



Nigerian Growth Model: Lessons from China

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Abstract

China has experienced rapid economic growth since 1977 when the country begins its reform. Before this time, the growth in Nigeria was above that of China; but the country has surpassed Nigeria since early 1980s as it has a constant and steady growth since then. The Nigerian economic growth kept fluctuating. The paper investigated therefore, the trend in the economic growth of both countries and tries to investigate the factors that lead to such economic growth in China so as to apply it to the Nigerian economy. Both descriptive and inferential statistics are used to investigate this. It was revealed that the Chinese reforms that started in 1977 has led to the stability in the growth rate of the country. The trend showed that the growth in China is driven by export and foreign investment. An investigation of these variables on economic growth in Nigeria has shown that, export had positive but not significant impact on economic growth in Nigeria. Investments on the other hand had positive and significant impact on economic growth. The public expenditure also had positive and significant impact on economic growth. It is recommended that the export base should be diversified to have advantage of export driven growth.

Key words: Economic growth model; Export; Investment; Public expenditure; Reforms

INTRODUCTION

China's rapid economic growth since the past three decades, from the beginning of economic reforms in 1970, has been significant. According to Fung and Peng (2012), from 1978 to 2010, the growth rate was steady at the rate of 9.8% per annum. Fung and Peng (2012) observe that China keeps on balancing their growth model and keep on having development plans since 1978. This, according to them was to maintain a steady path of development and their global position as the second largest economy in the whole world. The Gross Domestic Product (GDP) in China expanded by 2.20 percent in the third quarter of 2012 over the previous quarter. Historically, from 2011 until 2012, China GDP Growth Rate averaged 2.07 Percent reaching peak of 2.50 Percent in June of 2011 and a record low of 1.50 Percent in March of 2012. The Gross Domestic Product (GDP) growth rate provides an aggregated measure of changes in value of the goods and services produced by an economy. In economic size, only the United State of America can be said to be above China today. China's growth has been based on the development of an export- oriented manufacturing sector (Ajakaiye and Nwega, 2009). During the past 30 years China's economy has changed from a centrally planned system that was largely closed to international trade to a more market-oriented that has a rapidly growing private sector. A major component supporting China's rapid economic growth has

been exports growth. China has played a pivotal role in the world economy today as the largest exporters of quite a lot of commodities. Their demand for goods as raw material has led to the recent increases in International commodity prices and generated increases in commodities like oil and non-oil (aluminium, nickel and Copper) (Kaplinsky, cormick, & Morris, 2006).

One argument for China economic growth is that it matches standard growth patterns identified by theories of economic development and trade (Fung & Peng, 2012). These are structural change, catching up, and factor price equalization; of which China's past economic growth fits well with all three. Furthermore, China's reform period growth, within these three analytical frameworks, matches those of Japan, Korea, and Taiwan at an earlier stage of their development (Holz, 2005). Just like China, Nigeria has been undergoing a lot of reforms, but unlike China, has not been able to experience sustained level of growth over the years. One will notice that Nigeria economy is second only to South Africa's in the African continent. Yet, following several years of military rule and economic mismanagement, Nigeria experienced a prolonged period of economic stagnation, rising poverty levels, and the decline of its public institutions (Okonjo-Iweala & Osafo-Kwaako, 2007). To attain growth and be on the path of sustainable growth, therefore, there are a lot of lessons Nigeria can learn from China, especially as both are developing countries. The major challenge in the economy of Nigeria is her monocultural setup. About 95% of the Nigerian's export being crude oil, while the remaining 5% are non-oil export of which agricultural products are found. Public expenditures therefore, closely followed current revenues, implying that fluctuations in oil earnings were transferred directly into the domestic economy (see Okonjo-Iweala & Osafo-Kwaako, 2007). Thus, the economy becomes volatile and there is considerable theoretical and empirical evidence on the adverse effects of volatility for growth (Fatas & Mihov, 2003; Servén, 2003; Bleaney & Greenaway, 2001). Fluctuations in public expenditure reflected both the over-reliance on oil earnings and weak fiscal discipline by successive Nigerian governments. Volatile fiscal spending also Tended to cause real exchange rate volatility that are all injurious to the growth of the economy.

