economy is key to experiencing this kind of economic growth in the long-run.

Ayadi (2005:199) claims that the major challenge facing most economies globally which are solely dependent on oil is the problem of fluctuation in the world oil price. According to some structuralists, these "primary products were subject to declining terms of trade and destabilizing price volatility" (Di John 2011:168). Hence, Hesse (2008:4) argues that because of oil volatility in the world market, economies solely dependent on it often suffers or experience poor economic growth due to the fluctuations in oil price; therefore, research suggest diversification of the economy is a viable solution in solving this problem. Hausmann and Rigobon (2003:39) study display that economies such as Mexico, Ecuador or Indonesia (who are not largely dependent on non-tradable resource sectors volatility in oil revenue) significantly experienced relatively small effects to price. Supporting research from Blattman et al (2007:158) confirms this, based on a prime channel investigation on how volatility could affect growth. Their results illustrated that oil price volatility halts investment capacity and the recurrent pattern of trade affected the flow of capital.

2.2.2 New Institutional Economics Perspective

Another school of thought, the new institutional economists (NIE) have a different perspective on natural resource dependence. Rather than believing that resource dependence directly leads to poorer growth, they view oil abundance as a "double-edged sword" (Frankel 2010:4); although it has negative effects, it also has some benefits. Instead, they place high importance on the role of institutions. North (1990:3) defined institutions as "humanly devised constraints that shape human interaction". Economists with the NIE perspective believe that the quality of the institution is the significant factor which influences economic growth (Acemoglu et al 2005:389-390).

This is supported by Robinson et al. (2006:456) who conducted an experiment using a two – period probabilistic voting model on two politicians. The politicians' decision to inefficiently over extract resources, despite the long term consequences of their actions, illustrates the strong influence an institution can have on economic growth. Rather it is not the abundance of oil or lack of diversification (which the Structuralists would argue) that encumbers growth, it is the fact that these politicians overlooked the long term benefits of utilizing resources because of the immediate benefits which were available. Thus, a strong institution would manage their resources better which would in turn improve economic growth.

Another aspect closely linked to institutions is the influence of corruption. Since institutions are endogenous, the influence of corruption is arguably a major factor which influences economic growth. Bhattacharyya and Hodler (2010:608) studied the link between natural resources, corruption and the differing effects which were dependent on the worth of the democratic institutions. They found that resource rents were directly linked to corruption in less developed Countries (Bhattacharyya and Hodler 2010:609). By using the corruption index from the Political Risk Services (PRS), they strengthened the validity of their findings as the index enabled them to use panel data from 1980 to 2004 (Bhattacharyya and Hodler 2010:608), which in turn minimalizes sample bias. Bhattacharyya's findings (Bhattacharyya and Hodler 2010) further strengthen the earlier research from Hodler (2006) who showed natural resources lead to poor institutions and Sala-I-Martin and Subramanian (2003:3) who found that oil in particular, negatively impacted the quality of institutions.

A further argument proposed is that 'Dutch Disease' also affect economic growth. Corden (1984:359) outlined that Dutch disease is a term used to describe negative effects of manufacturing on natural oil discovery, in special relation to the appreciation of the Dutch real exchange rate (Corden 1984:359). Ayadi (2005:213) "refers to [Dutch disease as the] sectoral shift of the economy, because of the discovery of a natural resource". Whenever there is a contraction in manufacturing caused by an increase in resource based revenues (such as oil), this eventually causes an increase in import tradeable (Hausmann and Rigobon (2003). In other words, the abundance of raw materials can sometimes cause a decline in the manufacturing sector – this makes consumer goods more expensive and less competitive. Corden and Neary (1982) conducted a study to show the relationship between real exchange appreciation and spending effect on economic growth. The result highlighted that once the income elasticity of demand for a certain primary commodity is positive, the resulting relative price must rise (Corden 1984:30). Ricardo and Rigobon (2003:2) support Corden, as they also argued an economy who focuses on oil production tend to experience real exchange rate fluctuations because of the shocks resulting from only engaging in the production of raw materials.

However, there are several factors which undermine the NIE perspective. For example, Hausmann and Rigobon (2003:4) slightly undermine the Dutch disease theory as they found it too simplistic since it only states that resource income booms are associated with contractions in manufacturing, as opposed to the overall economic growth. It fails to explain the reasons why countries have differing economic growth despite the abundance in oil. In relation to corruption, Philippot (2010:8) counter argues that it would be unfair to place natural resources as the only explanation to the high levels of corruption in transition countries.

2.3 Resource Abundance impact on Nigeria's Economic Growth.

The debate in Nigeria in recent times has been centred on the relationship between resource dependence, particularly oil and its impact on economic growth using various theories and models (Odularu 2008:7). Nigeria is one of the resource rich countries under many speculation and criticism because of the stunted growth it has recently experienced despite the abundance of resources. It is unlikely difficult or strange to think that being rich or blessed with abundance of raw materials can be hurting to an economy rather than a blessing. However, Ayadi (2005) argues that the major challenges facing most economies globally which are solely dependent on oil, is the problem of fluctuation in oil prices and lack of export diversification.

2.3.1 Evidence from the Nigerian Perspective

The non-oil sector in Nigeria suffers because of oil dependency as its economic growth is dependent on "boom and bust" caused by fluctuation in oil price. Ayadi and Boyd (2006:227) argues that oil accounts for over 95 percent of its export earnings, over 70 percent of Government revenue and over 90 percent of its investment goes into the oil sector; this has had a negative impact in the Nigerian economy. The industrial production forecast is a function of fluctuation in exchange rates caused by volatility in oil prices with little significant influence in the industrialization in Nigeria. Thus, if Nigeria was to follow the Structuralist perspective, it is important that its economy diversify into the non-oil sector, particularly into the manufacturing sector.

Furthermore, Ayadi (2005:199) argues that volatility in oil price halts industrial production in Nigeria. They showed the relationship between changes in oil price and export diversification in manufacturing using a vector auto regression (VAR) with macroeconomic variables (the price of Nigeria's Bonny Light, the real effective exchange rate index, the natural logarithm of money supply, the short-term interest rate, the consumer price index and the index of industrial production between 1980 to 2004). The results imply that even increases in oil prices do not result into export diversification. Rather, the fluctuation in oil price caused the exchange rate to rise, which in turn affects industrial production. This is evident in Nigeria; where the economy is mainly dependent on oil for export where the share of the non-oil sector was consistently less than 50 percent from 1980-2009 and this has had an adverse effect on economic growth caused as a fluctuation in oil price.

In conclusion, the main problem of Nigeria's economy is its struggle to sustain the growth process; it can be seen that fluctuations have had a substantial role in the recently experienced stunted economic growth. Di John (2011:176) concludes the stunted economic growth that is peculiar to most developing countries could be because of its dependence on raw materials for its exports other than the theorized resource abundance. The outcome forecasted errors on industrialization as a function of the fluctuation in the real exchange rates because of the volatility in oil prices. Consequently, this implies volatility in oil prices will eventually lead to poor economic growth because of over dependence on oil for sustained economic growth in the long-run.

