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ECONOMIC INTEGRATION, INCENTIVES AND NON-OIL EXPORT DYNAMICS IN NIGERIA: AN EMPIRICAL EVIDENCE

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ABSTRACT: *This study is a response to the under-performing trend in the non-oil sector of Nigeria which is supposedly a catalyst for massive industrialization and rapid development concerns in a less developed country such as Nigeria. Arguments bordering on the perceived plausibility of trade liberalization and government incentives vis-à-vis non-oil export performance were empirically tested using contemporary econometric techniques of unit root test, co-integration test and error-correction mechanism. Results from the tests conducted revealed a one year positive lag relationship between variables such as foreign private investment, exchange rate, gross domestic product and non-oil export growth. Contrary to theoretical expectation, an inverse relationship was found to exist between a one year lag in agricultural credit guarantee scheme fund and non-oil export performance while, world gross domestic product exerted no significant relationship with non-oil export growth in Nigeria. However, the error correction model revealed a slow speed of dynamic adjustment from short-run to long-run equilibrium and as such, the study recommended among others, a re-examination of the agricultural credit guarantee scheme fund to ensure a positive contribution to non-oil sector development, increasing incentives that stimulate non-oil investment and also maintaining a favourable exchange rate. These policies, if implemented, will assist in unlocking the existing potentials in the Nigerian non-oil sector.*

KEYWORDS: Non-Oil Exports, Openness, Incentives, Economic Growth

JEL Codes: F15, F43, O14

INTRODUCTION

It is no misnomer that Nigeria is endowed with abundant natural and human resources that can lead to sustainable growth and development if well exploited and harnessed. The country's natural resource base range among crude oil, agricultural resources and solid minerals. These resources are categorized into oil and non-oil export resources. Nigeria's non-oil exports are not only increasing, the markets and commodities are being diversified. However, a larger chunk of these non-oil exports comprise of agricultural commodities and contribute about 70 per cent to total non-oil exports in Nigeria while the remaining 30 per cent is made up of manufactured commodities (finished and semi-finished) and solid minerals. These include; groundnut, cocoa, palm products, rubber, cotton, yam, fish and prawn, etc., while the manufactured commodities and solid minerals include processed agricultural commodities like textiles, beer, cocoa butter, plastic products, processed timbers, tyres, natural spring water, soap, detergent and fabricated iron rods etc., (NBS, 2011). World Bank (2012) also shows that other mineral resources in Nigeria include: tin, limestone, natural gas, bauxite, coal, tantalite, lead, niobium and zinc. These mineral resources are usually underexploited and despite their huge deposits, the mining industry in Nigeria is still at the infant stage.

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However, before the discovery of oil and its commercial use in the 80s, agriculture and mineral resources have served as the spine of the Nigerian economy; these constituted the major export base of Nigeria and contributed about 85 per cent of aggregate export revenue and 63 per cent of Nigeria's total Gross Domestic Product (GDP) as at 1970 (NBS, 2011). Nigeria's external sector contributions to economic activity (Gross Domestic Product) and government revenue showed that non-oil export growth was dangling between two and three percent in 2001 and moved up to 35 per cent between 2005 and 2010 whilst it hit 40 per cent in the first half of 2012 with optimism that it would further increase to 50 per cent before the end of that year (NBS, 2012). However, the contribution of the sector to employment generation has been weak. The sector currently contributes 25 per cent of employment generation compared to its 60 per cent contribution in the early eighties. This clearly demonstrates that the sector is seriously lagging behind other sectors of the economy (NBS, 2011).

Within the past two decades, Nigeria has relied on crude oil for about 95 percent of her national revenue. The export of crude oil is seen now to have formed about 91 per cent of total exports and about 80 percent of this has also been spent on financing imports to sustain national tastes including food and wears, even though recent performances of the sector in connection with economic growth has proven to be weak and unsustainable.