1. STATEMENT OF PROBLEM

Despite the enormous resources in the Nigerian economy, the country is still on the stage of taking-off in terms of development. On the trend of development, Nigerian real GDP in 1960 was 1521.23 while that of China 507.03 But in the year 2007, Nigeria's real GDP is 2527.90 while China growth has surpassed it to 8510.59 (World Development Indicator, WDI 2010). This has generated a lot of controversies in literature. Many authors demand to know what have really happened. Most existing literature

had focused on China-Africa trade relationship. The end result of the studies is to answer the fundamental questions of who benefits in the trading alliance between the two parties. Akisu *et al.* (2010), explore the increasingly important economic and business relationship between the People's Republic of China and the countries of Africa. The focus is on how this partnership manifests itself in investments. Their paper tries to find answers to the questions of how the relationship changed over time, how the recent economic downturn affected the relationship and finally to examine from the African perspective, whether the trading relationship has been beneficial to Africa. Their work concluded that not minding the investment inflows from China, the relationship has impacted negatively on the local trade and commerce. Also African labour is noted to have benefitted nothing from Chinese investment. Egbula and Zheng (2011) examine the same phenomenon of China –Africa trade but limits the scope of study to China-Nigeria. The paper situates the growing concern of Nigerians alongside the benefits derivable from the trading partnership. In the opinion of the paper, it is difficult to ascertain the negativity or the positivity of the relationship on economic growth of Nigeria. While Chinese manufacturing organisations contribute to the Nigeria's GDP, it offers stiff competition to local producers. The issue of poor working conditions as accused by the Nigerian Labour Unions, China has consistently maintained that the pay in the manufacturing sector in the country is generally low and that Chinese companies have been paying what is obtainable elsewhere in the manufacturing.

This paper is different from those papers above as it seeks to investigate whether the China model of growth will suit the Nigerian economy. As the Nigeria economy needs to learn from this other fast growing developing nation.

2. OBJECTIVES OF THE STUDY

The broad objective of the Study is to assess the lessons from China's Growth for the Nigerian economy.

Specific objectives of the study are:

- To access the extent of the Growth in China.
- To investigate how this growth can be mirrored in the Nigerian Economy and,
- To identify the challenges militating against growth in Nigeria.

3. JUSTIFICATION FOR THE STUDY

Nigeria economy has been growing over the past decade but the growth rate has not been able to reflect on the welfare of the citizens (Oloni, 2012). This study will be of great benefit to Nigeria and other developing countries especially in the Sub-Saharan regions. They will benefit as to how they will process their raw material before exportation to add to the values of their exports.

4. CHINA'S GROWTH

According to Fung and Peng (2012), China growth rate from 1978 to 2010 has been steady at 9.8%. Although it slowed down in 2008 in response to the global financial crisis, this has not stopped its position as the second largest economy in the whole world. The literature is replete on the drivers of Chinese growth. Edward (2012) identifies four powerful drivers pushing China towards economic growth at the same time. According to him, these forces are interacting with each other in unanticipated ways. These are export, explained as openness, competitiveness of the industrial sector in the international arena, since the country have the privilege of low labour cost, large public sector in the industrial sector and integration in the international market. Kotz & Zhu (2008) traced the growth of China since 1978 to 2006 to changes from being driven by domestic consumption forces to export and investment driven. They identified several stages in the growth model of the Chinese economy.

The first stage is Consumption -Led Growth (1978-1980). This was a stage when the economy was just getting out of the centrally planned period. This period, China was under Deng Xiaoping and the country has just entered reform and opening-Up era. At the time, consumption both private and public rose rapidly. The price of agricultural products were increased by the government, in order to gain the support of the common man on its reform agenda which in turn led to increase in the per capita income of the common man and as such increase in consumption.