2.4 Chapter summary

In summary, the Structuralist perspective establishes the strongest viewpoint in contrast to the New Institutional economists, by highlighting the correlation between GDP growth and Natural resource price fluctuations through various empirical studies (such as Lederman and Maloney 2007). They believe that fluctuations in Natural resource prices can cause export instability and can also cause resource abundant countries to experience a long-term decline in economic growth. They further believe that export diversification leads to long term stabilisation of export earnings, which will lead to economic growth.

In contrast, New Institutional economists believe it is the quality of the governmental institution, the influence of corruption and the impact of Dutch disease which are the determining factors that influence economic growth. These economists also argue that dependence on natural resources negatively affects all tradable goods because it makes all consumers to be more expensive and less competitive, which consequently causes a decline in economic growth.

Whilst the New Institutional economists present a valid theory, it is undermined in several ways since the theory is far too simplistic; the Dutch disease theory only states that resource income booms are associated with contractions in manufacturing, as opposed to the overall economic growth. It fails to explain why oil abundant countries have differing economic growths. Furthermore, it would be unfair to hold Natural resource abundance as the explanation for the high level of corruptions in institutions. When applying the Structuralist viewpoint, one can see the importance of the Nigerian economy's need to diversify into the non-oil sector, particularly the manufacturing sector.

Chapter 3
Structure of the Nigerian Economy

3.1 Introduction

This chapter will be a discussion of oil and its contribution to the structure of the Nigerian economy. The chapter is divided into sections which will discuss trends found in the following sections: Structure of the Nigerian economy; Nigeria's sectoral and aggregate economic growth; export earnings (US $) and the structure of exports; the balance of trade; the nature of government expenditure and the financing of the expenditure. This section will conclude with a summary of the whole chapter.

3.2 Structure of the Nigerian economy

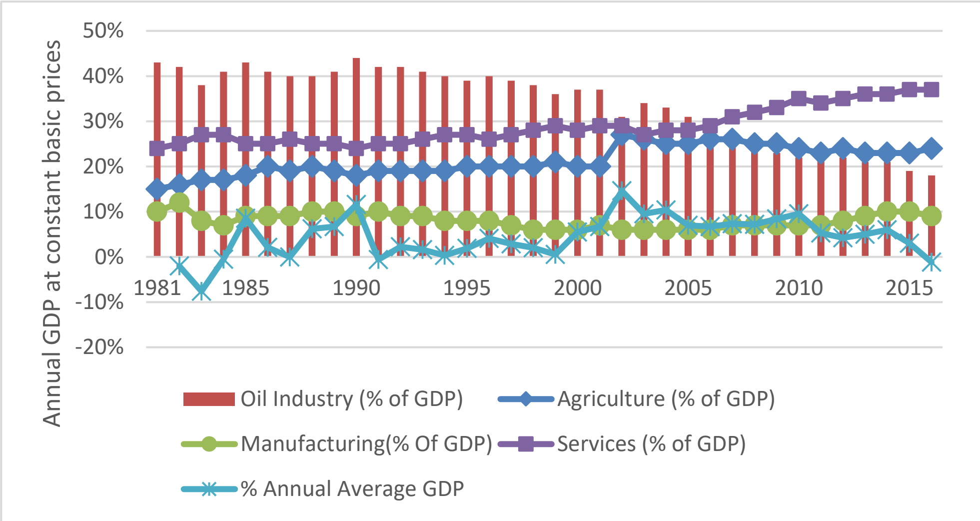
3.2.1 Overview

Nigeria is a developing country with a population of 182.2 million people, which has recently become the largest economy in Africa with a GDP estimate of 568.499 billion dollars (World Bank 2017). According to Ayadi et al. (2000:332) oil was discovered in large quantities in Oloibiri, Nigeria in 1956 with operations commencing in 1958. Nigeria became a member of OPEC in 1971, became the fifth largest supplier of oil into the US in 2003 and is the seventh largest producer of oil in the world. Soremekun and Obi (1993) and Odularu (2008:1) claimed that oil discovery has had a meaningful impact on Nigeria's economic growth. This is evidenced even now since the Nigerian economy is still dependent on oil for over 90 percent of its export and foreign exchange earnings (Ayadi 2005:203). According to World Bank's (2013) economic report, the oil sector makes approximately 40 percent of Nigeria's GDP despite growth in oil consistently slowing down, when compared to that of the non-oil sector. This has made the Nigerian economy to be over 170 times bigger than what it used to be.

3.2.2 Nigeria's sectoral and aggregate economic growth

There are several contributing sectors who influence the overall GDP growth of Nigeria – apart from the oil industry, these are the service (in which telecommunications has been the major driver), manufacturing, and the agricultural sectors. According to the World Bank report (2013), the economy has grown at an annual average rate of over 7 percent in the last ten years; this growth has been concentrated mainly in trade and agriculture. The year 2012 was informative in this regard as these factors, combined with a negative growth in the oil sector, caused the government oil revenue to decline from 23.6 percent of GDP in 2011, to 19.7 percent in 2012.

Figure 3.1
Nigeria's Sectorial Contribution to Economic Growth (Naira Million), 1981-2016



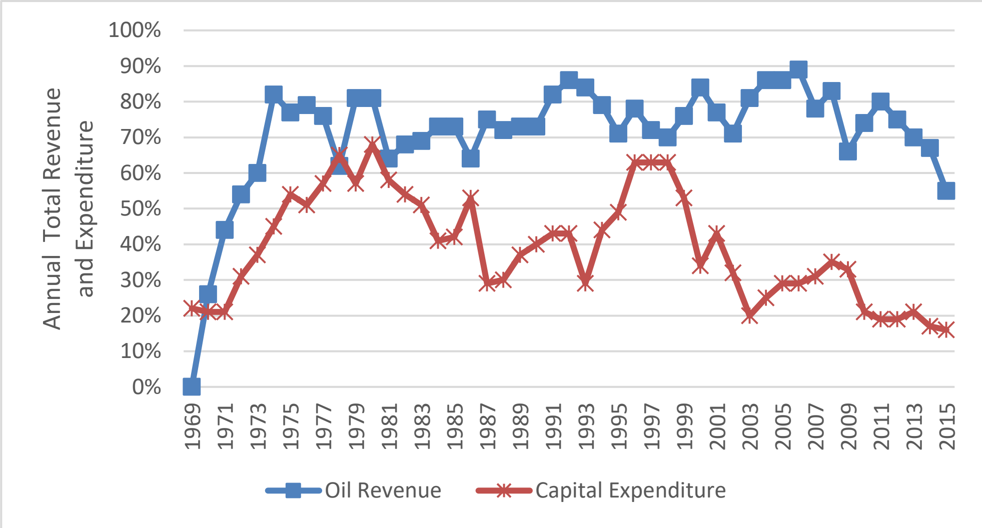
Source: Central Bank of Nigeria (http://statistics.cbn.gov.ng/cbnonlinestats/QueryResultWizard.aspx) accessed 12/09/2017, figured by the author.

