

# Economic growth and development of nigeria economics essay



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Agriculture is an important sector in the developing world. It contributes to economic growth and development as well as a major employer to majority of the people of Sub-Saharan Africa including Nigeria, especially those in the rural areas. This study investigated the role of agriculture to Nigeria's economic growth and development. Secondary data were used for the analyses and were obtained from various publications of the Central Bank of Nigeria (CBN) and the National Bureau of Statistics (NBS). Variables used for the estimations included overall gross domestic product (GDP) of Nigeria, agricultural GDP, government spending on agriculture, credit to agriculture and the population engaged in agriculture. The data cover the period between 1981 and 2010. Growth and Cobb-Douglas production models were estimated. The results showed that overall GDP, agricultural GDP, and government spending to the agricultural sector of Nigeria generally assumed upward trends during the period. Credit to agriculture and government spending to the agricultural sector were the factors found to significantly influence the contribution of agriculture to national economic growth and development. It is concluded that agriculture continues to play important role in the economic growth and development of Nigeria. It is recommended that policies should be formulated to encourage the flow of more credit to the agricultural sector of Nigeria. Besides, it is important that the government of Nigeria to increase its spending on the agricultural sector since this positively and significantly influence the contribution of agriculture to national economic growth and development.

## **1. 1 Background to the Study**

Nigeria is one of the largest countries in Africa, with an estimated population of about 158 million (World Bank, 2010). The country has highly diversified agro-ecological conditions, which makes it possible for the production of variety of agricultural products. Furthermore, agriculture constitutes one of the most significant sectors of the economy (Manyong, et. al., 2005).

Agriculture in Nigeria employs about 70% of the working population and contributes with about 60% to the national income (Oluwasanmi, 1966). Its contribution to Gross Domestic Product (GDP) accounted for about 40% in 2010 (CBN, 2011). During the early days of independence, Nigeria was and still is relatively self-sufficient in food production, and foreign exchange earnings from agricultural exports have been used over the years to support in financing imports needed for economic growth and development (Anderson, 1970).

The role of Agricultural production in Nigeria is not only to provide the food needed to feed the rapidly growing Nigerian population, but also to provide the money and materials needed for industrialization and for bringing the country into the industrial and technical age (Oyenuga, 1967). In order to carry out this role, the agricultural system needs to be reorganized and new techniques of production have to be introduced, such as the use of more efficient implements, improved seed varieties and fertilizers. To do this, the country not only needs to co-ordinate its agricultural research projects and provides capital but also to make available trained field staff who can ensure the acceptance of these innovations by peasant farmers (Oluwasanmi,

1966). This is because majority of the peasant farmers live in rural areas where there is a high level of illiteracy and they hardly accept change.

Despite the fact that Nigeria is buoyantly endowed with agricultural and other natural resources, the agricultural sector is still growing at a very slow rate. It is only a little over half of the country's agricultural land is under cultivation (Manyong et al, 2005). Increased use of mechanization will help, but this is not going to be easy given that about 63% of the farms in Eastern Nigeria and 45% of them in Western Nigeria are less than an acre in size and many of them are much smaller (Oyenuga, 1967).

The agricultural sector remained weak during the oil boom decade of the 1970s, and this accounted largely for the declining share of its contributions to economic growth and development of the country. The trend of the share of agriculture in national GDP reflects a substantial variation and long-term decline from about 60% in the early 1960s through to about 49% in the 1970s and only about 22% in the 1980s. It is believed that unstable and often-poor economic policies (of pricing, trade and exchange rate), the relative abundance of the sector and the negative impact of oil boom were all important factors responsible for the decline in agricultural sectors contributions to national economic growth and development. Since the oil boom of the 1970s, there has been a severe increase in the incidence and drama of poverty in the country as a result of the unstable performance of the agricultural sector, which employs majority of the poor.

As a result of the dwindling performance of agriculture in the country, government have over many years formulated and implemented various

policies and projects aimed at putting back the agricultural sector to its vital place in the economy. But with evidence from empirical literatures, no significant success has been achieved due to several problems confronting the performance of the sector (Yusuf, 2005).

