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# Effects of Non-Oil Export on The Economic Development Of Nigeria

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***ABSTRACT :****The study investigates effect of non-oil export on the economic development of Nigeria. The mono economy nature of Nigeria and the need to diversify the economy form part of the motivation for the study. The study used per capita income as proxy for economic development and expressed it as a function of non-oil export volume, trade openness, exchange rate capital formation and inflation rate. The study applied ordinary least square estimating technique and the result show that non-oil export exhibits a significant positive relationship with per capita income. This indicates that if non oil export volume is increased it is going to lead to a significant improvement in the Nigerian level of economic development. However, other variables do not have individual significant impact of economic development but jointly they can significantly influence economic development. In addition, the result shows that the coefficient of trade openness is negative thus, indicating that Nigeria might not be benefiting enough by trading with outside countries. This shows that trading partners of Nigeria are gaining more from trade transactions than Nigeria. This calls for review of trade policy of Nigeria if the positive effect of non-oil export on Nigerian economic development is to be promoted.*

***KEY WORDS:*** ***Non-oil export, economic development, trade openness***

## I. BACKGROUND OF THE STUDY

A prominent feature of Nigeria's external sector has remained basically the same since 1960. The export sector is characterized by the dominance of a single export commodity. In the decades of the 1960's and 1970's the Nigerian economy was dominated by agricultural commodity exports. Such commodities included Cocoa, groundnut, cotton and palm produces. From the mid-1970s crude oil became the main export product of the Nigerian economy. The economy is said to be suffering from the Dutch disease. Nigerian crude oil is of the light and sweet type and is highly sought after in the international oil market. The export of crude oil now constitutes about 96% of total exports. The performance of the non-oil exports in the past two decades leaves little or nothing to be desired. The policy concern over the years has therefore been to expand non-oil export in a bid to diversify the nation's export base. The diversification of the Nigerian economy is necessary for important reasons, first the volatility of the international oil market with the attendant volatility of government revenue gives credence to any argument for diversification of exports. Secondly, 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. 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 earning and since trade transaction followed by the "oil boom" period which arose from oil glut in the world oil market since 1981 only led to the neglect of non-oil export productive base. This has also led to panic measures by successive government from the economic stabilization Act of 1982. Counter trade policy of Buhari/Idiagbon regime and the introduction of structural adjustment programme (SAP) by the Babangida Administration hence the need to diversify the export base of the economy.Prior to the phenomena emergence of the oil sector, Agriculture is one of oldest occupations in Nigeria and has been the main slay of the Nigerian economy contributing 80% of the export earnings and 75% of the Gross Domestic Product (GDP). Consequently, this position has fallen consistently to date, the attendant fluctuation in the non-oil export promotion, the world prices of agriculture and manufacture products and the emergence of oil have helped in no small measure in diverging the role of agriculture in the nation's development. This situation is worsened by the almost total neglect of the agricultural sector. The Nigerian economy has not recovered from the resultant disequilibria in both domestic and external sectors, this has therefore brought about the need for adjustment in Nigeria to diversify and restructure the productive base of the economy in order to reduce its dependence on oil export. It is this concerns the country non-oil exports.

Furthermore, a well developed sector will provide employment opportunity for the people with the attendant reduction in social costs of unemployment. Earnings from export reduce the strains on the balance of payment position and even improve it. A rewarding export drive can turn hitherto under developed economy into a prosperous economy. Export help in increasing the level of aggregate economic activities through its multipliers effects on the level of natural income. Income earned through exporting will help in increasing the level of demand within the economy.The Nigerian economy has been and is currently berry characterized by a reasonable degree of openness hence its performance can be enhanced through the development of 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 earnings. This monoculture situation 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 prices has in no small measure slated the developmental efforts of the various governments. This has made the Nigerian economy to scoring from the "oil boom era", as exemplified by the buoyant economy of the period with massive infrastructural development and the Udoji award.

