

Non-Oil Exports and its Impact on Economic Growth in Nigeria

Nebechi Fidelia Onuigbo, Martina Nebechi Uke, Sunday Virtus Agu

Department of Economics

Enugu State University of Science and Technology, Agbani

*Correspondence: fidelia.onuigbo@esut.edu.ng

doi: <https://doi.org/10.37745/ijdes.13/vol14n197108>

Published May 10, 2026

Citation: Onuigbo N.F., Uke M.N., Agu S.V. (2026) Non-Oil Exports and its Impact on Economic Growth in Nigeria, *International Journal of Development and Economic Sustainability*, 14 (1), 97-108

Abstract: *This study examined the impact of Non-oil Export on Economic Growth in Nigeria using annual time series data from 1981- 2021. The Real Gross Domestic product (LRGDP) was specified as a function of Non-Oil Export (LNOE), Trade Openness (LTOP), Gross Fixed Capital Formation(LGFCF), Labour force (LLAB), Exchange Rate (EXCHR) and Exchange Rate Deregulation Policy (DUM). Estimation techniques are the Vector Error Correction Model (VECM) and Granger Causality Test. From the VECM result, LNOE had positive, but insignificant impact on Economic Growth in the longrun. EXCHR had negative and significant impact on RGDP in the long run. LTOP had negative and insignificant impact on RGDP in the longrun. LGFCF had positive and significant impact on RGDP. LLAB had positive and significant impact on RGDP. Exchange rate Deregulation policy had negative and insignificant impact on RGDP in the longrun. The result of the Granger causality test indicates that there was a uni-directional causality from LGFCF to LNOE . Since LNOE had insignificant impact on RGDP in the long run, this study recommends diversification of the Export base via allocation of more funds for the production of more non-oil goods.*

Keywords: non-oil export, trade openness, gross fixed capital formation, labour force, exchange rate and exchange rate deregulation policy

INTRODUCTION

For any economy to achieve sustainable growth and welfare there should be devoted efforts to achieving significant improvement in the output of its productive sectors. The outputs of the productive sectors include those consumed locally and those that are conveyed outside the country for exchange. Outputs which are conveyed and sold outside a country would yield greater value in the form of foreign exchange earnings. Exporting goods and services abroad is one of the key achievements which bring foreign currency into a country and helps create foreign currency reserve (Shetty, 2021). Any nation with substantive capacity of maximizing output of its productive sectors, for the production of goods that can be sufficiently consumed within the

economy and externally, could be considered as having the potential of addressing its macro-economic problems. Such macro-economic challenges include unemployment, inflation, balance of payment deficit, external debt, low foreign exchange reserve and poor standard of living of majority of its populace. These economic problems reflect adversely on economic growth. Economists are of strong view that exports boost economic growth and general welfare of a nation. In fact, the top growing economies of the world today are exporting nations and this shows that no country can grow without exporting (Awoke, Iwuoha & Awoke, 2019).

Exports attract foreign capital inflow into a nation in form of foreign exchange earnings. The foreign exchange revenue are used in creation of jobs, provision of social welfare packages and increase the gross domestic product of a nation. The benefit of non-oil export is of high significance, as countries that do not have crude oil resources sustain their economy with their non-oil exports. The non-oil products could be regarded as the bedrock of civilization in Nigeria. It is obviously the abundance of non-oil resources that attracted the first foreign explorers into settling down in Nigeria. This has resulted into successive colonial administrations, which later gave birth to this present modern Nigeria.

Non-oil International trade is very important for all the countries in the world. In Nigeria, international trade became popular with the advent of the colonial rule that brought in their wares and made Nigerians their middlemen (Nicks, 2008). By this, Nigerians understood the need for trade both domestically and internationally. Before 1972, most of Nigerian exports were agricultural commodities like cocoa, palm produces, cotton and groundnut. Thereafter, minerals, especially petroleum became significant export commodities. However, from the mid-1970s, crude oil became the main export product of the Nigerian economy (Enoma & Isedu, 2011) The discovery of crude oil in Nigeria led to the neglect of the non-oil sector which has slowed down the production and exportation of non-oil goods. Exports in Nigeria decreased to N1724326.50 millions in Dec, 2021 from N2065113.3M in November, 2021 of which oil export was N1270799.94M while non-oil export was N453526.56M (National Bureau of statistics report, 2021). The low level of non-oil export in Nigeria has led to high rate of importation of consumer goods, which has contributed to the very poor value of the Nigerian currency and thus could not give room for a robust implementation of the exchange rate deregulation policy. This has resulted to the worrisome economic situation of the country. The low export of non-oil products in Nigeria also contributed to the mono-economy of the country and recycling of economic problems in the country. There is need to boost the volume of non-oil export of the country Nigeria.