Arising from these inconsistencies, government has over the years made efforts to boost non-oil exports in a bid to achieve a wider range of the nation's export base. Policies such as operation feed the nation, green revolution, agricultural credit guarantee schemes and school-to-farm programmes were all adopted to boost productivity in the sector. Other macroeconomic policy efforts involved the provision of a number of incentives through different plans or schemes, with the aim of stimulating producers of non-oil exports to produce in a larger quantity and boost exports. To this end, agencies like the Nigerian Export Monitoring Council (NEMC) were set up in 1976 and were saddled with the duty of administering the export incentives: exports development fund, exports expansion fund, duty draw back scheme, etc. Nigerian Export and Import Bank (NEXIM) was also set up in 1988 to enhance non-oil export further through provision of financial facilities as well as short term supplier credit, buyer credit and external loan facilities. These incentives were meant to stimulate the capability of banks as well as support them to increase their export financing to boost the non-oil sector. However, recent developments have shown that these efforts had minimal impact as oil is still the dominant export commodity.

Strategic thinking is all about analyzing the present situation and fore-planning where one would like to be in future. As oil is an exhaustible resource, it is only natural and strategic to begin now to put in place a hedge against its exit. It is quiet imperative to note that it is only by paying special attention to non-oil exports development that Nigeria can realize her economic goals.

The thrust of this study therefore is to unravel the composition and magnitudes of non-oil exports and its relationship with Nigeria's growth process. Additionally, the study seeks to uncover the plausibility or otherwise of government incentives in terms of loans and reform programmes on non-oil export expansion in Nigeria, while making efforts to assess the impact of economic integration on Nigeria's export expansion and its growth effect. The rest part of the study is divided into theoretical underpinnings of external trade, empirical literature, methodology, empirical results and conclusions.

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Some theories of trade

Some theories of international trade are discussed in this section; this is to provide a window view of the theoretical underpinnings of trade and also allow the author to draw the framework of his study. These theories are discussed below:

Theory of comparative advantage

The underlying assumption of comparative cost advantage theory is that a country should specialize in the production and exportation of the product in which its comparative cost (the opposite of comparative advantage) has lower impact on the economy with no external trade and import the commodity whose comparative cost is more beneficial if compared to the pre-trade isolation period (Iyoha, 1995). The theory believes on the principle of stable costs, single factor of production and effective competition in factor and product markets respectively. However, such principles are assumed to be unrealistic by critics.

This theory was earlier known as theory of absolute advantage as initiated by Smith and later expanded by Ricardo (classicalists) in the 18th century who transformed it into the law of comparative cost advantage. Smith stated that a country should concentrate in commodities she has absolute advantage in producing. Ricardo argued that a situation where a country has absolute advantage in the production of two commodities that does not favour another country, it may still be of greater reward for the two countries if they specialize in only one of the two commodities. Hence, benefits from comparative advantage could be shared by the two countries as well as ensuring the process of change among the two.

Hecksher-Ohlin trade theory (modern or factor endowment theory)

The changing order of economies gave rise to new economic thinking and hence the need to shift from the classical theory of trade. The neo-classicals saw a need to provide more accurate facts for the presence of differences in comparative costs among nations. Capital was introduced as a second factor of production, and allowance was made due to the existence of international differences in the way of demand (Okoh, 2004, p.10). Heckseher and Ohlin developed the modern theory of external trade which states that trade occurs due to the changes in comparative cost which also lead to inter-country trade as a result of relative factor endowment. According to them, relative factor endowment among countries formed the most important reason for changes in price structures globally (Iyoha, 1995). Agiebenebo (1995) viewed the modern trade theory as a veneer of classical trade theory. He maintained that free international markets and trading economies will assist towards improving local and global output of production and consumption patterns. Interferences in trade via protective measures such as tariffs and subsidies may lead to a reduction in global and local output and also place global output on a lower indifference curve.

The Export-led growth theories (Staple theory of growth and Corden's supply-driven theory)

Staple theory of growth sees unused or under-utilized resources (raw materials) from the agricultural sector as opportunities for trade expansion which could lead to a vent for surplus and gains to trading countries. The theory is a natural extension of export-led growth model postulated by Innis (1930) and expanded by Watkins (1963). The theory also strikes some similarity with Lewis theory of economic development which emphasized unlimited supplies of labour with the possibility to be vented via free trade. The theory avers that due to the

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abundance of primary commodities which some countries have comparative advantage in, then expansion of a resource-based export commodity is possible, this will lead to a higher rate of growth in GDP or per capita income of such countries. The major weakness of this theory is that it's more descriptive than it explains the development process. This theory was applied to the economies of Canada and it became self-sufficient via export of its abundant natural resources.