In the attempt to diversity the productive base of the Nigerian economy, various past administrations have introduced measures and established special institutions e.g. the Nigerian Export Promotion Council (NEPC). However, the most recent and comprehensive in the first best and the second best export promotion policies of the Babangida administration of 1986, despite the fact that Nigerians non-oil export produces are now cheaper for foreign buyers and the amount being recorded in this local currency by exporters for unit of export is now higher than before, the problem is that available statistical data shows a mere marginal increase in non-oil sector contribution to the total export between 1987 and 1993. Its percentage contribution increased from 5.8 percent in 1986 to 8.6 percent in 1988 but declined to 1.9 percent in 1992 (CBN, 1994). It is for this reason this research is being proposed to review structure and performance of the non-oil sector, take a look at the policies that have been embarked upon to promote non-oil export, the problems facing class of exports and its prospect and contribution in connection with the economic development in Nigeria.
Notwithstanding, Nigeria is today identified as one of the 30 of the world's most important economies and the 7$^{th}$ fastest – growing economy in the world during 2009 (6.9 percent). However, it is important not to lose sight of the fact that the principal driver of Nigeria's spectacular growth in economic and market terms has been the country's non-oil exports, which recorded an 8.61 percent growth in 2009. And yet, Nigerian's enormous potential in this sector has not yet been scratched. The current management of the Nigerian export promotion council (NEPC) must be commended for now and constantly innovating in growing Nigeria's exports.

## II. METHODOLOGY

**3.1** This chapter explains the methodology of the study which involves data identification and sources, model specification, estimation techniques definition of variables in the model, evaluation techniques among others.

### 3.2 DATA IDENTIFICATION AND SOURCES

As regards the time limit and scope of this study, the model will be estimated using data obtained through secondary sources like the CBN publication such as the annual report andstatement of accounts, economics of review and statistic bulletin.Data will also be collected fromNational Bureau of statistic. The data to be used cover the period of 1980-2012relationship with one another especially the explained variable and the explanatory variables. The evaluation therefore is based on whether the coefficients conform to economic postulations. The expected relationship is that non-export should have significant effect on the Nigeria per-capita income.

### 3.5.2 Model Specification

$lpci = f(inf, exr, lnoilexp, lcap, top)$ ……………………………………………………..4.1
In linear form the equation is:
$lpci = \propto_0 + \propto_1 inf + \propto_2 exr + \propto_3 lnoilexp + \propto_4 lcap + \propto_5 top + u_i$..................................4.2

Where lpci= log of per capita income
Inf= inflation rate
Exr= exchange rate
Lnoilexp=log of non oil export
Lcap= log of capital formation

Top= trade openness.

**3.6 ESTIMATING TECHNIQUES.**

This is carried out on the basis of economic criterion and econometric criterion economic criterion (A prior) - These are determined by the principle of economic theory and refer to the sign and size of the parameters; it will reveal the impact of monetary policy and agricultural development in Nigeria.Statistical criterion — looks at the goodness of fit test to validate the goodness of fit of the estimated result. This required actualizing the proportions of variation in the economic growth. These can be determined by statistical theory and it aims at the evaluation of the statistical reliability of the estimates of parameters of the model, which is also known as first order testsEconometrics criterion - These are set by the theory of econometrics and aim at the investigation of whether the assumptions of the econometrics method employed are satisfied or not, the econometrics criterion served as second order tests. Ordinary least squares (OLS) through the Econometric view 7.1 will be used to validate the ordinary least square analysis of the estimated result through the F- test, -T- test and Durbin Waston statistic techniques will indicate whether the parameters estimates is statistically significant or not and if these is auto- correlation or not.