Some policies have been formulated by the Nigerian government before the era of the structural adjustment programme like the import substitution policy of 1960, Nigerian indigenization policy

1972, Nigerian export promotion council of 1976, etc. However, they are yet to yield the required outcome on non-oil export. But exchange rate is a major factor which facilitates export. Foreign transactions are being affected by the availability of foreign currency, its accessibility and the rate in which one currency is exchanged with other currency. Exchange rate is one of the key elements which determine the volume and value of exports, therefore policies on exchange rate is very sensitive in every economy. Policies that were in existence before the Exchange rate deregulation policy(SAP 1986) involves restrictive and protectionism measures that have the tendencies to curtail foreign transaction, while deregulation policy on exchange rate entails the liberalization of the system, minimization of government interference and allows free market forces to determine the rate of exchange of foreign currency. It is against this background that, the Structural Adjustment Program (SAP) in 1986 was introduced, as a sustainable economic growth of Nigeria. With the formulation of SAP, Nigeria renewed its commitment in promoting trade liberalization policies and adhering to multilateral and regional based trade agreement that could help in promoting the non-oil exports. The quest to evaluate the impact which exchange rate deregulation policy and non-oil export would have on economic growth are the key background upon which this study was carried out.

Objectives of the Study

The general objective of this study is to determine impact of non-oil export on economic growth in Nigeria for the period 1981– 2020. The specific objectives of the study are as follows:

- i. To determine the impact of non-oil export on economic growth in Nigeria.
- ii. To evaluate the impact of exchange rate deregulation on economic growth in Nigeria.
- iii. To estimate the causality relationship between non-oil export and economic growth in Nigeria.

Literature Review

The Nigeria's non-oil exports sector is structured into four broad constituents which are the agricultural exports, manufactured exports, and solid mineral exports and services exports (Akeem, 2011). The non-oil export products are unlimited as they include agricultural crops, manufacturing goods, solid minerals, entertainment and tourism services etc (Abogan, Akinola & Baruwa, 2014). These explains non-oil exports in the context of this study. Akeem (2011) defines the non-oil sector of the Nigerian economy as the whole of the economy less oil and gas sub-sector. It covers agriculture, industry, solid minerals and the services sub-sector, including transport, communication, distributive trade, financial services, insurance, government, etc. . According to NBS, (2021), export in third quarter of 2021 was oil dependent and noted that crude oil recorded

N4,626.18 billion in 2021 and it remained the major product in total export (78.48 percent) while non crude oil was valued at N1,104.1 billion which is 21.52 percent of total export in third quarter of 2021. The NBS report, (2021) further notes that non oil contributed 546.27 billion, which represents 10.65 percent of total export during second quarter of 2021. The problem of non oil sector in Nigeria include power fluctuations, infrastructural deficit, poor trade, protectionism policies, poor performance of the insurance sector (Salawu, Oyebayo, Obafemi & Oyeleye, 2021). Dumani, Nelson and Siaisiai (2018) studied the effects of oil imports, non-oil imports, oil exports, and non-oil exports on economic growth in Nigeria for the period 1981 to 2016. The multiple regressions was applied and findings indicate that oil import has a linear but insignificant impact on economic growth, non-oil imports and non-oil exports have positive and significant impact on economic growth and oil exports have nonlinear and insignificant impact on real economic growth in Nigeria. Openness for the period 1981-2017 were collected from Central Bank of Nigeria (CBN), Statistical Bulletin, 2017. The ARDL results revealed that all the variables tend to move together in the long run. However, the impact of non-oil exports on economic growth in Nigeria is not significant enough to take the country to an enviable level within the period under study.