However, the contribution of agriculture in both gross domestic product (GDP) and non-oil GDP increased in the 1981-2000 periods. The share of total bank credit going into the agricultural sector increased rapidly between the 1981-1985 and 1991-1995 periods and then declined in the 1996-2000 periods. The share of the federal Government's capital expenditure going to the agricultural sector declined immensely over the periods. The share of total employment by the agricultural sector also declined. Generally, there was unstable growth performance of the agricultural sector between the periods 1981 to 2000, with some evidence of inconsistencies of trends, probably due to uncertainties in policies and policy implementation.

Some of the problems leading to poor performance of the agricultural sector in the country include technical issues, resource constraints as well as socio-economic problems and organisational constrains. It has been observed that in past policies of the pre-structural adjustment period, sector-specific agricultural policies were made to improve agricultural marketing, to cut down production cost, and to enhance product prices as incentives for increased agricultural production. Important policy instruments are for agricultural commodity marketing and pricing, input supply and distribution, input price, Subsidy, land resource use, agricultural research, agricultural extension and technology transfer, agricultural mechanisation, agricultural cooperatives, agricultural water resource and irrigation development. Macro <https://assignbuster.com/economic-growth-and-development-of-nigeria-economics-essay/>

policies, institutional policies and legal frameworks complemented sector-specific policies. The structural adjustment period was enhanced more by structural adjustment policies.

Problems to agricultural policy strength include policy instability, policy inconsistencies, weak policy formulation, poor policy implementation, and harsh institutional framework for policy coordination (Idachaba, 2005). With reference from the dual economy model, early writers predicted economic development as a growth process that needs the re-allocation of factors of production from a weak, low-productivity agricultural sector to a modern and commercialized industrial sector with higher productivity and more returns (Lewis, 1954). As a primary sector, agriculture was seen to contribute significantly to economic growth and development by providing labor and food to the industrialization process. However, this idea was taken away by the era of the Green Revolution in Asia during the late 1960s and early 1970s. The possibility of restructuring traditional agriculture into a modern sector shows agriculture's capability as a growth sector and its effective role in emphasizing broader development (Adelman, 2001).

Although the advantage of connectivity between agriculture and non-agriculture in achieving the growth and development process had long been recognized (Hirschman, 1958, Johnston & Mellor, 1961), post-Green Revolution economists stressed the role of agriculture in rural growth and development (Haggblade, Hammer, & Hazell, 1991; Haggblade, Hazell, & Brown, 1989; Hazell & Haggblade, 1991; Hazell & Roell, 1983). The vital advantage of agricultural growth on rural development was found to be effective in countries (e. g. Nigeria and other developing countries) where <https://assignbuster.com/economic-growth-and-development-of-nigeria-economics-essay/>

small farms dominated agriculture (Rosegrant & Hazell, 2000). Therefore, given massive rural poverty and small-scale farming in Africa, the “conventional wisdom of agriculture” emphasizes a strong role for agriculture in African growth and development. With reference to the conventional wisdom of agriculture, it is important that policy objectives to promote the role of agriculture in economic growth and development in Nigeria should be realistic and capable of transforming a backward agriculture, and at the same time would also encourage industrial growth and development.

The experience of other developing countries has shown that policies that promote industrial development at the expense of agriculture have resulted in food shortages and economic stagnation. Given Nigeria’s present stage of development, a large-scale industrialization scheme that will tend to shut out 70% of the population who are engaged in rural pursuits is not the best for the long-term interests of the country (Adeyokunnu, 1971). This is contrary to the idea behind early development strategies advocated by Rosenstein Rodan, Nurkse, and Hirshman among others, who emphasized industrial development as the main source of economic growth and development and were biased against the agricultural sector (Schiff and Valdes, 1998).