The data from this diagram conveys a trend throughout 1981 to 2016, which is that the GDP contribution from the manufacturing sector (comprising of oil refining, cement and plastic to name a few) has been stagnant. The Central Bank of Nigeria (2016) statistics database has shown that the manufacturing sector's contribution to GDP growth has been less than 12 percent since 1981. The oil sector's contribution to GDP growth has considerably declined in recent years in comparison to 1981, whilst the agricultural sector has increased at an average of 23.9 percent since 2008.

The biggest trend is seen in the service sector whose GDP growth has risen tremendously since 2005 and has surpassed all other sectors since 2007. Whilst oil was the previous major contributor of GDP growth, the service sector overtook its place with a GDP average of 30.7 percent, whereas oil was just 26 percent. However, the overall GDP growth in Nigeria has been volatile and gradually declining due to the lack of diversification into the manufacturing sector which has remained at an average of less than 12 percent since 1981 (Central Bank of Nigeria 2016).

For the past 25 years, see (Figure 3.2) below Nigeria's expenditure (capital expenditure in particular) and oil revenue has been unstable because of the fluctuating world oil prices. This trend is seen throughout. For example, 1978 to 1980 and 2002 to 2005 are years which encountered a sharp increase in both oil revenue and capital expenditure. Meanwhile, since 2011 to 2015 the oil revenue and capital expenditure have mirrored a decline as a result of the fall in oil price.

Figure 3.2
Oil Revenue and Capital Expenditure (Naira Billion), 1969-2015



Source: Federal Ministry of Finance & Central Bank of Nigeria (**https://www.cbn.gov.ng/Out/2015/SD/2014%20Statistical%20Bulletin_Section%20B_Final.xlsx**) accessed 12/09/2017, figured by the author.

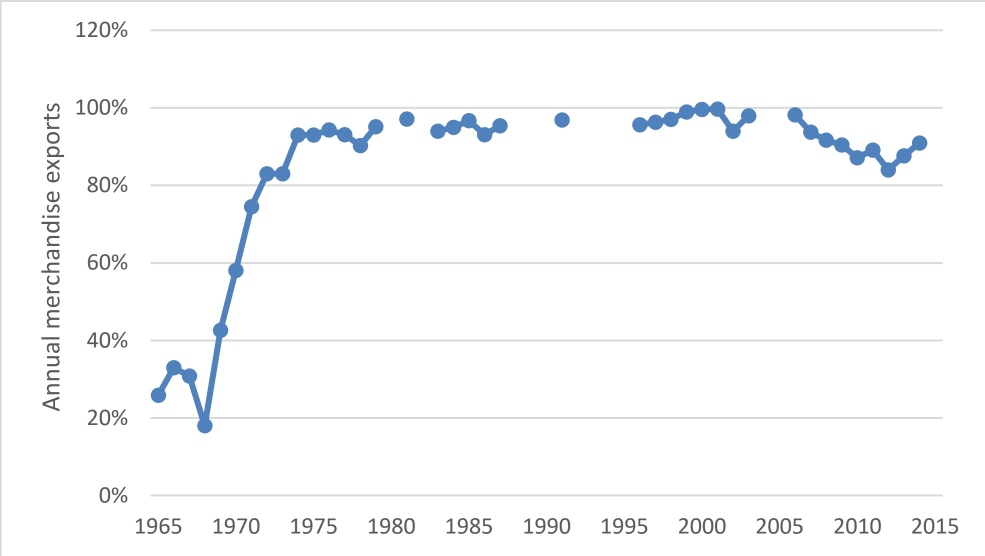
3.2.3 The structure of exports and Export earnings (US $)

Nigeria's economy according to OEC (2016) is 49th in the world with a net export of $8.3 billion and GDP of $ 6 billion per capital. Petroleum production and exports has been a major source of revenue generation in Nigeria, accounting for over 90 percent of its gross exports earnings and a production level of 2.5 million barrels of crude oil per day. The rise in global oil price in the 1970s resulted in instantaneous wealth from oil production and exports.

It is also demonstrated that oil plays a dominant role in the extractive industry, accounting for over 37.2 billion barrels in reserves and 2.13 percent of its production globally. From 1967 to 2009, oil production has fluctuated severely over the years due to several factors. For example, the Civil war instigated a production declination in 1962 and 1967; the Middle East crisis of 1973 and 1974 increased production tremendously from 660.1 million barrels to 845.5 million barrels in 1875 and 1879 respectively due to the global oil supply shortage which was a consequence of the embargo on oil production and the 2007-2008 Global financial crisis. This scarcity of oil supply increased the oil prices and helped Nigeria to increase its oil production (Akinlo 2012:166-67).

Akinlo (2012:167-168) reports the revenue accrue from oil increased recently from 26.3 percent in 1970 to 85.8 percent in 2005, however this dropped to 78.7 percent in 2009. This depicts that there is less concentration in the non-oil sector and over dependence on the oil sector, which is characterized by fluctuations in world oil prices. Hence why it can be concluded that the Nigerian economy is a function of "boom and bust" (Odularu 2008:7) caused by oil shocks.

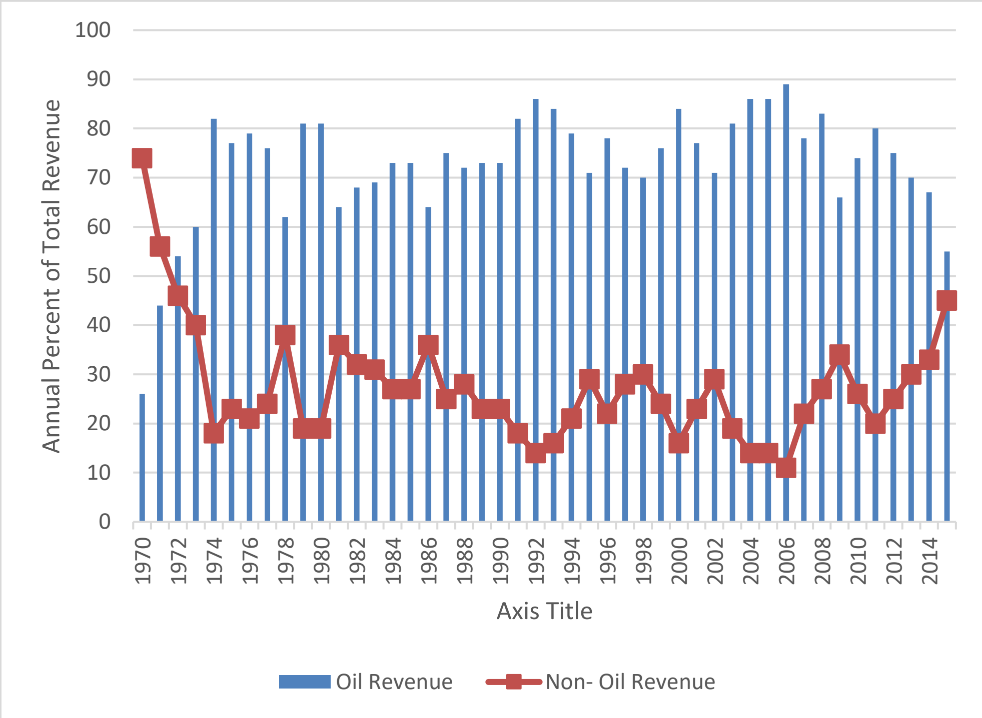
Figure 3.3
Fuel exports (US Dollars), 1965-2015



Source: World Bank indicator 2015 (https://data.worldbank.org/indicator) accessed 22/10/2017.