The second period was from 1981-1988. This period was that of Balanced Growth. Consumption, both private and public with fixed investment rose significantly. At this period, there was relatively balanced growth with fixed investment playing a modestly leading role. The third period was from 1988-1990. At this period, growth could be said to be investment-Led. At this time, GDP growth slowed down significantly to a rate far below the overall average of the entire period. Between 1990-1993 the growth rate was said to be Investment-Domestic Market Based. This period marked a period of rapid rise in the fixed investment as a share of the GDP. In 1993-1994 the growth was likened to be Export-Led. This one year saw a huge single year increase in export. 1994 to 1999 was the second period of balance Domestic-Market –Based Growth with high household and public consumption and its attendant growth in fixed investment. Lastly, 1999-2013 can be seen as a period Export- and Investment-Led Growth-This period brings the current pattern of growth based on the combination of external and investment demands. In 2010, the GDP of China was about 40.12 trillion yuan (about \$5.9 trillion). This rapid economic growth supported swift gains in household income, and living standards improved significantly. For example, urban and rural households respectively had incomes of 19,109 yuan and 5,919 yuan in 2010, nearly 10 times their

levels in 1978. The annual average real growth rate of per capita income for both urban and rural households was over 7 percent. The share of the urban household budget spent on food consumption decreased from 57.5 percent in 1978 to 35.7 percent in 2010, while the corresponding decline among rural households was from 67.7 percent in 1978 to 41.1 percent in 2010. Also, China has achieved tremendous success in poverty reduction over the past three decades. The official poverty lines show an incidence of poverty that declines from 33 percent in 1978 to 2.8 percent in 2010. China has also become the 2nd largest trading country in the world, with the total value of imports and exports totalling \$2.97 trillion, or 143 times more than in 1978, for an average annual growth rate of 16.8 percent (Zhang, Wang, & C, 2012).

Holz (2005) predicted that going by the current growth rate of GDP, the size of China's economy will surpass that of United State of America between 2012 and 2015. In contrast to the USA, China has a high saving rate, low consumption and high export while the USA has a low saving rate, high consumption and high import.

5. EXPORT-LED GROWTH IN NIGERIAN AND THE IMPORTANCE OF EXPORT

In the years immediately after independence, the Nigerian economy was dependent on export of agricultural commodities for survival. However, as a result of the setting up of commodity board by the federal government to act as buying agent, this board went about fixing prices arbitrarily and below market prices, therefore, farmers moved out of the business because they no longer found it profitable. The policy effect was therefore negative development of exports in the agricultural sector. Moreover, available data revealed that the manufacturing sub sector of the economy had often been making minimal contribution to export. The reason that can be adduced for this had been neglect of the sector by colonial masters before independence in favour of export of industrial raw materials for their domestic industries. Even after independence, poor infrastructure, lack of adequate finance, high cost of production, and low market penetration due to poor quality control were factors constraining the development of manufacturing exports. Moreover in the 1970s, oil sector experienced price explosion at the global crude oil market. Before then, crude oil was sold for less than \$2 per barrel (pb) and Nigeria was producing less than 0.5 million barrels per day (mbd). By 1973, as a result of crisis in the Middle East, the price rose gradually from \$2 to \$11.65 per barrel and rose further to \$37.1 per barrel in 1981. Thus, it became the nation's major export product. Over the years, crude oil has continued to remain the nation's major export, raking in billions of dollars annually. Due to the instability in crude oil prices in the international

market and growing uncertainty as regards how long this monolithic product will remain the major driver of growth, the issue of diversifying the economy has continued to generate heated debates among Nigerians from all walks of life, including economic and financial experts. From time to time, various policies have been reeled out by the Federal Government, which have had several impacts on the fortune of non-oil products and the sub-sector in terms of how they have fared at the international market and their productive process.