However, in 1971 Corden evolved a more empirically conclusive analysis of the influence of trade on economic growth. He replaced the demand-driven equation of the staple theory of growth with a supply-driven model of growth which emphasized growth in factor supplies and productivity. In agreement with Corden's thesis, Finch and Michaelopoules (1988) provided a useful insight into the nature of the link between external trade and growth. However, the supply-driven model of Corden attacks the supply limitations of underdevelopment in developing countries. It recognizes the supply bottlenecks, chronic shortages and low level of savings, which are symptomatic of underdevelopment. It identifies the mechanisms by which developing countries can grow out of underdevelopment through trade (Nyong, 2005). The export-oriented hypotheses form the bedrock of this study and hence our theoretical framework. This is because it emphasizes discovery of primary commodity as a major source of exports expansion especially in countries with comparative advantage in some of these commodities.

EMPIRICAL LITERATURE

There are quite a number of studies that have attempted to investigate the contributions of non-oil exports to economic development of transition economies such as Nigeria. In his study, Osuntogun, Edordu and Oramah (1997) utilized export-import measures to assess Nigeria's comparative cost advantage with her trading countries. Findings from the study revealed that Asian and African countries possessed more favourable markets that could promote diversification in Nigeria's non-oil exports base; the study highlighted quite favourable antecedents of these countries' imports and Nigeria's export history. The study also observed that Nigeria may have witnessed a noticeable shift in the products where she has comparative advantage, although, most of these products have had decreases both in demand and per unit prices overtime.

Okoh (2004) sought to know the benefits Nigeria derive from being a part of the World Trade Organization (WTO) and how the implementation of some of the organization's policies and agreements have impacted on the growth of non-oil export commodities in Nigeria. This study adopted the method of vector error correction mechanism to determine the long-run effect of non-oil exports commodities on import of capital goods and free trade measured using index of openness. According to the results, free trade impacted positively on non-oil export within the period of study but such impact was insignificant in interpreting the variations in non-oil exports in the short-run and in the long-run.

Bernardina (2004) investigated the effect of non-oil GDP, real exchange rate and world GDP on Russian non-oil export commodities making use of error correction model between the periods of 1994-2004. The study revealed a long run relationship between the explanatory variables and Russian non-oil exports within the period of study. More so, world income

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impacted positively on Russian non-oil export whereas non-oil GDP stimulated a reduction in non-oil exports of Russia.

Also using evidence from Nigeria, Olayiwola and Okodua (2005) examined how export-led growth (ELG) hypothesis can be applied to study export growth within the non-oil sector. An analysis of the nature of causality among explanatory and dependent variables was taken to examine the implications of the ELG hypothesis in Nigeria. However, variance decomposition result obtained from the study revealed that there was a uni-directional causality from FDI to non-oil exports.

Antai (2006) also sought to ascertain the factors that influence the present non-oil export expansion in Nigeria between 1970 and 2004. Descriptive statistics were used in exploring the potentials of the different non-oil export sub-sectors. Causality test was also adopted to show the direction of causation between non-oil exports and growth in Gross Domestic Product. Ordinary least squares (OLS) estimation technique was used in showing the effect of variations in price and non-price variables on non-oil export in Nigeria. The result however, showed that openness to trade had a positive and significant impact in explaining the changes that occurred in non-oil export within the short-run period. Also, growth in world income had a positive and significant impact on non-oil exports but with inelastic demand suggesting that it will not be at Nigeria's benefit even when the world earns more income because of the nature of our primary product export mix.

Similarly, Yusuf and Yusuf (2007) examined the determinants of export behaviour among the major agricultural exportable commodities. Time series data was used within the period of study, however, an error correction model was adopted in the analysis of data, and all the variables tested were integrated of order one. According to their findings, long run relationship exists amongst the variables used in the study. The parsimonious result reveals that the past years output and the net value of global trade had a negative effect on cocoa exports while one year lag of GDP positively contributed to cocoa exports within that same period. One year lag price ratio stimulates a decrease in rubber exports and was also significant whereas, the real exchange rate stimulates an increase in export performance of rubber and was significant at 10 per cent level. One year lag of palm kernel exports and the real GDP relates positively with palm kernel exports at 5 per cent level while one year lag premium and palm kernel output impacted negatively and were insignificant on export at 5 per cent and 10 per cent levels of significance respectively. Emphasis on agricultural exports commodities was recommended as a means to reducing the risk of over dependence on oil exports.

