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NON-OIL EXPORT PROMOTION IN THE NIGERIAN ECONOMY

BY

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1. INTRODUCTION

The primary objective of export promotion policies in any economy is to increase the level of economic activities. It follows therefore, that export policies should be directed at sectors in which the impact of an increase in export demand will be both desirable and large.

The Nigerian economy has been and is currently being characterized by a high degree of openness, hence its performance is largely dependent on developments in the external sector. The Nigerian external sector has always been dominated by primary commodities which have the well known basic characteristics of low price and income elasticity of demand, low growth of demand, deteriorating terms of trade and instability of export earnings.

Nigeria's experience with primary commodities range from the agricultural bases commodities up to the early 1970s to a transformation witnessed with the advent of crude oil as a major export commodity from the early 70s and beyond.

Currently, it is observed that a see-saw effect has characterized the dynamic composition of Nigeria's export trade over the years since independence; with the observed trend of increased oil share in external sector earnings accompanied by a reduced contribution from the hitherto predominant agricultural sector. This see saw phenomenon has been termed ":Dutch-Disease" derived from the experiences of the Netherlands after 1960 where the economy was characterised by co-existence of both a booming primary based sector or sectors and lagging sectors. The occurrence of this syndrome in Nigeria has effectively resulted in Nigeria becoming a mono product economy with exports of crude oil and its allied products accounting for up 97% export income.

The windfall from the oil boom of the 70s not only led to the neglect of the non-oil export productive base, but also brought in its wake, an unprecedented expansion in the volume of imports of various categories by both the public and private sectors.

The combination of the high degree of openness that characterise the Nigerian economy coupled with its mono-product nature, leaves the Nigerian economy extremely vulnerable to external shocks, as have been witnessed in the oil price slumps of the early 1980s and the recent price slump witnessed in 1998. For instance, 1998 budget was made with crude prices projected at $17.00 per barrel, but observed prices during the year averaged $13 barrel, effectively drawing the nation into a budgetary deficit with realised revenue being unable to cover planned expenditure.

To avoid disparities of this sort between expected and actual revenue receipts in Nigeria, and thus enable effective planning towards economic growth, the need for a diverse revenue base has been advocated, bringing into focus, the concept of diversification. Also, due to the over dependence on the oil sector, diversification should thus involve movement away from oil this paper to focus on the strategies to be adopted to enable the non-oil sector reclaim its position in the export sector, since it constitutes an elixir of hope for Nigeria as a country.

11 THE STRUCURE OF NIGERIA'S EXPORT TRADE: A HISTORICAL REVIEW

It is an established historical fact that before the ascendancy of crude petroleum in the mid-sixties, non-oil products in a wide variety of form were the principal sources of Nigeria's foreign exchange revenue. These products consist mainly of agricultural products such as cocoa, cotton, palm produce and rubber and also minerals such as tin-ore, columbite, coal etc

However, the structure of Nigeria's external trade changed dramatically from the mid –70s and upwards when crude oil succeeded in taking the place of traditional agricultural products as the dominant source of government revenue.

A look at the table below confirms the country's critical dependence on a single commodity over which it had little discretionary power.

Table 1 Value of Nigeria's Total Exports by Type of Goods

Year	Total Exports (N' Million)	Petroleum as % of Total	Non-Oil Goods as % of Total
1988	31,192.8	91.2	8.8
1989	57,971.2	94.9	5.1
1990	109,886.1	97.0	3.0
1991	121,533.7	96.2	3.8
1992	205,611.7	98.0	2.0
1993	218,801.1	97.7	2.3
1994	206,059.2	97.5	2.5
1995	950,661.4	97.6	2.4
1996	1,309,543.5	98.2	1.8
1997	1,241,662.7	97.7	2.3
1998	751,856.7	95.5	4.5

Source: CBN Annual Report and Statement of Accounts – Various Issues.