This work is principally concerned with showing empirically the role of agriculture to economic and development of Nigeria. It draws on the long standing empirical studies on the role of agricultural sector to economic growth and development across the world. Widespread rural poverty in Africa and the success of Asia’s Green Revolution suggests that agriculture is a key sector for African development. Since almost all rural households depend directly or indirectly on agriculture, and given the sector’s large

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contribution to the overall economy, it might seem obvious that agriculture should be a key sector in economic growth and development. Most African countries have failed to meet the requirements for a successful agricultural revolution, and productivity in African agriculture lags far behind the rest of the world. This has recently led to renewed debate within the international development community concerning the role of agriculture in African economic growth and development. This study will therefore contribute to the debate.

## **1. 2 The Problem Statement**

Decline on the role of the agricultural sector in terms of its contribution to Nigeria's economic growth and development in the last three decades made the government to establish different agricultural schemes and programmes to enhance agricultural productivity in the country, which includes River Basin Development Authorities, National Accelerated Food Production Project, Agricultural Development Project, Operation Feed the Nation, Green Revolution, National Directorate of Food, Roads and Rural Infrastructure, Agricultural Credit Guarantee Scheme Fund, National Special Programme for Food Security, Root and Tuber Expansion Project as well as National Fadama I and II programmes. This shows that agriculture has been an important sector in the Nigerian economy for many years, and is still a major sector even with the oil boom. Basically it generates employment opportunities for the growing population, reduces poverty and contributes to the growth and development of the economy.

Economic history provides sufficient evidence that agricultural revolution is important and a pre-condition for economic growth and development, <https://assignbuster.com/economic-growth-and-development-of-nigeria-economics-essay/>



especially in developing countries like Nigeria (Woolf and Jones, 1969; Oluwasanmi, 1966; Eicher and Witt, 1964). The basis of the problem in the Nigerian economy is as a result of poor concentration of the agricultural sector by the Government towards focusing more on a mono-cultural economy based on oil.

Agriculture was the mainstay of the Nigerian economy before the discovery, exploration and exportation of oil and over dependence on its revenue for economic expenditure. Agricultural export was contributing to GDP with about 72% between 1955 and 1969 before it fell down to 35% because of the oil crises of early 1970's (CBN, 2002). Nigeria used to be one of the world leading countries in the exportation and production of some major agricultural products between 1940 and 1950. There is evidence from statistics which shows that the export of agricultural products in Nigeria accounted for over 75% of total exports in 1960 (Ekpo and Egwaikhide, 1994). This has changed in recent times as economic growth and development of Nigeria in recent times solely depend on the earning from oil exports that account for over 95%, but contribute with less than 25% in the real gross domestic product (RDGP). This over dependence on oil has affected the countries market forces as well as its economic growth and development (Okoh, 2004).

Because crude oil is an exhaustible asset, it is not advisable for Nigeria to depend on it for sustainable economic growth and development. Therefore, the need to push into competitive market in advanced countries with our agricultural commodities has to be considered, in order to achieve a prosperous economic growth and development in Nigeria (Thirlwall, 1999).  
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Considering the large size of the Nigerian agricultural sector and its important role in the economy, positive reform and adjustment policies are needed in order to improve the overall performance of the country's economic growth and development (Kwanashie et al., 1998). Besides the oil sector, agricultural sector contributes significantly to the Nigerian economic growth and development because of its rich resource base. Nonetheless, these endowments have to be used wisely so as to diversify the economy and reduce over dependence on the oil sector and on importation. As a result of unstable oil price and continues increase in the price of import goods, the Nigerian economy is not consistent. All these issues have negative effects on the country's balance of payment, employment and other sectors productivity as well as the purchasing power of the people (Bukar, et al., 1997).

At present, impact of the Nigerian agricultural sector to economic growth and development of the country is not as it was in the past periods (NPC, 2000). Nigerian agriculture is still traditional as it was in the pre-independence period (Adewumi and Omotesho, 2002). Even with the existence of the two major rivers in the country (river Niger and river Benue) the agricultural sector is still predominantly rain fed (NPC, 2004).

Productivity in the Agricultural sector has declined seriously over the years and this has led to high incidence of poverty levels (Jeter, 2004). Results from the World bank data indicate that over 70% of Nigerians are living below the poverty line (less than \$1 per day), showing that there has been an astronomical growth in the level of poverty in the country most of which is associated to poor agriculture since from independence up till today

(Chigbu, 2005). Those engaged in farming are mostly rural people, cultivating small area of land using traditional tools and getting low productivity (NPC, 2004). The problem therefore is that there is limited understanding of the role of agriculture in economic growth and development of Nigeria in recent times. This study seeks to address this gap by empirically examining the role of agriculture to economic growth and development of Nigeria.