Hafsat, Usman, Badawi and farouq (2020) analyzed the impact of non-oil export on economic growth in Nigeria. The method used in this study is Auto regressive distributive lag (ARDL), to capture both the long run and short run dynamic relationship. Augmented Dickey- Fuller unit root test was used to avoid the error of accepting the null hypothesis of unit root test when it had been rejected. Annual time series data were obtained and analyzed. The finding of the study reveals that, there is a positive and significant relationship between non-oil export and economic growth in Nigeria. While the other finding reveals a long run relationship between agricultural output and economic growth in Nigeria. Zubair, Salihu and Gyang, (2021) investigated the impact of non-oil foreign trade-on economic growth in Nigeria using time series data: 1986-2018. The variables involved in this study are GDP, Non-oil export, non-oil import exchange rate. The methodology of the analysis are ARDL and ECM. The results suggest a strong relationship between economic growth and non-oil foreign trade. Non-oil export in Nigeria was statistically insignificant in explaining variation in economic growth while non-oil import was statistically significant in explaining such variation. The study recommends that government should improve the efficiency of non-oil export in Nigeria since it was statistically insignificant in the long run.

Oboro, (2021) investigated the impact of non-oil export using time series data: 1990 -2020. The variables for the study are: RGDP per capital, Agricultural product export, solid mineral export, service product export and manufacturing product export. The study employed Cointegration test, parie-wise, Granger causality test and Error correction Model. The results show that longrun

relation exist between the variable. Unidirectional causality from RGDP per Capital to manufacturing product export and from solid mineral export to manufacturing product Export. Study concludes that non-oil export indicators exerted high statistical significance on economic growth except agriculture and manufacturing. The study recommends pragmatic policy on agro allied sub sector and review of policies on solid mineral sector.

Methodology

The study adopts the Expo facto design with time series data between 1981 to 2021. The Vector Error Correction Mechanism (VECM) procedure was used to examine the cointegration (long run) relationship between the dependent variables and the explanatory variables, as well as the short run dynamics. The study further employed the Granger causality test to determine the direction of causality between Non oil Export and the explanatory variables.

Theoretical Framework

Export led Growth/ Hypothesis (ELGH)

This study was anchored on export led growth hypothesis which postulates that export growth is one of the key determinants of economic growth. The advocates of the ELGH have stated that trade was in fact the main engine of growth in both developed and developing countries of the world. They further argued that, for instance, Hong Kong (China), Taiwan Province of China, Singapore and the Republic of Korea, the so-called Four Tigers, have been successful in achieving high and sustained rates of economic growth since the early 1960s because of their free-market, outward-oriented economies (World Bank, 1993). This theory is of the view that long run economic growth can be achieved not just by increasing the amount of labor and capital but also by expanding exports. The functional relationship of the ELGH can be specified thus: $GDP = f(L, K, E)$, where L, K & E stands for labour, capital and exports, respectively. The present study is in line with the ELGH, where two additional variables, namely: trade openness and exchange rate were added to the model of ELGH, while non-oil export was used by this study. Thus, the functional relationship of the present study states that real gross domestic product is a function of non oil export, trade openness, gross fixed capital formation and exchange rate. This theory is suitable for this study because the study is desirous of examining the short run and the long run impacts of non-oil export on economic growth in Nigeria. The theory is also good for Nigeria

economy giving its abundant labor resources yet under-utilized and the quest for achieving long term economic growth for the country via diversified export base.

Model Specification

The model of this study followed that of Export led Growth theory with functional relationship as below;

$$RGDP = F(\text{LABOUR, CAPITAL AND EXPORT}) \quad 3.1$$

This expression was modified to suit the objectives of the study as expressed below;

$$RGDP = f(\text{NOE, TOP, GFCF, LAB, EXCHR}) \quad 3.2$$

The explicit function is as follows:

$$\ln RGDP_t = \beta_0 + \beta_1 \ln NOE_t + \beta_2 \ln TOP_t + \beta_3 \ln GFCF_t + \beta_4 \ln LAB_t + \beta_5 EXCHR + \beta_6 Dum_t + \mu_t \quad 3.3$$

f = Functional Relationship

ln = Natural log (all the variables were logged to ensure uniformity of measurement, except exchange rate which is measured in percentage)

RGDP = Real Gross Domestic product (as a proxy for economic growth),

NOE = Non-oil exports,

TOP = Trade openness,

GFCF = Gross Fixed Capital Formation (as a proxy for capital formation),

LAB= Labor force,

EXCR= Exchange rate,

Dum = Dummy Variable for Exchange rate deregulation policy. Dum= 1: Presence of exchange rate deregulation policy (1986-2020), Dum=0: Absence of exchange rate deregulation (1981-1985).