As Table 1 clearly shows, petroleum resources accounted for between 94.9% and 98% of the value of Nigeria's total exports between 1988 and 1998. The table thus confirms the country's critical dependence on a single commodity over which it has little discretionary power. The reason is that the quantity of the product which the country could export at any given time and the selling price are largely determined by the Organization of Petroleum Exporting Countries (OPEC). The contribution of the non-oil sector to export earnings has been subject to numerous charges. From Table 2, we can observe that the value of Nigerian non-oil exports amounted to N553.7M in 1980, but this growth was not sustained as the contribution of the non-oil sector fell to N203M in 1982 and N249.2M in 1984.

However, there was a sharp increase in the contribution of the non-oil sector from N552.1M in 1986 to N2152.0M in 1987. This increase was attributable not to increased export volume, as it would be seen but rather to the devaluation of the Naira against other foreign currencies. The Naira which was exchanged for just above N2 a Dollar before 1986, no exchanged for N21.86 to a Dollar after 1986.

Considerable divergence in the growth performance of non-oil exports and imports over the period 1998 – 1998 can be observed from Table 2.

Table 2: Nigeria's Non-Oil Exports and Imports

Year	Non-oil Exports N= Million	Non-Oil Imports N' Million	Exports as a %of Imports
1980	553.7	7,843.1	7.10
1981	342.8	11,545.0	3.0
1982	203.2	9,791.1	2.1
1983	361.3	8,122.3	4.5
1984	247.2	6,505.8	3.8
1985	497.2	6,356.3	7.8
1986	552.1	4,562.7	12.1
1987	2,152.0	13,222.4	16.1
1988	2,757.4	17,642.6	15.6
1989	2,954.4	26,188.6	11.3
1990	3,259.6	39,644.8	8.2
1991	4,677	81,716.0	5.7
1992	42,22	123,589.7	34.2
1993	4,991.43	124,777.1	4.0
1994	5,349.0	1,204,932.0	4.4
1995	23,096.1	599,301.8	3.9
1996	23,327.5	400,447.9	5.8
1997	29,163.3	678,814.2	4.3
1998	34,070.2	661,564.7	5.1

Source: CBN Annual Report and Statement of Accounts –Several Issues.

Imports have exceeded exports in the non-oil sector not only in terms of value but also in terms of growth rate.

For instance, the value of non-oil exports can be observed to have increased by 794.7% between 1980 and 98 while that of imports rose by 1612.2%. The considerable imbalance between the non-oil exports and imports is also indicated by the low levels of their ratios. Table 2 shows that in 1980, earnings from non-oil exports could finance 7.1% of Nigeria's non-oil imports. The ratio declined sharply in subsequent years. In 1982 for instance, only 2.1% of non-oil imports could be financed by non-oil export earnings. Current figure represents an improvement over this figure but vast room for improvement still remains.

Over the years since the oil boom of the 70s, an unprecedented expansion in the volume of imports of various categories by both the public and private sectors has been witnessed. Thus, in spite of Nigeria being basically an agricultural economy, the import of foods increased more than twenty-fold from ₦1, 999.8M in 1985 to ₦102, 165.1M in 1998.

The importation of essential and luxury consumer products as well as raw materials, intermediate and capital goods all increased significantly. In some years, such as during the Shagari administration, fake and valueless materials (e.g. saw dust and wastepaper etc) constituted part of the import bill. Even after the oil boom that caused the growth of imports had passed or rather collapsed, Nigeria still retains the characteristics of a highly import dependent economy. Factors responsible for the highly import dependent nature of the Nigerian economy as well as the poor development of an export culture in Nigeria bound, some of them include: -

The relative costs of exporting involving setting up a distribution network in foreign countries, penetration, nurturing and development of these markets also pose an obstacle to exporting in Nigeria due to the resources required.

Strict quality requirements coupled with extremely competitive price offered at international market levels present another hindrance to Nigeria's export development Inadequacy of policy and institutional frameworks for the promotion of exports in Nigeria present another reason for import dependence.