### **1. 3 The Research Questions**

The questions that this study sought to answer are:

What are the trends and growth of agricultural gross domestic product (AGDP) relative to the overall gross domestic product (GDP) of Nigeria?

What have been the commitments of successive governments in Nigeria to the agricultural sector in terms of public spending in the sector?

What have been the contributions of agriculture to the economic growth and development of Nigeria over the past three decades?

### **1. 4 The Research Objectives**

The main objective of this study is to examine the role of agriculture to economic growth and development of Nigeria. Specifically, the study seeks to:

Describe the trends and growth of agricultural gross domestic product (AGDP) in relation to overall GDP of Nigeria.

Examine the trends and growth of spending of successive Nigerian governments on the agricultural sector.

Estimate the contributions of agriculture to economic growth and development of Nigeria over the past three decades.

## **1.5 Justification of the Study**

Policy makers can make use of the outcome of this study in multi-dimensional form. This can be done in terms of interwoven nature of rural employment with agriculture, food security and agricultural productivity. This is because the findings will provide the basis that economic growth and development in Nigeria should be led by agriculture and that the success of plans and policies implemented in the other sectors are depended on agricultural developments for their successful implementation.

The outcome of the study will also help policy makers to critically examine the various key possibilities of promoting economic growth and development in Nigeria with regards to the role of agriculture in economic growth and development. Some of these which are of relevant to policy may include issues of:

How different alternative economic growth and development states can be achieved using agricultural sector's contribution with the view to decide which one is the best.

How societal welfare can be improved from a lower stage to a better stage using agricultural sectors contribution to the economy.

How to identify all areas in which the agricultural sector fails and to consider corrective measures.

How to evaluate different policy options that have been used to improve agricultural sector as well as determine their implications and consequences on the economic growth and development of Nigeria.

How to provide a framework in which different agricultural growth policies can be compared using value judgement and common sense.

How to make a critique of different postulates about how agricultural development policies can be improved so that it can provide a menu for better policy measures.

## **1. 6 Scope and Organisation of the Study**

The scope of this study is to look at the role of agriculture to economic growth and development of Nigeria spanning the last three decades (i. e. 30 years). The study is organised into five main chapters. Chapter one is the introduction which consists of the background to the study, the problem statement, the research questions, the research objectives, the justification of the research and the scope and organisation of the study. Chapter two is the literature review which consists of literature on Agricultural Production in Africa and Nigeria, Agricultural Production and Economic Growth and Development, Commitments of governments to Nigerian agriculture, Agriculture as a Source of Employment for Poverty Reduction, Finally, summary of the literature review and conclusions. Chapter three is the methodology employed in order to achieve the research objectives which consists of profile of Nigeria, the theoretical and model specifications, data <https://assignbuster.com/economic-growth-and-development-of-nigeria-economics-essay/>

types and sources of data. Chapter four is presentation of the results and discussions. Chapter five is the summary of the findings, conclusion and recommendations. After this are the references and appendix.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2. 1 Introduction**

This chapter presents an overview of the relevant empirical literature in the subject matter. The chapter is divided into five main subsections. The first subsection is presentation of Agricultural Production in Africa and Nigeria. The second subsection is presentation of Agricultural Production and Economic Growth and Development. Commitments of governments to Nigerian agriculture are presented in the third subsection. The fourth subsection brings to light literature on Agriculture as a Source of Employment for Poverty Reduction. Finally, summary of the literature review and conclusions drawn are presented in subsection five.

#### **2. 2 Agricultural Production in Africa and Nigeria**

There is a growing argument over whether agriculture is still playing important role in economic growth and development in sub-Saharan Africa. Agriculture's theorists explain that, in most of the African countries, only the agricultural sector has sufficient scale and growth-linkages to significantly influence aggregate growth and development. Achieving such growth and development will have to do with a large sector like agriculture, which accounts for one-third of gross domestic product (GDP) for the subcontinent as a whole, and an even larger share for two-thirds of African countries.