The non-oil sector in Nigeria comprises of approximately 5 percent of the total export whilst the Agricultural sector and also the trade sector comprises of approximately 75 percent of the non-oil sector. Over the years, GDP growth is still dependent on the oil sector but has gradually become more reliant on the non-oil sector, most especially the service sector (particularly telecommunications), real-estate and construction. Crude oil export is approximately $36.9 billion, petroleum gas is $7.39 billion, refined petroleum is $603 million, cocoa beans is $504 million and rough wood accounts for $333 million. The share of oil export in total exports in Nigeria increased from just 6.65 percent in 1961 to 97.03 percent in 1990 and 2005 respectively. This decreased to 96.73 percent in 2009 following the Nigerian government's effort to diversify the economy, making the share of the non-oil export to be less than 5 percent from between 1980 to 2009. Consequently, this had an adverse effect on the Nigerian economy (Akinlo 2012:168).

Figure 3.4
Oil Revenue and Non- Oil Revenue (Naira Billion), 1970 - 2015



Source: Federal Ministry of Finance and Central Bank of Nigeria (https://www.cbn.gov.ng) accessed 12/09/2017, figured by the author.

The revenue from oil exports mostly in the period of increase in the world oil price, accounts for over 80 percent of Nigeria's exports. This has helped the Nigerian economy to post merchandize the trade aftermaths and current account surplus, as well as to quickly recover from the aftermaths of the Nigeria civil war in the 1970s. Akinlo (2012:165) highlights that the revenue generated from oil had increased from approximately 166.6 million in 1970 to 6,530,430 million in 2008 - this increase made the Nigerian economy monotonous. Furthermore, Odularu (2008:12-13) argues that these huge revenues from accrue from oil is of immense benefit to Nigerian economy, mostly between 1973 and 1974.

3.2.4 The balance of trade

Nigeria's export in the last five years has declined at an annual rate of -11.9 percent, from $88.9 billion dollars to $47.8 billion dollars in 2015. Nigeria's export in which oil accounts for over 91.7 percent of total export comprises of crude petroleum ($36.9 Billion), petroleum gas ($7.36 Billion), refined petroleum ($603 million), cocoa beans ($504 million) and Rough wood ($ 333 million). Furthermore, Nigeria's imports which are mainly from China, US, Netherlands, India and Belgium, is mostly dominated by refined oil which accounts for approximately 15.2 percent; this is followed by wheat which accounts for approximately 2.8 percent of total imports and has declined by an annual rate of -4.2 percent (OEC 2016).

Figure 3.5:
Trade balance (Export and Import in US Dollars), 2011 - 2015

Source: OEC 2016 (http://atlas.media.mit.edu/en/profile/country/nga/) accessed 12/09/2017, figured by the author.

In summary, there is a need to diversify the economy from the oil sector to the non-oil sector if Nigeria wants to experience sustained economic growth. Whilst it has been argued by Iwayemi and Fowowe (2011:245) that the revenue from oil has not been channelled for productive use, which consequently accounts for the low economic growth, Ayadi (2005:214) postulates a stronger argument. He claims that the Nigerian oil industry has had a tremendous impact and remarkable turnaround in the Nigerian economy since the discovery of oil and if the sector is properly managed in such a way that it can be used to diversify the economy towards the other non-oil sector then can it have a meaningful impact on its economic growth.

3.2.5 The nature of government expenditure and the financing of the expenditure

Lawal and Oluwatoyin (2011:237) claim that national development is key for the sustained economic growth of any nation. Since Nigeria has experienced over 50 years of stunted economic growth, there is a need for the Government to rethink policies and strategies needed to diversify the economy in order to bring about sustainable economic growth.

3.3 Nigeria's growth policies

3.3.1 Nigeria's Post- Independence Industrialization Policies.

Achieving sustained growth in Nigeria has been a major problem because over the years. Nigeria's development strategy has lacked implementation and clearly determined objectives with a view to diversify the economy particularly the industrial sector. Iwuagwu (2011:1) argues that industrialization is key if a country wants to experience economic growth. There were different policies which were put into place to aid economic growth such as, Import Substitution Strategy (ISS) through Structural Adjustment Programme (SAP). However, these failed to achieve its stated objectives to give the economy a turnaround and a major push towards sustained economic growth, particularly by building a strong manufacturing base.

Under the First NDP there was a period of resource based growth strategy of importation of capital goods such as machineries and tools Iwuagwu (2011:11). This contributed immensely to the economic growth of the country because it promoted local production and the inflow of capital goods, which in turn laid the foundation for the industrial establishment in Nigeria (Federal Government of Nigeria 1962). This progress made the Nigerian government to invest hugely and create a development bank that served as the lender to support manufacturing companies (Federal Government of Nigeria 1962). In Nigeria, this was referred to as the golden age because it kick-started the Nigeria industrial era as manufacturing share at this period rose (Ikpeze et al 2004:341). In addition, the number of small and medium companies increased because the Government heavily invested into infrastructural development inorder to boost the manufacturing sector at that time (Ajayi 2007:143). However, the Nigeria's Government National development plan towards industrial push was not successful.

Nigeria's economic growth has been hampered since the discovery of oil and during the boom of 1970's the manufacturing sector was abandoned. This period ushered the Nigerian economy into the epileptic state it currently resides in as the Government focus was shifted to the oil sector. Most industrial established could not survived the test of time as they became less competitive.

After the Nigerian civil war, the focus was to use the National development plan between 1970-1974 in using industry to diversify the economy to foster economic growth and stability. This period recorded a huge success in establishing industries, promoting import-substitution agenda, raising Governments consumption both on intermediate and capital goods, building human capacity and promoting localized industrial ownership (Federal Ministry of Information 1970 as cited in Iwuagwu 2011:8). This was a time in Nigeria where revenue from oil exports were used to diversify the economy, with a special focus placed on the manufacturing sector. Nonetheless, with more emphasis on importation, this eventually made the domesticated goods less competitive and the resulting effect of the oil shock because of the sudden fall in oil price which eventually crashed the economy. To resuscitate the economy the Nigerian government, the government introduced indigenization policy as contained in the Nigerian Enterprise Promotion decree of 1972 with a view to promoting local industries particularly the manufacturing sector and transferring foreign investment ownership to indigenous investors. (Iwuagwu 2011:10).

Iwuagwu (2011:10-13) argues that the 1986-1988 period which ushered in the structural Adjustment policy (SAP) led to the 'de-industrialization" of Nigeria. It was introduced with the focus to help industrialize the economy, promote domesticated consumption, and decrease dependence on imported goods. To achieve this the Government introduced localized technological advancement to build capacity and to promote export orientation strategy, industrial and infrastructural development. Whilst this industrial policy was to operate within the scope of the SAP, unfortunately foreign exchange and trade liberalization with high interest rates and low domestic consumption are all factors which worsened the growth of the industrial sector.