Table 3: Export of Major commodities by major Non-oil Export Sub-sector 1980-1998

Year	Value (N'Million)	% of Total Export	Value (N''Million)	% of Total Exports
1980	340.1	2.42	39.0	0.3
1981	178.4	1.62	71.2	0.7
1982	92.0	1.05	90.2	1.0
1983	259.0	3.45	42.3	0.6
1984	208.0	2.29	39.4	0.4
1985	192.1	1.64	61.2	0.5
1986	407.4	4.57	54.2	0.6
1987	1,588.5	2.25	61.5	0.2
1988	3,029.6	9.19	90.6	0.3
1989	1,833.0	3.20	252.0	0.4
1990	2,281.5	2.10	550.1	0.5
1991	3,339.6	2.70	778.8	0.7
1992	3,054.9	1.50	653.6	0.4
1993	3,437.3	1.50	561.3	0.2
1994	3,818.8	1.90	1,063.5	0.5
1995	15,512.0	1.60	5,363.5	0.6
1996	17,202.6	1.3	3,887.6	0.3
1997	19,826.1	1.6	6,503.4	0.6
1998	16,338.9	2.2	11.899.8	1.7

Source: CBN Annual Report and Statement of Accounts – Several Issues.

111. MODEL SPECIFICATION

According to the dual gap analysis, the investment –savings (IS) gap can be funded by increased exports which increase the export-import (XM) gap, creating a surplus which can be used to fund investment bringing about economic growth. Thus the following model can be presented:

GDP = F(Exports) …………   …(1)

Also from basic economic theory with reference to international trade, balance of payments (BOP) is given as a iet of exports so we can also put the following model forward.

BOP= F(Exports) ....(2)

The investigations carried out on the balanced and unbalanced growth theory led to the conclusion being reached that numerous perils exist with dependence on a singular revenue source by a nation striving to attain growth and development. The theories advocate diversification due to advantages stated therein. Exports being a major source of any nation's revenue, it suffices to say that exports should be diversified justifying the following models:

GDP = F (Export of sector 1, Export of Sector 2, etc)..... (3)

BOP =- F (Export of sector 1, Export of Sector 2 etc.) ....(4)

Given the observable oil dependence of the Nigerian economy, diversification should entail movement into the non-oil sector, and in Nigeria, the major non-oil sectors are agriculture and manufacturing, justifying the following model:

BOP = F(Manufacturing Exports, Agricultural Exports) .... (5)

GDP = F(Manufacturing Exports, Agricultural Exports) ....(6)

For the purpose of this study, models 5 and 6 would be utilised since they reflect both the essence of the study and the country in question which is Nigeria.

Using multiple regression models, the representation of the econometric forms of the equations are summarised as"

$$BOP = a_0 + a_1 VAX + a_2 VMX + U_i \ ....$$ (1)

$$GDP = b_0 + b_1 VAX + b_2 VMX + U_i \ ....$$ (2)

Where a and b are equation co-efficient or parameters
VAX (Value of Agricultural Exports) and

VMX (Value of Manufactured Exports) are explanatory or independent variables.

BOP (Balance of payments) and GDP (Gross Domestic Product) are the explained or dependent variables.

Model 1

$$BOP = -16049.68 + 0.246957VVAX - 0.972318VMX$$

Seb	12924.21 (3.186)	(6.822)
t	$= -1.242$ 0.75	-2.975

$R^2 = 0.59$

$R^2 = 0.54$

$F = 11.42$ Sig F = 0.0008

$n = 19$

$DW = 1.89$

Interpretation of Model 1.

On the assumption of Zero value net export on both agricultural and manufacturing products, total domestic participation in foreign trade is import dependent as the net external trade balance of payment observed is negative to a value of about N16,049.68M. The requirement that satisfies the fulfillment of this expectation is import dependency and reliance partly on an improvement in the manufacturing and agricultural export sub-sector. Because of this, it is right to allow a partial variation which determines the exact magnitude of participation in manufacturing and agricultural activities that eliminates this deficit participation in the balance of payment as observed.

To this end, one can say that grater participation conduct in agricultural export financing may likely contribute more effectively to a total elimination of this problem as observed than manufacturing export financing. This is so because the observed values obtained from the estimated coefficients of export with respect to agriculture is positive while that of manufacturing is negative. Because of this alternation in signs expansionary conduct in agriculture coupled with a withdrawal or contractionary conduct in manufacturing, may most likely advance a course that guarantees the enhancement of the net position in the balance of payment position at any given period of time. So, expanding agricultural activities while at the same time contracting manufacturing participation will most effectively guarantee national nominal income increase than if the reverse is practiced.