μ = Stochastic Error Term,

t = Time period,

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Parameters to be estimation

The *a priori* expectations are: $\beta_1 > 0, \beta_2 > 0, \beta_3 > 0, \beta_4 > 0, \beta_5 < 0, \beta_6 > 0$

Result Presentation

Vector Error Correction Model

Given that there was existence of co-integration among the variables, it is important to state that there might be disequilibrium in the short-run. To correct for this possible disequilibrium, the vector error correction model (VECM) was employed and the results were stated below in table 4.

Results of VECM Estimates

Long run VEC Estimates

S/N	Variables	Coefficient	Standard Error	t-statistics
1	LRGDP	1.000000		
2	LNOE	0.360994	0.68025	0.53068
3	EXCHR	-0.006246	0.00078	-7.95803
4	LTOP	-0.797551	0.62688	-1.27226
5	LGFCF	5.955803	0.44241	13.4622
6	LLAB	1.481652	0.21617	6.85396
7	DUM	-0.343231	0.22781	-1.50667

Short run VEC Estimates

S/N	Variables	LAG	Coefficient	Standard Error	t-statistics	Co-integrating Equation (ECM)	Constant	Co-efficient of Multiple Determination R^2
1	D(LRGDP)	1	-0.060121	0.24327	-0.24714	-0.013589	0.019075	0.535662
2	D(LRGDP)	2	0.578257	0.24051	2.40429			

3	D(LNOE)	1	0.164255	0.11721	1.40133	-0.128360	0.4274 20	0.559050
4	D(LNOE)	2	-0.124872	0.09382	-1.33100			
5	D(EXCHR)	1	-0.000222	0.00041	-0.54087	-5.249968	18.927 10	0.476420
6	D(EXCHR)	2	0.000488	0.00045	1.07845			
7	D(LTOP)	1	-0.160212	0.12077	-1.32655	-0.059248	0.3239 65	0.580152
8	D(LTOP)	2	0.136747	0.10075	1.35732			
9	D(LGFCF)	1	-0.132196	0.08172	-1.61763	-0.230399	0.1492 41	0.841785
10	D(LGFCF)	2	-0.087916	0.06793	-1.29419			
11	D(LLAB)	1	-0.123701	0.06702	-1.84567	0.102137	- 0.0934 35	0.497420
12	D(LLAB)	2	0.020297	0.05122	0.03962 6			
13	DUM	1	-0.005600	0.04271	-0.13111	-0.007491	0.0218 89	0.347465
14	D(DUM)	2	0.013857	0.04670	0.29672			

The result from Table 4.5 and table 4.6 show that non-oil export had a positive but insignificant impact on economic growth both in the long run and lag 1 of short run. However, non-oil export had a negative and insignificant impact on economic growth at lag 2 in short run. One percent increase in non-oil export leads to 0.36 percent increase in economic growth in the long-run and lag 1 of the short run.

Exchange rate had negative impact with economic growth which is statistically significant at five per cent. This is in conformity with a priori expectation. This is because the increase in the exchange rate of Naira in relation to US \$ causes devaluation to the naira. However, results for short run estimate revealed that exchange rate had negative coefficient and statistically insignificant at lag 1. But, at lag 2 exchange rates had a positive and insignificant impact on economic growth. One percent increase in exchange rate leads to 0.006 percent decline in economic growth in the long run. This implies that as the exchange rate increases, there is a potential of increasing export in the long run. This is because the devaluation of the exchange rate makes Nigerian goods less expensive, with regards to non-oil export products. Thus, will generate

more demand and revenue for the country and then increase economic growth. current period of short and long run.

Trade openness had a negative and statistical insignificant on Economic growth in the current period of shortrun and longrun . However, it had a positive but insignificant impact on economic growth at lag 2 in the short run. This result reflects that trade openness contributes to increase in the economic growth in Nigeria but its impact is not statistically significant in the short and long run. One percent increase in trade openness leads to -0.79 percent decrease in economic growth in the long run.

In the long run, gross fixed capital formation had a positive significant impact on economic growth. This is in line with a prior expectation. The result shows a statistically significant relationship between gross fixed capital formation and economic growth since the t-statistic exceeds the 2t rule of the thumb ($t^* = 13.4622 > \pm 2.0$). One percent increase in gross fixed capital formation leads to 5.96 percent increase in economic growth in the long run. However, gross fixed capital formation had negative and insignificant impact on economic growth at lag 1& 2 periods, in the short run. This implies that it has contributed negatively to the economic growth of Nigeria in the short run. Labour force had positive and significant impact to economic growth in the long run. This conforms with economic theory or a priori expectation.