The 1990 era of the First national rolling plan (1990-1992) witnessed several problems in infrastructural development which was coupled with an insufficient input of raw materials (Iwaugwu 2011:12-13). To improve industrialization, the privatization of public enterprises was introduction to build productive capacity. This was to be implemented by the technical committee on privatization and commercialization (TCP). During this period, the Nigerian government also promoted the Entrepreneurship Development Program (EDP), working for your self-programs (WFYP) and the trainers program. The aim of these were to ensure the successful completion of the Governments agenda on small scale industrialization strategy (Federal ministry of Industry and Technology 1992 as cited in Iwuagwu 2011:6).

The Nigerian government introduced an industrial policy with the aim of promoting industrialization. The agenda was to abandon the import substitution strategy thereby introducing the total factor production (TFP) with focus on building human capacity and skill acquisition (Iwuagwu 2011:14). The period 2006 and 2007 was also a challenging period for the Nigerian economy in terms of infrastructural and industrial development which affected the manufacturing sector in Nigeria. This period saw a lot of manufacturing companies been shot down and these necessitated the need to integrate both the federal ministry of industry and the federal ministry of commerce to together. This period introduced collective participation through the cluster concept to find a lasting solution to problems of infrastructures and industrial development. This was targeted towards building human capacity for industrial development, a seven-point agenda and vision 20:20.

In summary, the discovery and production of oil has had a fairly substantial impact on the Nigerian economy. Whilst the revenue from oil export has somewhat improved the economy, the lack of diversification (particularly towards manufacturing sector) has significantly undermined the economic growth process. To ensure the sustainability of Nigeria's economic growth, the Government must diversify from the oil sector to the non-oil sector. Hence why it would be wise to diversify towards the manufacturing sector since it has the capacity to sustain economic growth.

3.3.2 Nigeria's National Development Plan

According to Ejumodo (2013) five national development plans have been initiated since Nigeria's post-independence era. For this section, the various post-independence national development plans will be discussed, and its economic impact will be considered.

Nigeria's first NDP by Tafawa Balewa (which commenced from June 1962-1968) was aimed at contributing immensely to the Nigerian government's policy channelled towards ensuring an economic growth of approximately 4 percent per annum. In addition, it was to address Nigeria's problem of infrastructure and support entrepreneurship development (Ejemudo 2013:67). However, this development plan failed to achieve its stated objectives because high taxes were imposed on Agricultural export commodities by the marketing board at the time and these high taxes affected the local farmers who were the main contributors to the agricultural development.

Furthermore, there were deviations from the projected plan which affected key areas such as the agricultural sector which only received 9.8 percent instead of the proposed 13.6 percent. The manufacturing industry received 8.9 percent of the financing instead of the proposed 13.4 percent and in all the development planning there was no indigenous involvement, therefore leaving it completely to foreigners to execute. This development plan also fails to address the problem of infrastructural development and the Nigerian Industrial Development bank was barred from financing small and medium enterprises except for corporate organization which eventually hurt the industrial process and had a negative impact on the economic growth of the time (Ejemudo 2013:71).

The Second NDP was focused on creating a strong and robust economy both locally and internationally. The Government achieved this by introducing a monetary policy geared towards catering for government expenditure, agricultural research, industrial development, and infrastructural rehabilitation to support the aftermaths of the Nigerian civil war. Despite the focus on industrial development during that period, emphasis was also placed on industries which were heavily dependent on raw materials from the western world to carry out its operations. As such, many other industries were neglected – for example, food and storage processing industries, liquefied natural gas, petro-chemical and agro-allied industries according to (Ejemudo 2013:72). Consequently, this eventually faulted the industrial development agenda.

Ejemudo (2013:73) stated that the third NDP (1975-1980) was expected to create framework which enhanced the industrial sector because it had a large capital expenditure of 43.3 billion naira in 1976. This was to be coordinated by NEAC team with consultations from various professional bodies within most sectors of the economy so that the country's per capita income can increase, and the economy can diversify, particularly the manufacturing sector.

Though the consultations and money invested were championed towards economic growth, the budget capitalization for that purpose was made on the expectation that the funds needed would derive from the oil boom, to provide the economy with a strong manufacturing sector that can sustain its economic growth. However, it failed to eventually address the problem of the infant industries which are essential ingredient to kick start the growth process for inclusive economic growth.

The Fourth NDP (1981-1985) made some remarkable changes to address the issues of economic and social development with increased financing. The focus was to address several issues such as, poor economic growth, building human capacity towards domesticated production and over dependence on a monotonous economy on natural resources particularly oil. It began with a planned expenditure capitalization of 70.5 billion naira for the public sector and 1.75 billion for the private sector. However, oil price volatility made this unachievable because the budget investment financing for the Fourth NDP was benchmarked on oil selling for at least $40 per barrel with oil production remaining at over 2 million barrels a day. Their dependence on revenue from oil exports and the eventual unsuccessful projection (due to volatile oil prices) resulted in failed and abandoned projects. This period experienced undersized financing because it was heavily dependent on oil revenue and lacked execution plan (Ejemudo 2013: 75).

The fifth NDP failed economically and did not take place in 1986 (Ejemudo 2013:74-75). A national conference held in the University of Ibadan in 1984 to address the economic issues of Nigeria, concluded with recommendations and policies to be introduced to address: the insurgency and find a lasting solution to Nigeria's stunted economic growth, as well as sustainability within a controlled market, and a focus of diversifying the economy particularly in the area manufacturing and agriculture. The five-year planning model was eventually replaced with a three-year rolling period.

In conclusion, the five development plans all failed to achieve its stated objectives of diversifying the economy from the oil sector to the non-oil sector (particularly towards manufacturing), because the benefits of oil dependence outweighed the benefits from other sectors such as the agricultural sector. In turn, the dependence of oil meant other sectors suffered and this lack of diversification further hindered the growth of the economy.

3.4 Chapter Summary

This chapter focuses on the contribution of oil to the structure of the Nigerian economy. Nigeria is considered as one of the developing countries with a population of 182.2 million people and has recently become the largest economy in Africa. This can be attributed to its production of oil since 1958 whereby over 90 percent of its exports and foreign earnings derive from this.

In the recent years, there has been a declining growth in the oil sector which has caused oil revenue to consistently decline since 2011. Furthermore, the GDP contribution from the Manufacturing sector has been stagnant up until 2016. Meanwhile, the service sector has experienced the biggest growth, surpassing all other sector since 2007. Despite all this, Nigeria's GDP growth which is characterized by volatility, continues to decline because of the lack of diversification of its economy from the oil sector to the non-oil sector (particularly the manufacturing sector) and its dependence on fluctuating world oil prices; this is why the Nigerian economy is a function of 'boom and bust'.

To ensure the sustainability of Nigeria's economic growth, it is key for the government to focus on national development by rethinking its policies to incorporate diversification from the oil sector to the non-oil sectors (for example, manufacturing). This is encouraged because the manufacturing section has shown it has the capacity to facilitate sustained economic growth. The dependence of oil meant other sectors suffered and this lack of diversification further hindered the growth of the economy.