The relation that explains the overall significance of the regression is given by the multiple coefficient values given as 59% and 54% respectively. Thus, the regressors account for at least 54% variation in the balance of payment position at any given period. The Durbin Watson Statistics shows that there is no evidence of auto correlation of the disturbance term since the calculated value is within its range limit.

Model 11

$$GDP = 77883.67 + 0.703291VAX + 0.074951VMX$$

$$Seb = 3304.84 \qquad 0.814642 \qquad 1.744446$$

$R^2 = 059$

$\bar{R}^2 = 0.54$

$F = 11.61167 \qquad Sig\ F = 0.0008 \qquad n = 19$

DW –0.65592

Interpretation

The relationship which explain the determinants of income for the period under review shows there are other determinants of income which were not included n the relation. This is so because the regressors account for about 54% of the variations in aggregate income as is evidenced by the adjusted values of the correlation coefficient of determination.

The Durbin Watson Statistics obtained shows there is evidence of auto correlation, hence the error terms at different time periods are serially related at the 5% level of significance.

Further observations revealed that a zero determined value of agricultural export and net manufacturing export implies the observed value of domestic output is subject to a limit of N77,883.67M. If this is so, then domestic production is limited by this value and aggregate economic activity may not progress beyond this value.

However, if we allow agricultural export and manufacturing export to vary, then any positive variation in value is most likely to enhance and advance the observed values of the GDP subject to the limits of the variation and the multiple of its various coefficient values. If this is so, then negative variations in value reduces most likely the values of the GDP and might even create conditions that might warrant deficit financing crowding out domestic production if the negative variation is above the constant coefficient as observed.

Thus for such negative values above N77,883.67M, external financing is required to service the domestic production and create conditions conductive to growth and development.

From this model, we observe that only positive fluctuations in values of agricultural and manufacturing production can effectively advance and enhance the overall value of the gross domestic product at any given period of time. The significance of the entire regression is explained by the F-Statistics and its relation. However, the observed significance of the relations shows that the explanatory variable explained significantly the fluctuations in the observed values of the GDP for the period under review.

The conclusion therefore is that increasing participation in agricultural export and manufacturing export projects and programmes via export finance scheme and leverage incentive to encourage participation in the conduct of affairs in the export sub-sector and encouraging growth in the industry will advance the overall level of the aggregate domestic production to an appreciable level and encourage growth dynamics generally.

A great participation in either of agricultural export or manufacturing value added for export will significantly enhance the expectation for increased national participation in domestic production under normal conditions at any given period as given by the result of the model 11 above.

1V POLICY RECOMMENDATIONS

For the purpose of enhancing growth of the agricultural and industrial sectors and raising productivity in the economy, policy should be aimed at bringing about an internal technological revolution. Adaptation of imported technology to suit local raw material and production needs and encouragement of local fabrication of machinery and equipment are a pre-requisite. Increase in agricultural output would require introduction of hybrid and improved varieties of seeds and adaptation of less costly small-scale irrigation technologies to minimize the high dependence on rain-fed farming. This should be accompanied by harmonizing of various research findings and dissemination of results to farmers and manufacturing units.

Greater efforts through policy are required of the human resources in the process of technical progress. While educational facilities have improved greatly over the years, labour productivity has been rather low in Nigeria and this arises mainly from inadequate technical skills and motivation of the work force. There is need for more attention to manpower development for the adaptation of modern technology and improvement in industrial organization and management practices. Specific technical education and

specialist training institutes should be established to meet the requirement for skilled craftsmen and advanced technology.

Furthermore, welfare and incentive schemes should be worked out to enhance the morale, commitment and diligence of workers. The supply of basic infrastructure is crucial for higher productivity and therefore economic growth. It is therefore imperative that basic infrastructure should be rehabilitated and expanded to reach many consumers and the efficiency of public utilities should be enhanced by encouraging private sector participation, where appropriate.

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