## III. RESULT AND DISCUSSION

This section of the study presents that empirical result and interpretation of the results are also made. However, basic inferences are also drawn from the findings. As the major objectives of this study is to assess the impact of non-oil export on the Nigerian economic development. This is done through the ordinary least square estimating technique. The data used for the study are first normalized so as to yield a meaningful result. Consequently, data like per capita income(pci), non oil export(noilexp) and capital formation( cap) are logged so as to normalize them with other variables such as exchange rate(exr), inflation rate(inf) anf trade openness(top) that in rates and percentages.

**4.1 Representation of the Model**

The model to be estimated is stated thus:

$lpci = f(inf, exr, lnoilexp, lcap, top)$ ……………………………………………………..4.1

In linear form the equation is:

$lpci = \propto_0 + \propto_1\ inf\ + \propto_2\ exr\ + \propto_3\ lnoilexp\ + \propto_4\ lcap\ + \propto_5\ top + u_{i,}$..................................4.2

Note that: halve log was used so as to normalize the regression equation.

**4.2 The Regression Results**

*Table 1 Regression equation for lpci per-capita income (proxy for economic development)*

| Variables | Coefficient | Standard Error |
|---|---|---|
| Inf | .0003976 | .0011102 |
| Exr | .000856 | .000838 |
| Lcap | .0598652 | .0469332 |
| Lnoilexp | .1001993*** | .029089 |
| Top | -.2763979 | .1902232 |
| Constant | 5.523602 | .3009825 |

$R^2$ = 0.94 F( 5, 26) = 80.22***, Prob > F = 0.0000

**** Statistical significance at 1%, ** Statistical significance at 5%,*

*Source: Authors Computation*

Table 1 shows the result of the regression for the model. It explains the empirical relationship between per capita income and other independent variables such as non oil export(noilexp), capital formation( cap), exchange rate(exr), inflation rate(inf) and trade openness(top). From the table, the relationship between inflation rate is positive but not statistically significant. The same forms of relationship is obtained between exchange rate, capital formation. The result further indicates that there exist an inverse relationship between trade openness and per capita income. Again the relationship is not statistically significant.However, our real variable of interest is non oil export. The coeeficient is positive and statistically significant, thus indicating that non oil export have a significant positive impact on economic development when we use per capita income as the proxy. The economic interpretation is that for a unit increase in non oil export there will be about 10% in the per capita income in Nigeria.It shows that Nigeria government needs to improve on the level of non oil export currently experience in the country if the development of the country is to be accelerated. Trade openness has negative relationship with per capital income this shows that Nigeria economy is not benefiting much from opening of border freely for inflow of goods from abroad.

In otherwords, trade liberalization might not be profitable ot Nigeria as a country. This might be one of the problems of non oil export in Nigeria.The result further shows that the R square is about 0.94. This is an indication that about 94% variation in economic development is explained by the independent variables that is non oil export(noilexp), capital formation( cap), exchange rate(exr), inflation rate(inf) and trade openness(top).The value of F statistics is 80.22. The value is also statistically significant at 5% level. This shows that the model is statistically significant and we can conclude that non oil export and other dependent variables have significant impact on per capita income in Nigeria.

## IV. BASIC INFERENCES

From the literature reviewed in this study it is obvious that non oil export is a major means through which a mono economy like Nigeria can effectively diversify. (NEXIM 2009). Findings from this research work has justified this position. That is investment in the non oil sector can act as a catalyst for boosting the economic development of the country. The significant positive relationship obtained from our result is a justification for this.Other authors in the past have also obtained results that are similar to some of the findings in this study. For instance, Moses (2011), Akpan and Riman (2012) discovered that industrial export and other non oil export are major means through which growth of Nigeria can be promoted. However, The major policy implication cited by Anthony and Mustafa (2011) in their own empirical work is the need to use the current financial reforms for the promotion of the non oil export in Nigeria.The position above is in line with the likely recommendations from this study because our findings have shown that there is a very strong positive linkage between non oil export and growth. Again, the findings from the study have revealed that trade openness have a negative relationship with pci that is proxy for economic development. This is in line with the position of authors like Kayode (2000) who have strongly posited that Nigeria has not benefited form trade openness. Nnanna (2010) was of the opinion that Nigerian trading partners are benefiting more than Nigeria in any of their trade relationship with outsiders.

