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THE EMPIRICS OF OIL AND ECONOMIC GROWTH

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Paradoxically, even though Oil is very important in global economic trend, the Oil rich countries are not the richest economies in the world.

In this paper, we attempt to investigate the importance, if any, of the natural endowment of Oil in the determination of economics performance and whether it explains why economies grow differently around the world.

Within the context of a dynamic endogenous growth model, we used a panel data of 122 countries to identify the key determinants of economic growth. In addition to the traditional growth variables, we included oil dummy, ecological factor and demographic factors in a standard cross-country growth regression.

In order to correct for the usual problems of model endogeneity and country -specific heterogeneity effects in cross – country growth regression, we estimated the model using a System-IV Generalized Method of Moment (GMM) estimation technique. However, for brevity, we also show the results of three other estimation methods including - Within – OLS, Pooled – OLS and Levels-IV GMM.

The results of all the estimations (see table) shows that, though Oil endowment is negatively correlated with economic growth as argued in the literature, the coefficient of correlation is significantly low and the p-value is statistically high. This means that, *ceteris paribus*, the availability of Oil in a particular country does not necessarily mean that it will comparatively grow faster than a non-oil economy. It also means that Oil does not necessarily account for the world economic growth differential.

We conclude from the results that other factors such as: human capital development/technological efficiency; institutional quality; demographic transition; openness to trade; and convergence criteria are significant variables in explaining cross-country growth differentials and economic development. This also explain why in recent time, the impact of volatile oil prices has been minimal on global economic performance and even major oil importing countries still record positive growth with increasing world oil prices.