Chapter 4
Data Analysis and Findings

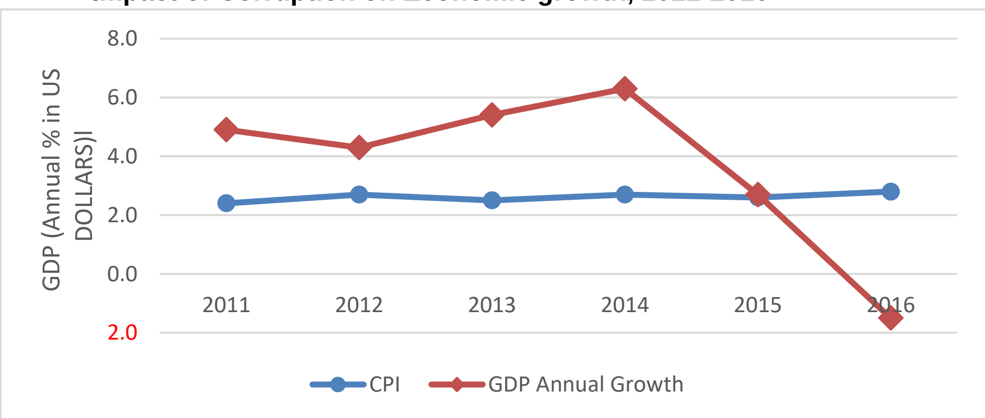
4.1 Introduction

For this chapter, I will be analysing various secondary data from several reliable sources both in Nigeria and abroad, in an attempt to test the NIE and Structuralist view on the major factor which influences economic growth. The first section considers the link between corruption and growth. Meanwhile the second section will test the argument that fluctuation in oil price causes a decline in economic growth; and the argument that oil dependence hinders diversification and growth. The final section concludes.

4.2 Impact of Corruption on Economic growth

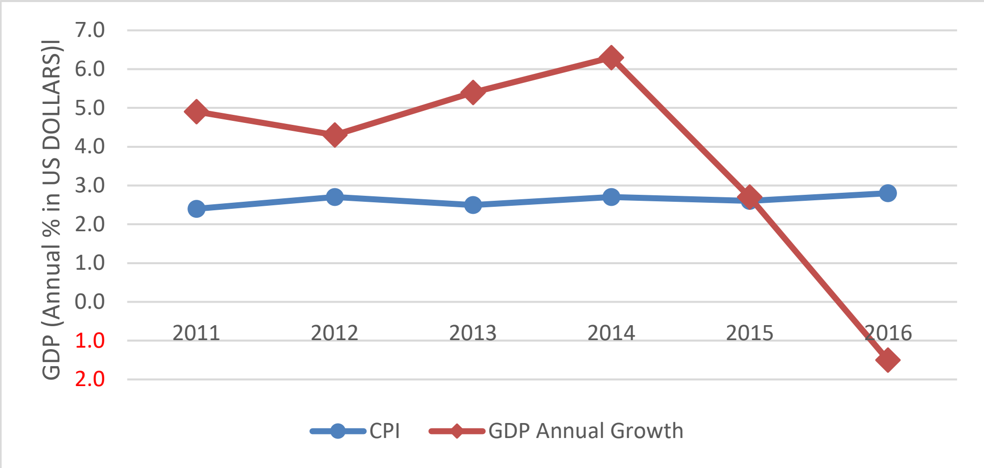
The NIE perspective revolves around the belief that institutional corruption has an adverse impact on economic growth (Hodler 2006). Therefore, many believe that Nigeria's economic growth is due to the high corruption levels in the institution. However, the data in figures 4.1 and figure 4.2 (see below) illustrates that oil prices experienced a great decline from 2013 to 2015, and GDP growth experienced a similar decline from 2014 to 2016, despite the consistently similar levels in Corruption ranking throughout 2011 to 2016. Therefore, this indicates that corruption is not the major factor which influences GDP growth. Statistics (reported by Transparency International 2016) further undermine the corruption and growth argument. Nigeria was rated 143 out of 182 in 2011 and consecutively rated 136 of 182 from 2014 to 2016 (Transparency International 2016). Despite these improvement, this did not translate into an improvement in their GDP growth, thus, the argument that corruption is the major cause of declined economic growth in Nigeria is void.

Figure 4.1
Impact of Corruption on Economic growth, 2011-2016



Source: Transparency International (https://www.transparency.org/) and World Bank Development indicators (https://data.worldbank.org/indicator) accessed on 12/09/2017.

Figure 4.2
Impact of Institutional Corruption on Economic growth, 2011-2016

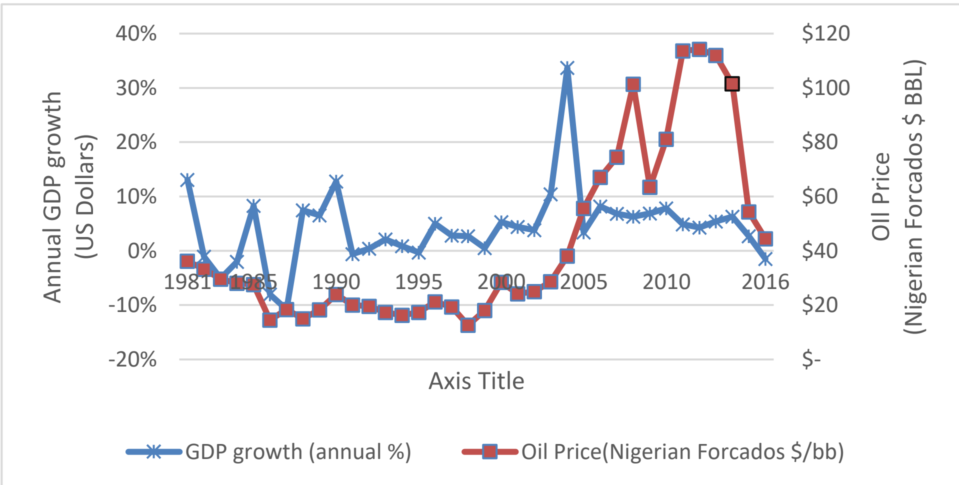


Source: Transparency International (https://www.transparency.org/) and World Bank Development indicators (https://data.worldbank.org/indicator) accessed on 12/09/2017.

4.3 Oil dependence and Economic growth

Countries who are labelled as oil dependent are countries where oil forms the basis of most of their export earnings, and these countries tend to experience less economic growth because of this (Di John 2011:176). Nigeria's dependence on oil since its discovery has slowed down its economic growth. The economy has been solely dependent on oil export revenue which is characterized by fluctuations in the global world price. To ascertain whether oil dependence has led to lower economic growth, we would be analysing data (see Figure 4.3 and Table 4.1 below) concerning the oil price and Annual Growth rates from 1981 to 2015. It is postulated that as a result of oil dependence, the fluctuations in world oil price causes a decline in economic growth.