The importance of export to a nation's economic growth and development cannot be over-emphasized. Export is a catalyst necessary for the overall development of an economy (Abou-Stait, 2005). The primary objective of export policies in any economy is to increase the level of economic activities. It follows, therefore that export policies should be directed to the sector in which the impact of an increase in export demand will be both desirable and large. It is a source of foreign exchange earnings since trade transaction among nations are settled in foreign exchange. Furthermore, a well-developed export sector will provide employment opportunity for the people with the attendant reduction in social costs of unemployment. Earnings from export will reduce the strains on the balance of payment position and even improve it. A rewarding export drive can turn a hitherto underdeveloped economy into a prosperous economy. Export help in increasing the level of aggregate economic activities through its multipliers effects on the level of national income (Usman & Salami, 2008). Income earned through exporting will help in increasing the level of demand within the economy.

The Nigerian economy has been and is currently being characterized by a reasonable degree of openness, hence its performance can be enhanced through the development of the external sector. The Nigerian external sector has always been dominated by primary commodities which have the well-known basic characteristic of low price and income elasticity of demand, low growth of demand,

terms of trade and instability of export earning (Iyoha & Oriakhi, 2002). The mono-culture situation in the economy has brought untold hardship on the people of the country. For instance, from 1970 to date, oil exporting has constituted on the average of 90% of the total foreign exchange earnings. The adversity of the fluctuation in oil price has in no small measure stalled the developmental efforts of the various governments. This contrast the situation in china

For instance, fiscal operations of the government was disrupted in 2009 as the federally-collected revenue declined by 38.4% (CBN, 2009) in the year due largely to lower oil prices in the international market caused by the global economic meltdown This has made the Nigerian economy to swing from the "oil boom era", as exemplified by the buoyant economy of the period with massive infrastructural development and the Udoji award followed by the "oil doom" period which arose from oil glut in the world oil market since 1981 only led to the neglect of the non-oil export productive base.

This has led to panic measures by successive governments from the economic stabilization Act of 1982, Counter trade policy of Buhari/Idiagbon regime and the introduction of Structural Adjustment Programmes (SAP) by the Babangida Administration.

Furthermore, in the wake of the recent global economic crisis, the government had to adopt policy measures to address the problems and prevent the crisis from throwing the economy into recession. The policy measures adopted were mainly on three broad fronts, namely monetary easing, fiscal easing, and trade policy.

The continued unimpressive performance of the non-oil sector and the vulnerability of the external sector thus dictate the urgent need for a reappraisal of the thrust and contents of the development policies and commitments to their implementation. Indeed, the need for a change in the policy focus and a shift in the industrialization strategy is imperative, if Nigerian economy is to be returned to the path of sustainable growth and external viability.

Table 1
The Growth Rate of China's and Nigeria' GDP 1978-2010

Year	China(GDP)	Nigeria(GDP)	CGR	NGR
1978	196563.31	55095.37	NA	NA
1979	230341.62	54932.33	17.18%	-0.30%
1980	2722805.07	62090.36	1082.07%	13.03%
1981	311794.85	70215.60	-88.55%	13.09%
1982	3600781.68	66433.21	1054.86%	-5.39%
1983	412770.06	58708.80	-88.54%	-11.63%
1984	536355.35	55153.11	29.94%	-6.06%
1985	629427.50	61822.66	17.35%	12.09%
1986	696675.41	51151.90	10.68%	-17.26%
1987	787942.78	45675.28	13.10%	-10.71%
1988	867454.14	49703.47	10.09%	8.82%
1989	886195.31	64025.64	2.16%	28.82%
1990	991930.46	72660.44	11.93%	13.49%
1991	1116843.52	77809.25	12.59%	7.09%