Economists also explain that agriculture's poor performance leads to inadequate investment and policies that are historically biased against the agricultural sector (Fan, Zhang, & Rao, 2004; Schiff & Valdez, 1992; Timmer, 2005). They show the large benefits from investing in rural infrastructure and agricultural technology, and the growth and development potential from catching up to the productivity levels of other developing countries. During the period from 1990 to 2004, African industry, including mining and mineral-based manufacturing, grew at 1.9% per year compared to 2.5% for agriculture (World Bank, 2006). This is an indication of the importance of agriculture to economic growth and development across Africa.

By contrast, there are others who doubt whether or not agriculture can successfully generate sufficient growth and development in Africa today. This doubt shows the poor performance of agriculture, weak institutions for rural growth and development, and worsening agro-ecological conditions in most of the African countries (Collier, 2002; Ellis, 2005; Maxwell & Slater, 2003). The large size of the agricultural sector may be the reason for Africa's failure to grow and develop, especially since past experience forecasts a significant decline in the importance of agriculture over time in successfully developing countries (Collier, 2002). For those who argue that agriculture should not be put at the center of African growth and development, although the sector's sufficient growth and development linkages proved very strong during Asia's Green Revolution, it may not be so much in Africa because of a more integrated global environment (Hart, 1998). Border prices determine food prices more than domestic supply when imports can enter freely, which reduces the need to invest in domestic agriculture to maintain urban food

prices and real wages and hence industrial competitiveness. Under these conditions, it is difficult for agriculture to play important role of economy-wide growth and development as well as facilitating the economic transformation shown by theory or witnessed in the past successes of other developing countries. Agriculture's skeptics therefore tend to be more concerned of African industry, emphasizing that mining and manufacturing may bring viable alternative sources of growth and development.

Despite contrasting opinions on the relative importance of agriculture in generating overall growth and development, there should presumably be less contention surrounding the role of agriculture in poverty reduction, which is one of the key issues for achieving economic growth and development. This is especially so given the importance of agricultural incomes for Africa's poorest populations. However, even among agriculture's advocates, there are conflicting views over what should be the focus of an agricultural growth and development strategy for low-income Africa (Dorward, et al., 2004). Some suggest that the best opportunities for African farmers lie in high-value commodities and, given poor domestic demand in Africa, that production should focus on export markets. Small-scale farms are seen as irrelevant due to international competition and the growing difficulties of supply-chains for both domestic and foreign markets (Reardon, Timmer, Barrett, & Berdegue, 2003). It is argued that rural dwellers should plan on diversifying incomes away from agriculture (Ashley & Maxwell, 2001) and focus on going to urban areas (Ellis & Harris, 2004). On the other hand, others argue that rural income diversification has been a reality in Africa for many years (Barrett & Reardon, 2000; Reardon et al., 2003) and has yet to



achieve significant income growth. Furthermore, income diversification is not a significant positive phenomenon, especially if diversification is due to stagnant agricultural growth and development (Haggblade, Hazell, & Reardon, 2002) or if migration is as a result of growth in low-productivity urban activities (Lipton, 2004). The biggest market benefits for majority of African farmers comes from domestic and regional markets for staples/food crops (Diao & Hazell, 2004; Rosegrant, Paisner, Meijer, & Witcover, 2001).

### **2. 3 Agricultural Production and Economic Growth and Development**

Provision of sufficient food for the growing population puts agriculture at the center of current growth and development issue in developing countries.

This is because the level of population growth in most developing countries is far more than the level of agricultural production and growth. Malthusian theory of population growth is becoming true in these countries; hence, the need to grow and develop agriculture to meet the food requirement of the people is very important. Looking at the Malthusian theory, if food supply fail to meet demand then food prices will rise. This will also have effect on workers' wages and subsequently affect industrial profits, investment and overall economic growth and development in the society (Uniamikogbo, 2007).