Abolagba, Onyekwere, Agbonkpolor and Umar (2010) posited that exchange rate appreciation significantly impacted on export of cocoa and rubber within the period of study in Nigeria. They adopted econometric technique in their analysis and the result showed an inverse relationship between exchange rate and cocoa export. Hasanov and Samadova (2010) investigated the contributions of exchange rate on non-oil exports commodity performance of Azerbaijan using the method of vector error correction mechanism. From the estimated results, it has been discovered that real exchange rate impacted inversely on the performance of non-oil export within the period under investigation while non-oil gross domestic products exerted a direct impact on non-oil export in the long and short-run respectively.

Such empirical submissions underscore the thrust of this study in adopting the analytical viewpoints of Osuntogun, Edordu and Oramah (1997); Bernardina (2004); Okoh (2004); Antai (2006); and Abolagba *et al* (2010) to investigating the underlying complexities in non-oil

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exports in Nigeria and how dynamism in the sector can be achieved. The study by Antai (2006) is important because of its findings, explanatory variables used and its scope. However, though the study focused on output of cocoa, Rubber and coffee, exchange rate which determines the prices of non-oil exports in the international market was excluded (see Bernandina, 2004; Hasonov & Samadova, 2010). Also, no attempt was made to check the time series behaviour of the variables used. Hence, the results may have been spurious.

Abolagba *et.al* (2010) made significant attempt to improve on the study by Antai through introducing real exchange rate variable but his study was product specific in analyses. It focused only on exports of cocoa and rubber in Nigeria thus, the study suffers same flaws as that of Antai (2006). The study by Bernardina (2004) for Russia and that of Hasanov and Samadova (2010) for Azerbaijan viewed exchange rate as a critical factor influencing non-oil exports. Also an improvement was made in their studies by adopting a more acceptable analytical methodology in delineating short-run and long-run effects of factors that stimulate non-oil exports which enhances a wider acceptability of their research findings.

However, this study corroborates previous studies and departed from their approaches in three ways;

(i) By examining the determinants of Nigeria's non-oil as aggregate exports without any preference for specific non-oil export commodities.

(ii) By introducing exchange rate as one of the critical factors so as to assess its effects on non-oil exports; and

(iii) By determining the existence and nature of short-run and long-run relationship of the identified factors on non-oil exports in Nigeria.

RESEARCH METHODOLOGY

The study adopts the Vector Error Correction Model (VECM) to estimate the short-run and long-run dynamics of non-oil exports in Nigeria. First, Augmented Dickey-Fuller (ADF) test was used to determine the stationarity of time series data and thereafter, Johansen co-integration test was conducted to determine the existence or otherwise of a long-run relationship among the variables of the exports demand function. This however laid a foundation to estimate the Error Correction Model (ECM) which provided the basis for empirical analysis.

However, openness (OPEN) of Nigeria's economy to trading partners (Export+Import/GDP) was used to capture economic integration whereas, Agricultural Credit Guarantee Scheme Fund (AGCSF) was used to represent government incentives to firms. Other explanatory variables captured in the model include: World Gross Domestic Product (WGDP), Gross Domestic Product at current market price (GDP), Foreign Private Investment in the non-oil sector (FPNO) and Exchange rate (EXC). Thus, the export demand model has the general form below;

$$NOX = a_o + a_1AGCSF + a_2EXC + a_3OPEN + a_4WGDP + a_5GDP + a_6FPNO + Ut \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

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The non-linear form is a semi log-linear version of equation 1. It is more useful because of its straightforward application in estimating output elasticity of the independent variables and avoidance of the scaling problem (Koutsoyiannis, 1977). The Semi log-linear version is;

$LogNOX = B_0 + B_1 logAGCSF + B_2 EXC + B_3 OPEN + B_4 logWGDP + B_5 logGDP + B_6 logFPNO + Ut$……..... (2)

$\alpha_1, \alpha_2, a_3 \ldots \alpha_6 > 0$ and $\beta_1, \beta_2 \ldots \beta_3 > 0$