To be continued

Continued

Year	China(GDP)	Nigeria(GDP)	CGR	NGR
1992	1293325.09	82054.22	15.80%	5.46%
1993	1542141.91	79998.17	19.24%	-2.51%
1994	1761176.58	73429.11	14.20%	-8.21%
1995	1986717.87	80514.63	12.81%	9.65%
1996	2217091.12	92842.52	11.60%	15.31%
1997	2412986.95	91831.68	8.84%	-1.09%
1998	2577644.52	82656.13	6.82%	-9.99%
1999	2795671.16	95018.80	8.46%	14.96%
2000	3085198.54	126524.11	10.36%	33.16%
2001	3418515.11	138494.54	10.80%	9.46%
2002	3804924.55	145299.32	11.30%	4.91%
2003	4239401.99	170068.18	11.42%	17.05%
2004	4811803.61	201258.82	13.50%	18.34%
2005	5625967.69	207720.18	16.92%	3.21%
2006	6643939.69	236370.83	18.09%	13.79%
2007	7834430.37	274653.30	17.92%	16.20%
2008	8794573.85	264763.07	12.26%	-3.60%
2009	9766569.58	229981.97	11.05%	-13.14%
2010	10807289.42	248038.53	10.66%	7.85%

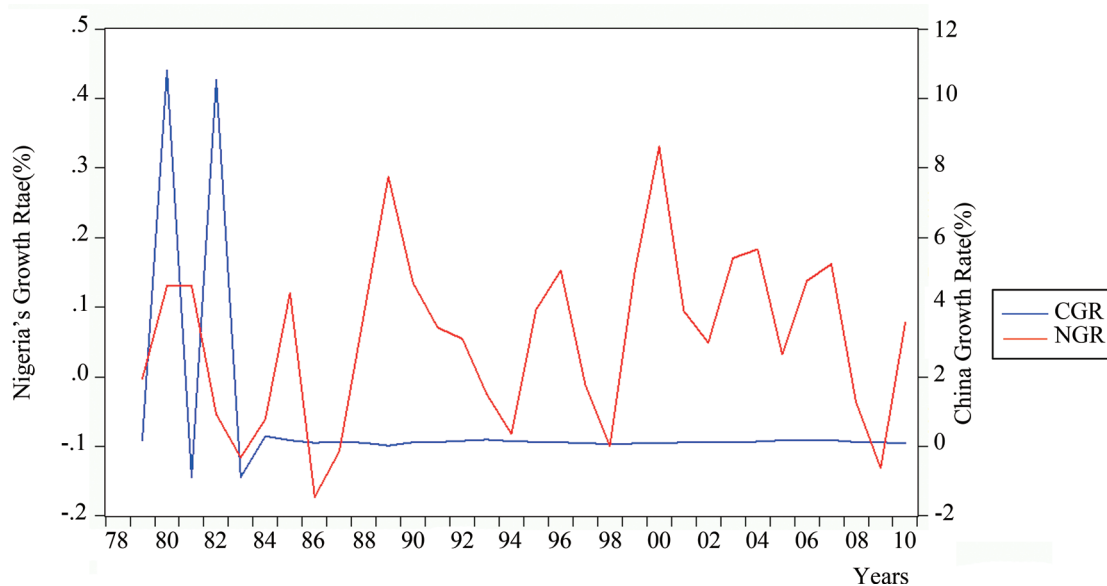


Figure 1
Comparative Analysis of the Growth Rates of China and Nigeria from 1978 - 2010

Figure 1 above shows the growth rate in the Nigerian economy and China over 1977 -2011 period. The growth rate of china was unstable between 1979 and 1983, but when the reform of 1977 stabilized, the growth rate became stable since 1984 to the present period. That of Nigeria however, remains unstable over the years 1977 to 2011 as there are ups and downs in the growth rate over the period.

6. METHODOLOGY

In an attempt to achieve the objectives of this paper and in the light of the realities of China's export and investment dependent, a growth model in line with Kotz and Zhu

(2008) is adopted. In formulating their growth model, they follow the National accounting identity

$$Y = C + I + G + NX \quad (1)$$

where Y = GDP, C = household consumption, I = gross investment, G = government purchases of goods and services (government expenditure for short), and NX = net exports, or exports less imports of goods and services. It is usual to assume that aggregate demand for GDP equals actual output, in which case equation (1) is written as

$$AD = C + I + G + NX \quad (2)$$

where AD = aggregate demand.