Labor force had significant impact on economic growth in long run. However, in the short run ,it had a negative and insignificant impact on economic growth at lag1 but positive and insignificant at lag 2. One percent increase in labour force leads to 1.48 percent increase in economic growth in the long run. This outcome is statistically significant since the computed t-statistic falls above the 2t rule of the thumb ($t^* = 6.85396 > \pm 2.0$). This implies that labor force plays an important role in determining economic growth in the country. The reason is not farfetched, as Nigeria has abundant labor force both skilled and unskilled, thus the major productive sectors in Nigeria are labor intensive.

The result revealed that the exchange rate deregulation policy had a negative and insignificant impact on economic growth in Nigeria in the long run ($t^* = 1.50667 < \pm 2.0$). One percent improvement in the exchange rate deregulation policy leads to -0.34 percent decline in economic growth in the long run. This result does not meet a priori expectations. However, in the short run, exchange rate deregulation policy had a negative and insignificant impact on economic growth at lag1 period but positive and insignificant impact at lag2 period. R^2 , the coefficient of multiple

determinations was used to test the explanatory power of the model and the goodness of fit. From the result R^2 adjusted for degree gross domestic product in Nigeria had been corrected within a year. of freedom is 0.535662 in Table 4.4 above. This indicates that about 54 percent of systematic variations in the dependent variable are explained by changes in the independent variables in the model. Finally, the cointegrating equation, error correction term (CointEq(-1)) had the correct sign but insignificant at 5 percent significant level. The value of the coefficient was -0.013589 and this meant that about 14 percent of the disequilibrium in real gross domestic product of previous year's shock had adjusted back to the long run equilibrium in the current year. It also implied that deviated real gross domestic product adjusts to equilibrium with lags and only about 14 percent of the discrepancy between long and shortrun

Result of Granger causality test

VEC Granger Causality/Block Exogeneity Wald Tests			
Date: 07/09/22 Time: 09:49			
Sample: 1981 2021			
Included observations: 36			
Dependent variable: D(LRGDP)			
Excluded	Chi-sq	Df	Prob.
D(LNOE)	5.431960	2	0.0661
D(EXCHR)	1.426064	2	0.4902
D(LTOP)	4.665360	2	0.0970
D(LGFCF)	3.111094	2	0.2111
D(LLAB)	4.086092	2	0.1296
D(DUM)	0.113761	2	0.9447
All	10.14677	12	0.6031
Dependent variable: D(LNOE)			
Excluded	Chi-sq	Df	Prob.
D(LRGDP)	4.337535	2	0.1143
D(EXCHR)	1.070072	2	0.5856
D(LTOP)	1.651706	2	0.4379
D(LGFCF)	8.204601	2	0.0165
D(LLAB)	3.476630	2	0.1758

The granger causality test which shows that there was no causality relationship between economic growth and non-oil sector during the period under study. Given that the probability value of F-statistics is greater the 0.05 % level of significance. However, a uni-directional causality relationship ran from gross fixed capital formation to non-oil export. This result confirms that investment is vital to the economy.

Recommendations

The following recommendations have been made in line with the findings of the study to guide policy action of government.

- i. Based on the statistical result, non oil export had positive impact on economic growth in the long run but had insignificant impact to economic growth in the same period. Since non oil export had insignificant impact to economic growth within the period, there is need for government to allocate more fund in the production of non oil goods. This will boost the volume of non oil goods and diversification of the export base.
- ii. Since a uni-directional causality runs from gross fixed capital formation to non-oil export, more capital should be invested in the non-oil sector, so as to boost the volume of non oil export and to achieve a significant impact of non oil export to the Nigerian economy. system. It is also recommended that regular monitoring of the execution stage of policies be done to ensure the elimination of any bottleneck that militates against the implementation of the exchange rate deregulation policy.
- iii. The exchange rate deregulation policy had negative and insignificant impact on economic growth in the long run. This is because the Nigerian export is dominated by crude oil and it's trade cannot operate in a competitive market as the price of crude oil is being determined by cartel. It is recommended that the volume of non-oil export should increase, as the prices of non oil goods can be determined under deregulated pricing system. It is also recommended that regular monitoring of the execution stage of policies be done to ensure the elimination of any bottleneck that militates against the implementation of the exchange rate deregulation policy.

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