On the supply of raw materials to the industrial sector, agriculture have been seen as the major requirement for industrial growth and development because of the sector's role in providing the necessary raw materials for industries (Child, 2008; Uniamikogbo, 2007 and Abayomi, 2006). As a result of this, the need for increasing agricultural productivity has to be considered.

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There is the need therefore to put more emphasis on increasing domestic output rather than focusing more on the expansion of export to finance growing food export. This means that, agriculture is the most influential sector in developing countries. It should then make a significant contribution to the overall investment requirements needed by the industrial sector such as lowering the amount of raw materials supplied from abroad by increasing the output produced locally.

Agriculture has been the main stay of the Nigerian economy providing employment and source of livelihood for the teeming population. It contributes with over half of the GDP of the Nigerian economy during much of post-independence in the country. Nonetheless, the role it plays in the economic growth and development of the country has gone down over the years due to the overwhelming and dominant role of the crude oil sector in the economy, on which the country extensively depends. With the high food demand in Nigeria, the country has to make use of its abundant natural resources and to take advantage of its current democracy to increase the volume of crop production towards satisfying the food and nutritional requirement of the rapidly growing population and to ensure food security in the country (Enoma, 2010) . Therefore, agriculture can be characterized as the source of national wealth and economic growth and development in Nigeria.

Agricultural Development economists have researched significantly on how agriculture can best contribute to overall economic growth and development.

Looking at Lewis theory of development, Todaro and Smith (2003) indicated that the underdeveloped economy consists of two sectors, which are the <https://assignbuster.com/economic-growth-and-development-of-nigeria-economics-essay/>

ancient and traditional agricultural sector characterized by zero marginal labor productivity and the modern industrial sector. In his historical approach to the process of economic growth and development, Rostow (1960) distinguishes five stages of economic growth and development, which are: Traditional society; Pre-conditions for takeoff; Take-off; Drive to maturity; and Age of high mass-consumption. According to Rostow, the take-off stage is the most important figure in the life of a society when growth becomes its normal condition. The significance and importance of the traditional society make a decisive breakthrough and a multiple interest gets built into the society structure with agriculture playing significant role at this stage. From this theory, it is evident that agriculture plays a significant role in the first three stages of economic growth and development (Traditional society, pre-conditions for takeoff and takeoff stages). The agricultural sector greatly influences industrial and economic backbone from which a country's economic growth and development can take off. Therefore, beyond reasonable doubt, agricultural activities are usually concentrated and more practiced in the less-developed countries where there is an urgent need for rural transformation, redistribution, poverty alleviation and socio-economic growth and development (Stewart, 2000).

Indeed, agriculture has a significant role in an economy, without it a country will surely depend on importation from other countries to feed its population. The essential contribution of agriculture to economic growth and development has been an on-going subject of debate among development economist, several theorist argue that growth of the whole economy relies on the development of agricultural sector (Schultz, 1964, Gollin, Parente and

Rogerson 2002). The growth and development of the agricultural sector could result to national output increase through its effect on rural incomes and provision of resources for transformation into an industrialized economy (Eicher and Staatz, 1984; Dowrick and Gemmmell, 1991; Datt and Ravallion, 1998; Thirtle, Lin and Piesse 2003). Johnston and Mellor (1961) reported that agriculture improves and contributes to overall economic growth and development through various inter-sectoral linkages. Which include, provision of surplus labor to the industrial sector; supply of food for domestic consumption; creation of market for industrial output; provision of domestic savings and industrial investment and generation of foreign exchange from agriculture export earnings to finance import of intermediate and capital goods respectively. However, In addition to the above-mentioned direct market-based linkages, Timmer (1995) found out that agriculture indirectly contributes to economic growth and development through its caloric nutrient intake provision to the poor, food availability; stable food prices and poverty reduction.

Going by all the debated arguments, it is clear that agricultural growth and development has played a historically important role in the process of economic growth and development. However, acts from developed countries as well as developing countries indicate that agricultural sector has been the engine that contributes to the overall growth and development of a country's economy. Agriculture therefore plays an important role in achieving economic growth and development.

## **2. 4 Commitments of Governments to the Agricultural Se**