## V. CONCLUSION AND RECOMMENDATIONS

The study examined the impact of non-oil export on Nigerian economic development, the seemingly lack of gains from international trade and the attendant retrogressive nature of growth of the indigenous firms form the basis for the of conduct of this research work. The Nigerian export and import bank NEXIM (2009) has severally calls for the need to reappraise non-oil export Nigeria with a view to improving its contribution to the over all GDP of the country. All these among others make this study necessary at this period. The study, reviewed relevant literatures and theories related to the subject matter. This comprises of the popular international trade theories and models. Form these we formulated our model which expresses per-capita income (proxy for economic development) as a function of volume of non-oil export in Nigeria, exchange rate, trade openness, inflation rate and capital formation. Considering all these variables, the study made use of the following as the independent variables: non oil export(noilexp), capital formation( cap), exchange rate(exr), inflation rate(inf) and trade openness(top). While per-capita income (pci) is the dependent variable. foreign direct investment (fdi), trade openness(top). Note that the core variable of interest is the non-oil export and others serve as control variables.The methodology used is the popular ordinary least square estimating technique OLS). This is used examine the relationship as well as the significance of the impact of each independent variables on the dependent variable. The overall fitness of the model formulated for the purpose of the estimation is also tested through the OLS. This is capable of explaining the desirability of the independent variables used in the model..

The result from the OLS estimation shows that all the independent variables show positive relationship with the per capita income except trade openness. Again, Despite the positive relationship, only the non-oil export parameter estimate among other independent variables parameter estimates is statistically significant. Though the constant trem is also statistically significant. The result also show that the value of the R square is 0.92 which simply indicates that about 92% variation in per-capita income is explained by the independent variables.Again, the F test that shows the over all statistical significance of the whole model shows a value that is found to be statistically significant. This indicates that all the independent variables jointly have significant impact on the economic development of the country.Findings from the study export have significant and positive impact onj the economic development of Nigeria during the period under review. The implication of this is that Nigerian economy can benefit more from international trade by encouraging diversification of the economy. This has been described as a means of breaking the curse of mono economy that often lead to economic problem such as Dutch Diseases.Again, the study has also revealed that trade openness has not shown positive relationship with Nigeria economic development. The result of the study reveals that trade openness has an inverse relationship with the per capita income. The findings is in line with the position of many authors in the past who are of the opinion that Nigeria has not benefited enough from her trade relationship with other

countries hence the need to overhaul trade policy of the country. The study have supported this position as the result have shown that trade openness have negative impact on the economic development of the country.
Generally, The study have shown that an export policy that involve the package of all the independent variables used in this study is likely going to have a significant impact on the economic development of the country.

## VI. RECOMMENDATIONS

Considering the findings form the research work the following recommendations are made:

[1] **Improvement in the Domestic Output:** The study has shown that ther exist a positive and significant relationship between non-oil export and the economic development of the country. Therefore there is the need to improve on the local output so as to cope with both the internal and external demands.

[2] **Fractioning out appropriate level of trade openness:** There is the need for improvement in trade relationship between Nigeria and other countries. Adequate measures should be taken to moderate trade relationship in Nigeria so that Nigeria can be benefiting more from any trade relationship with other countries. This may require trade restrictions in some aspects of production so as to encourage the domestic industries and promote the real sector of the economy generally.

[3] **Development of the real sector of the economy:** Improvement of the production sector can be done through creation of enabling environment for industries to thrive in the country. This can be done by providing adequate infrastructural facilities especially adequate supply of energy for the sector. In addition, putting in place various physical, monetary and fiscal measures that will boost the growth of the real sector of Nigeria economy. This will no doubt promote gains from trade in Nigeria.

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