Empirical Results

Table 1: Unit Root Test

Augmented Dickey-Fuller (ADF) Result

Variables	Intercept	Intercept and Trend	Critical Value (5%)	Decision
AGCSF	-8.123484	-8.011625	-2.954021	1(1)
EXC	-5.367097	-5.448961	-2.954021	1(1)
FPNO	-4.780537	-4.991898	-2.954021	1(1)
GDP	-3.650400	-3.842180	-2.954021	1(1)
NOX	-4.495493	-5.673440	-2.954021	1(1)
OPEN	-11.144710	-11.222850	-2.954021	1(1)
WGDP	-4.392571	-4.458037	-2.954021	1(1)

Source: Authors computation. 2016

Johansen Co-integration Result

Table 2: Co-integration rank test

Eigenvalue	**Trace Statistic**	**0.05 Critical Value**	**Hypothesized No. of CEs**	**Prob.****
0.983242	323.7400	125.6154	None*	0.0000
0.879353	188.8065	95.75366	At most 1*	0.0000
0.766935	119.0152	69.81889	At most 2*	0.0000
0.676444	70.95283	47.85613	At most 3*	0.0001
0.456737	33.71620	29.79707	At most 4*	0.0168
0.324982	13.58088	15.49471	At most 5	0.0952
0.018355	0.611350	3.841466	At most 6	0.4343

Source: Author's computation, 2016

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Table 3: Co-integration test (Maximum eigenvalue)

Eigenvalue	Max-Eigen Statistic	0.05 Critical value	Hypothesized No. of CE(s)	Prob. **
0.983242	134.9335	46.23142	None *	0.0000
0.879353	69.79129	40.07757	At most 1 *	0.0000
0.766935	48.06239	33.87687	At most 2*	0.0006
0.676444	37.23663	27.58434	At most 3 *	0.0021
0.456737	20.13532	21.13162	At most 4	0.0684
0.324982	12.96953	14.26460	At most 5	0.0793
0.018355	0.611350	3.841466	At most 6	0.4343

Source: Author's computation, 2016

Table 4: Over-parameterized Result

Variables	Co-efficient	Std. Error	t-statistic	Prob
C	8.7125	4.4985	0.5814	0.5675
LOG(AGCSF)	-0.234541	0.1128	-2.4723	0.0225
LOG(AGCSF(-1))	-0.3570	1.4293	-1.3748	0.2117
EXC	1.8228	0.9599	0.8092	0.4279
EXC(-1)	0.4798	0.2834	1.4769	0.1553
LOG(FPNO)	0.4731	0.4188	0.1308	0.8972
LOG(FPNO(-1))	-0.3216	1.2087	-1.5025	0.1486
LOG(GDP)	-1.9566	0.8942	-0.0467	0.9633
LOG(GDP(-1))	0.8056	0.4512	2.2029	0.0395
OPEN	0.2868	0.0120	-5.2239	0.0000
OPEN(-1)	-0.3235	0.1601	-0.1037	0.9184
WGDP	-1.2272	1.0571	-1.6028	0.1247
WGDP(-1)	0.4869	0.2607	0.6179	0.5436
ECM(-1)	-0.3091	0.5366	-2.2039	0.0344

R-squared = 0.8530, Adjusted R-squared = 0.822, F-statistic = 31.2433, DW = 1.8617

Source: Authors computation, 2016

Table 5: Parsimonious Result

Variables	Coefficient	Std. error	t-statistic	Prob
C	4.2704	1.1841	2.3191	0.0282
LOG(AGCSF)	-0.3944	0.1499	-4.2999	0.0002
EXC(-1)	1.4870	0.5437	4.4862	0.0001
LOG(FPNO(-1))	0.6837	0.3127	2.0569	0.0550
LOG(GDP(-1))	0.7764	0.3468	1.7828	0.4406
WGDP(-1)	0.3519	0.1652	1.5231	0.1251
ECM(-1)	-0.2979	0.1367	-2.4021	0.0908

R-squared = 0.8245, Adjusted R-squared = 0.7855, F-statistic = 21.1422, DW = 2.0106

Source: Authors computation, 2016

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Table 1 above shows the unit root result using the Augmented Dickey-Fuller (ADF) test to determine whether the independent and dependent variables are stationary. The result reveals that all the variables are stationary after first differencing i.e., they are integrated of order one 1(1). Thus, Johansen co-integration test was conducted and the result revealed five co-integrating equations based on the rank test and four co-integrating equations based on the maximum eigenvalue. This is so because the trace and maximum eigenvalues are greater than the five percent critical values for the co-integrating equations as shown in Table 2 and Table 3 respectively. Therefore, co-integration could be said to exist in the export growth model adopted in this study.