Figure 4.3
Nigeria's economic growth and oil price movement, 1981-2016



Source: World Bank Indicator (https://data.worldbank.org/indicator), BP Statistical Review of World Energy, BP Statistical Review of World Energy 2017 (https://www.bp.com) accessed 12/09/2017, figured by author.

Table 4.1

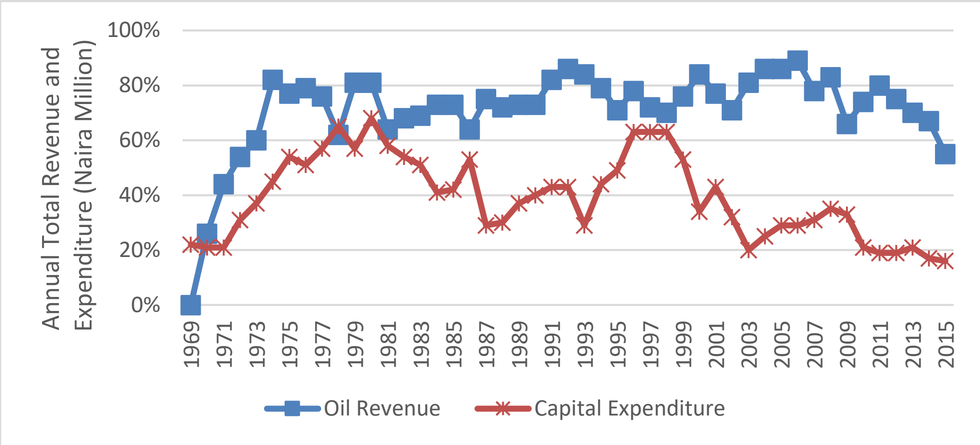
Oil revenue, Annual GDP growth, Nigerian Forcados oil price, 1981-2015

Year	Oil Revenue (% Total Revenue)	Annual Growth rate (% GDP)	Nigeria Forcados oil Price (Billion Dollars)
1981	64	-13.9	33.18
1982	68	-1.05	33.29
1983	69	-5.05	29.54
1984	73	-2.02	28.14
1985	73	8.32	27.75
1986	64	-8.32	14.46
2000	84	5.32	28.42
2001	77	4.41	24.23
2002	71	3.79	25.04
2003	81	10.35	28.66
2004	86	33.74	38.13
2005	86	3.45	55.69
2006	89	8.21	67.07
2010	74	7.84	81.05
2011	80	4.89	113.65
2012	75	4.28	114.21
2013	70	5.39	111.95
2014	67	6.31	101.35
2015	55	2.65	54.41

Source: World Bank Indicator (https://data.worldbank.org/indicator) and BP Statistical Review of World Energy, BP Statistical Review of World Energy 2017 (https://www.bp.com) CBN (https://www.cbn.gov.ng) accessed 12/09/2017, figured by author.

If you study the data above (Table 4.1 and Figure 4.3) it is seen that 1983 and 1985 are two years where the global prices of oil were similar, and yet they had contrasting GDP annual growth rates. The price of oil in 1983 was \$29.54 with an annual GDP growth rate of -5.05 percent. Despite a similar oil price in 1985 (\$27.75), the GDP annual growth rate greatly differed at 8.32 percent. This trend is echoed in 1981 and 2004. Although the oil price of 1981 (\$36.18) was only \$1.95 less than the oil price of 2004 (\$38.13), there was a drastic difference in the annual GDP growth rate; according to the World Bank (2015), this was -13.19 percent (1981) versus 33.74 percent (2004). Therefore, this data highlights the positive correlation of consistent fluctuation between the GDP annual growth rate and the oil prices from 2011 to 2015.

Figure 4.4
Oil Revenue and Capital Expenditure, 1969-2015



Source: Federal Ministry of Finance and Central Bank of Nigeria (https://www.cbn.gov.ng/Out/2015/SD/2014%20Statistical%20Bulletin_Section%20B_Final.xlsx) accessed 12/09/2017, figured by the author.

This data (Figure 4.4) above further correlates the trend of consistent fluctuation between GDP growth and oil prices as the revenue from oil exports and capital expenditure has consistently declined since 2011 due to the fall in oil price. The rate of change between oil revenue and capital expenditure was 5.13 percent from 2011 to 2012, which significantly increased to 21.12 percent from 2013 to 2014; this demonstrates a very fast decline in GDP growth in the recent years. It can be postulated that this decline is a consequence of the world oil price fluctuations negatively influencing the revenue from oil exports, which in turn, causes the decline in GDP growth. One could therefore conclude that the consistent fluctuations experienced in the earlier years, coupled with a lack of sustainability has only served to stunt Nigeria's economic growth, which is illustrated through the substantial rates of change and decline in the recent years.

Contrastingly, from a NIE viewpoint, they would interpret the volatile and declining nature of GDP growth to be a product of real exchange rate fluctuations which results from the prioritising of oil production. Using the dutch disease theory to analyse the data, they would argue that this negative impact on GDP growth is a consequence of a poor institution. They would postulate that it was in fact the mismanagement of oil revenue which also causes decline in growth since it was concentrated in the non-tradeable sector at a time where it was over-saturated.

Furthermore, they also argued that economies who focus on oil production for most of its export earnings tend to experience real exchange rate fluctuations because of the shocks resulting from concentrating mainly on the production of raw materials. This is because in the case of Nigeria the real exchange rate appreciation would result into increased domestic demand as a result of the increased revenue derived from its oil exports. However, in the case of Nigerian Government effort to diversify the economy with the revenue gotten from the oil sector particularly towards the manufacturing sector was insignificant that is what we can see from the data in (table 4.2 and Figure 4.5 see below) that since

1981 the Nigerian economy has failed in all attempt to diversify into the manufacturing sector (Camargo, Jhean Steffan Martines de and Gala 2017:123).

4.4 Diversification and Economic growth

Over the years Nigeria has experienced stagnated economic growth because it has failed to diversify its economy from the monotonous culture of oil dependence. Structuralists argue that Nigeria's economic growth hinges on the diversification of its economy from the oil sector to the non-oil sector (particularly the manufacturing sector).

Table 4.2 and Figure 4.5: shows the percentage contribution to GDP growth for three sectors which are included Agriculture, Manufacturing, and Oil.