It is sometimes useful to replace net exports by its two components, resulting in the common equation

$$Y = C + I + G + X - M \quad (3)$$

where X = exports of goods and services and M = imports of goods and services. The model is therefore specified as;

$$Y_t = \alpha_0 + \alpha_1 Inv_t + \alpha_2 GE_t + \alpha_3 X_t + \varepsilon_t \quad (4)$$

Where Y_t is the growth rate of GDP, Inv_t is investment growth rate, GE is government expenditure growth rate and X_t is export growth rate. ε_t is stochastic error term with mean zero and constant variance.

7. ESTIMATION METHOD

The Engle-Granger two-step variant of error correction model is used to estimate the model specified above. This approach put forward by Engle and Granger (1987) is a dynamic approach used for the estimation. The time series properties of the data used are investigated using the Augmented Dickey-Fuller (Hannan-Quinn criteria). Testing the order of integration of a variable begins from the estimation of autoregressive equation such as:

$$\Delta y_t = \delta \cdot y_{t-1} + \sum_{i=1}^k \delta_i \cdot \Delta y_{t-i} + \xi_t \quad (5)$$

Where y_t is all the variables in the model specified in equation 4 above. The augmented Dickey-Fuller test consists of testing the negativity of δ in the OLS regression of equation above. The hypotheses to be tested are:

$H_0: \delta = 0$ (yt not stationary)

$H_A: \delta < 0$ (yt stationary)

Rejection of the null hypothesis in favour of the alternative hypothesis implies that $\delta < 1$ and that y_t is integrated of order zero. Usually the computed t-statistic is compared with the critical t-statistic. If the computed t-statistic is negative and smaller than the critical t-statistic, the null hypothesis has to be rejected and the alternative of stationary is accepted.

Among a number of alternative methods, the ECM, originally suggested by Engle and Granger (1987), has received a great deal of attention in recent years. One of its benefits is that the long-run equilibrium relationship (i.e. the cointegrating regression) can be modelled by a straightforward regression involving the levels of the variables. In the first step, all dynamics are ignored and the cointegrating regression is estimated by the ordinary least square (OLS). Let us now write the long-run (cointegrating) regression:

$$Y_t = bX_t + u_t \quad (6)$$

where both Y_t and X_t are nonstationary variables and integrated of order one (i.e. $Y_t \sim I(1)$ and $X_t \sim I(1)$). In order for Y_t and X_t to be cointegrated, the necessary condition is that the estimated residuals from Eq. (1) should be stationary (i.e. $u_t \sim I(0)$). Since the variables in Eq. (6) are nonstationary (which causes the famous ‘spurious regression problem’!), one should place little

faith in the standard error estimates (and thus t-statistics) in the cointegrating regression. Therefore, little importance can be attributed to the standard statistical tests on R^2 or t-statistics of the estimated coefficients unless a correction procedure is employed to eliminate the bias. Different types of corrections are reported by Engle and Yoo (1991), Park and Phillips (1988), Phillips and Hansen (1990) and West (1988).

The second step involves estimating a short-run model with an error-correction mechanism (ECM) by the OLS. According to the Granger Representation Theorem (GRT), if a number of variables, such as Y_t and X_t , are cointegrated, then there will exist an ECM relating these variables and *vice versa*. Conditional on finding cointegration between Y_t and X_t , the estimate of b from the first step long-run regression (6) may then be imposed on the following short-run model with the remaining parameters being consistently estimated by the OLS. In other words, we retrieve the estimate of b from Eq. (6), and insert it in place of b in the error-correction term ($Y_t - bX_t$) in the following short-run equation:

$$DY_t = a_1 DX_t + a_2 (Y_t - bX_t)_{t-1} + e_t \quad (7)$$

Where D represents first-differences and e_t is the error term. Alternatively, in practice, since $Y_t - bX_t = u_t$, one can substitute the estimated residuals from Eq. (6) in place of the error-correction term, as the two will be identical. Note that the estimated coefficient a_2 in the short-run Eq. (7) should have a negative sign and be statistically significant. Note also that, to avoid an explosive process, the coefficient should take a value between -1 and 0. According to the GRT, negative and statistically significant a_2 is a necessary condition for the variables in hand to be cointegrated. In practice, this is regarded as a convincing evidence and confirmation for the existence of cointegration found in the first step. It is also important to note that, in the second step of the ECM, there is no danger of estimating a spurious regression because of the stationarity of the variables ensured. Combinations of the two steps then provide a model incorporating both the static long-run and the dynamic short-run components.

The conventional method of evaluation, the t-statistics, is used to identify the significance of the variables while the R^2 , F-statistics, Akaike info criterion, Schwarz criterion and Hannan-Quinn criterion are used to evaluate the model estimated. For details see Deadman and Charemza (1997). The stability test and forecast tests are also drawn.

8. RESULTS

Table 1 presents the results of the unit root tests. The ADF statistics were compared with the Mackinnon (1980) critical values. The results of the unit root test show that all the variables have unit roots i.e. they are not stationary at levels but are stationary at first difference.

Table 1
Unit Root Test

Variable	Levels	1 st Difference	2 nd Difference	Level of Integration
GDP	2.329606	-5.203764	-	I(1)
Export	4.599604	0.017699	-5.332492	I(2)
Inv	3.885606	3.346125	-3.573075	I(2)
PE	6.954054	-0.261378	-8.721726	I(2)
ECM	-2.777584	-	-	I(0)

9. NIGERIAN GROWTH MODEL

Variable	Coefficient	Standard error	t-statistics	Prob
C	161377.4	10202.43	15.81755	0.0000
Export	0.002609	0.011858	0.220052	0.8271
INV	0.335269	0.076154	4.402513	0.0001
Public Exp	0.191579	0.045809	4.182166	0.0002
ECM(-1)	-0.841330	0.094243	-8.927236	0.0000

$R^2 = 0.952116$ AIC = 24.68422
 $\bar{R} = 0.946795$ SC = 24.89320
 F = 178.9523 Durbin Watson = 2.341359

The analysis has shown that, there are other variables not included that have exert great influence on growth in Nigeria. These are represented by the intercept that is very significant. The export variable has positive but not significant impact on growth in Nigeria. This insignificance of the variable may not be unconnected with the nature of the export. This is because; most of the exports are from the petroleum sector. Osodi and Oloni (2008) observed that non-oil exports have positive impact on growth. Okonjo-Iweala and Osafo-Kwaako (2007) observed that a major challenge for the Nigerian economy was its macroeconomic volatility driven largely by external terms of trade shocks and the country's large reliance on oil export earnings. By some measures, Nigeria's economy ranked among the most volatile in the world. There is considerable theoretical and empirical evidence on the adverse effects of volatility for growth (Fatas & Mihov, 2003; Servén, 2003; Bleaney & Greenaway, 2001). Investment has a positive and significant effects on growth in the country. The coefficient of 0.335269 shows that an increase of 10% in investment will lead to 3.3% increase in growth in the country. Public expenditure has significant impact on economic growth in the country, according to the analysis. The coefficient of 0.191579. standard error of 0.045809 and t-statistics of 4.182166 confirm this. This is in line with Njiforti and Mashin (2010) who believe that there has been a consensus that expansion or contraction in public investment would in principle affect private capital formation, the ultimate result of such an effect is increase in economic growth.

CONCLUSION

It is found that, although export contributes positively to economic growth, it is not significant. This is suspected to be as a result of the monocultural nature of export in the country. It is recommended that the export base should be diversified in order to improve on its effect on the economic growth in the country. Investment is positively related to growth and it is significant. Efforts should be geared towards investment (domestic or foreign) in order to increase growth in Nigeria as in China. Public expenditure is also important. This may have both direct and indirect effects on growth.

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