Given this therefore, it is now possible to estimate an error correction equation in order to determine the dynamic adjustment from short-run to long-run equilibrium since a long-run relationship has been proven to exist amongst the variables of the model. This is clearly presented in the over-parameterized and parsimonious results presented in Table 4 and 5 above. The over-parameterized result unravels the generalized form of the model estimate but peculiar in this discuss is the parsimonious result which is more valid for drawing empirical conclusions and thus forms the basis of this analysis. However, a cursory look at the result shows that all the explanatory variables but AGCSF conform to theoretical *a priori expectation*, hence, a percentage increase in AGCSF will bring about a 0.003944 unit decrease in NOX. A unit increase in the one year lag value of exchange rate i.e. EXC(-1) will bring about a 1.4870 unit increase in NOX. Similarly, a percentage increase in the one year lag values of FPNO and GDP will stimulate a 0.006837 and 0.007764 unit increase in NOX respectively. WGDP(-1) is the only non-significant variable at both five and 10 per cent levels. These findings however corroborates the empirical submissions of Bernardinia (2004) for Russia and Antai (2006) for Nigeria. The behaviour of world gross domestic product (WGDP) brings to fore the deplorable state of Nigeria's non-oil exports which consists basically of primary products with lower price value. This could also be attributable to the low contribution of Nigeria's non-oil exports in the world markets compared with those of other advanced countries that export capital and semi-finished goods.

Adjusted R-square shows that 78.55 per cent of the total changes in the dependent variable is explained by factors considered in the model and loosing 21.45 per cent to statistical noise. F-statistic value of 21.14 is greater than its tabulated value of 2.45 and defines a goodness of fit for the overall model estimate. Consequently, the model can be relied upon for forecasting the changes in non-oil exports. Durbin-Watson statistic of 2.01 falls within the no auto-correlation region whereas, ECM estimate is statistically significant and conforms to theoretical *a priori* but possesses a slow speed of adjustment of 29.78 per cent.

CONCLUSIONS

The role of non-oil sector in the economic transformation of any nation cannot be disputed. The study has re-affirmed that no meaningful progress can be achieved in any nation without a significant contribution from the non-oil sector. This study therefore examined the behaviour of Nigeria's non-oil export sector between 1977 through 2012 and its performance in the past two years leaves little or nothing to be cheerful about. However, for the sector to experience a boost there is need for government to re-examine the agricultural credit guarantee scheme to ensure that such funds are actually used for the intended purpose. Thus, periodic and routine

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monitoring or evaluation of farmers' performance based on previous funds released should be conducted quarterly.

There is also need for orientation and re-orientation on the hidden potentials of the non-oil sector. Such orientation should not be limited to the public alone but the government and other development partners must also be exposed to the hidden opportunities within the sector. Evolving policies and incentives that will stimulate the influx of foreign private investment into the non-oil sector will also be a plus for non-oil export expansion. Such incentives could take the form of tax holidays and setting up non-oil export concentrated industrial areas (clusters) in the six geo-political zones of Nigeria. As a follow up, these industrial areas must be provided with constant power supply and good road network.

Funding to the non-oil sector must be increased and adequately monitored. This fund should be used to resuscitate the moribund oil palm estates in the south-south and south-eastern regions of the country as well as other non-oil related export commodities like cocoa farms, mechanized cassava and plantain farms, etc. This will also foster employment creation and serve as an alternative source of revenue to the government.

In sum, government must continually seek to maintain a realistic and favourable exchange rate in order to encourage non-oil export growth. Encouraging requisite R&D in the sector will also evolve new and improved ways to reposition Nigeria's economy. In fact, it is more imperative now than ever for the federal government to develop deliberate policies with an aim to fast tracking this process since the development process of a significant part of the economy is linked to the non-oil sector.

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