Table 4.2

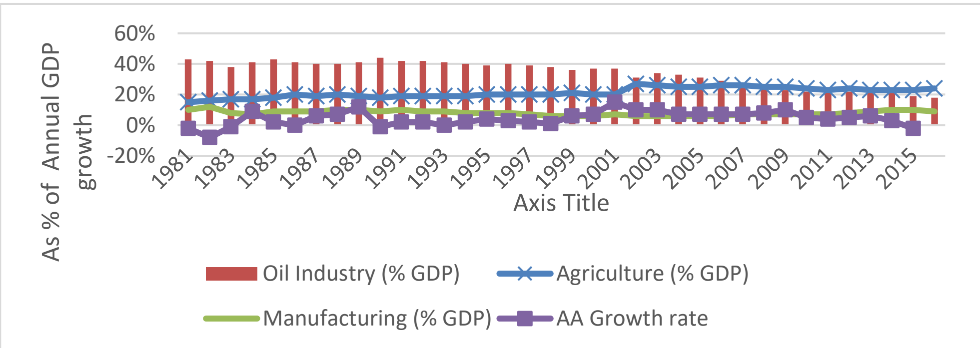
GDP at 2010 Constant Basic Prices Annually, 1981-2016

Year	Agriculture (% GDP)	Manufacturing (% GDP)	Oil Industry (% GDP)
1981	15	10	43
1982	16	12	42
1983	17	8	38
1984	17	7	41
1985	18	9	43
1986	20	9	41
2000	20	6	37
2001	20	7	37
2002	27	6	31
2003	26	6	34
2004	25	6	33
2005	25	6	31
2006	26	6	29
2009	25	7	23
2010	24	7	22
2011	23	7	22
2012	24	8	22
2013	23	9	21
2014	23	10	21
2015	23	10	19
2016	24	9	18

Source: Federal Ministry of Finance & Central Bank of Nigeria (http://statistics.cbn.gov.ng/cbn-onlinestats/QueryResultWizard.aspx) accessed 12/09/2017, figured by the author

Figure 4.5

Nigeria's Sectorial Contribution to GDP growth (US Dollars), 1981-2016



Source: Federal Ministry of Finance, Central Bank of Nigeria, and World Development Indicators (http://statistics.cbn.gov.ng/cbn-onlinestats/QueryResultWizard.aspx) accessed 12/09/2017, figured by the author.

This data in Table 4.2 and Figure 4.5 is significant because it illustrates that since 1981, the contribution to GDP for manufacturing has been less than 12 percent. Even though the Agricultural sector since 2003 has increased in terms of GDP contribution (which accounts for the slight increase in the GDP Annual growth rate) from 2001 to 2009, this growth has not been sustained. However, the manufacturing sector has had less than 10 percent over the last decade. This implies that the Nigerian economy has not diversified (particularly towards manufacturing) and the oil dependence has prevented industrialization. Therefore, this has impacted negatively on Nigeria's economic growth. As such, it is highly important for the economy to diversify in manufacturing if it must experience sustained economic growth.

Furthermore, Figure 4.5 indicates that there was a stark declination of the GDP growth rate post 2004 which demonstrates that a lack of diversification has greatly hindered the rate of economic growth. The data see above (Table 4.1 and Figure 4.3) illustrates this because despite high oil prices, for example $55.69 in 2005, the growth rate remained severely lower (3.45 percent) in comparison to its pre-2004 figures. This is consistently the case, which is reflected in both 2012 (oil price of $114.21/4.28 percent GDP) and 2015 (oil price of $44.54/2.65 percent GDP). Therefore, unless the Nigerian economy is diversified towards manufacturing, only then can it experience sustainable economic growth. Likewise, the data analysed (see above Figure 4.3) which displayed the fluctuations in GDP growth and oil prices also supports this viewpoint. Despite the similarities in oil prices, there was constant fluctuations in GDP growth which reveals that whilst fluctuating world oil prices negatively influences the economy, the lack of diversification has a stronger influence on GDP growth. Even when the oil prices were similar, the GDP growth still fluctuated. Therefore, this validates that it is truly the lack of diversification which is the main factor that hinders the growth and sustainability in the Nigerian economy.

Chapter 5
Conclusion and Recommendations

For the past 25 years, Nigeria's oil revenue and capital expenditure has been volatile because of the fluctuating world oil prices. This study was to show the nature and extent of Nigeria's oil dependence, as well as the impact of this oil dependence on their economic growth. It looked it how damaging this oil dependence has been for the growth process, in terms of its negative impact on diversification of production (particularly towards the manufacturing industry), and the damages made to public finances and government capital expenditure programs. Although both the NIE and Structuralist studies have presented an accurate depiction of how natural resources had negatively impacted the Nigerian economy, the Structuralist approach held the greatest validity because it highlighted the need for the diversification of the Nigerian economy from the oil sector to the non-oil sector. The several data analysed, for example the World Bank Indicator, validated the proposition that the impact of oil can only bring about sustained growth when diversified into the manufacturing sector.

Whilst there have been some attempts to diversify into agriculture, it is evident that this step is insufficient, and thus, diversification towards the manufacturing sector must occur so there can be sustained economic growth.

By critically analyzing the several data such as: oil revenue, GDP growth, CPI, prices of oil, capital expenditures, earnings from export and import, various empirical studies to show the nature and extent of the impact on economic growth of Nigeria's oil dependency, the following can be concluded:

- The basis of Nigeria's economic growth has been dependent on oil since its discovery in 1956, with government earnings from oil accounting for approximately 90 percent of total foreign exchange earnings, and over 70 percent of government revenues.
- In the past 25 years, the Nigerian economy has experienced slow growth due to this dependence on oil, in recent years (post 2011) this has translated into a decline in economic growth as a result of the fall in world oil price.
- The NIE's corruption and growth argument presents itself as far too simplistic and consequently lacks ecological validity because despite Nigeria's improvement in corruption ratings, this improvement did not translate into any improvement in their GDP growth. Similarly, the Dutch disease argument fails to show the reason why countries have differing economic growths despite their abundance in oil.
- There was a stark decline in Nigeria's GDP growth post 2004, which is a consequence of their lack of diversification into the non-oil sector. Since 1981 the contribution to GDP growth from the manufacturing sector has been less than 12 percent. The Structuralist argument demonstrates that Nigeria's economic growth hinges on the diversification of the economy from the oil sector

into the manufacturing sector, only then can sustained economic growth be achieved.

Since the advent of oil and its commercial production in Nigeria post 1956, the over dependence on oil for its export earnings has steadily increased and this in turn has had a negative effect on its economic growth. In recent times the country has experienced decline economic growth, which is as a result of the sudden fall in the world oil price. Based on the several data analysed from the various reliable sources such as: the CBN, World Bank, Federal Ministry of Finance, one could see that for over 25 years the manufacturing sector in Nigeria has suffered greatly from this monotonous dependence on oil for its government revenue. Since the oil revenue is dependent on the fluctuation in the world market, the recent fall in world oil price has had a ripple effect on the Nigerian economy which can be seen in its economic growth process.

However, this study has been able to highlight the importance of infrastructural development and the need to diversify the Nigerian economy from the oil sector to the non-oil sector particularly the manufacturing sector, so it can experience consistent economic growth since it can be seen according to some academics such as Okoroma et al. (2015:13) that the manufacturing sector has the growth inducing factor, needed to tackle this consistent decline in economic growth.

It is recommended that the Nigerian government should embark on policies which implement the diversification of the economy, for example, policies which encourage the diversification of the oil sector into the non-oil sector (especially the manufacturing sector). For over 25 years the Nigerian government effort to industrialise its economy has since failed. These policies are necessary and most especially if they are channelled towards industrialization, because they have the required growth inducing factors needed to improve the country's economic growth. In turn, these policies will help contribute to sustaining economic growth of the country. This is why there is a need for policy makers to focus on policies which are championed towards infrastructural and industrial development to experience sustained economic growth.

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