EXPORT PROMOTION IN NIGERIA: HAS THE IMPACT OF BANKING SECTOR REFORMS BEEN FELT?

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Abstract

Over the years, monetary authorities in Nigeria have faced the challenges of identifying a policy suitable enough to enhance diversification of the economy. The most desired end of this diversification is economic self-sufficiency and subsequent promotion of export trade. The government of Nigeria first established the Nigerian Export Promotion Council (NEPC) to enhance export promotion. In 2004, the Central Bank of Nigeria introduced reforms in the banking sector of the country to enhance the contribution of financial institutions towards the promotion of export industries. However, despite all these efforts, exports have contributed only little to the country's GDP. Hence, this study ascertained if the banking sector reform introduced over the years have improved the contribution of export to Nigeria's economic growth. Applying the dummy variable approach to this structural sensitivity problem, it was found that Nigeria's GDP responded insignificantly to export both prior to and during the banking sector reforms. This could imply that so far, the reforms had no serious effect on the economy, with respect to its objective of supporting local industries in their efforts to contribute to the diversification of the country's export trade.

Key Words: Export Promotion, Banking Sector Reforms, Economic Growth, Nigeria.

JEL classification: **F40, F41, F43**

1. Introduction

Over the decades, globalization and its accompanying openness of national borders has been one of the major subjects of both theoretical and empirical studies. In this present study, the offspring of globalization under investigation is international trade as it affects the Nigerian economy, amidst its export promotion campaign.

Nigeria is indeed an open economy with international exchange of goods and services constituting a highly significant proportion of its formal and informal activities, both economic and otherwise. Over the years, there has been tremendous increase in the rate of international transactions between Nigeria and the rest of the world. Prior to 1960 and even in the early years of the independence era, Nigeria was an agrarian economy. Agriculture was the country's major sector, providing both cash and food crops for domestic consumption. It also accounted for the largest share of the country's foreign exchange earnings. We have heard much of how Malaysia got its first oil palm seedlings from Nigeria in the early 1960s when oil palm produce was already a major export earner for Nigeria (Soludo, 2006). Infact, during this period, agricultural and agro-allied exports constituted an average of 60 percent of the country's total export. This figure eventually reduced drastically to about 25 percent between 1975 and 1979 due to the emergence of crude oil and the follow-up oil boom of the 1970s.

The oil boom was the genesis of a change in direction of economic activities in the country. A convincing illustration to underscore the magnitude of this change is provided by current statistics. January 2016 statistics have shown that export of commodities such as oil and natural gas accounts for more than 91 percent of Nigeria's total export. By the end of 2014 fiscal year, about 43 percent of Nigeria's total exports went to Europe, about 29 percent went to Asia, about 13 percent went to America while about 12 percent were circulated across Africa. The recent crash in the international price of crude oil (from over $100 per barrel in 2014 down to $28.33 per barrel in January 2016), though led to the drastic fall in Nigeria's growth, never affected the proportion of export contribution to such an epileptic growth.

From the foregoing, it is obvious that at each time over the decades, the Africa's largest country has been significantly dependent on export proceeds for the enhancement of national income. To consolidate on this through diversification of the economy, the Nigerian government has targeted export promotion by first establishing the Nigerian Export Promotion Council (NEPC) charged with the responsibility of among other things, promoting the development and diversification of Nigeria's export trade. The recent banking sector reforms in the country was equally aimed at making the country's financial institutions strong enough to among other things finance export related industries in Nigeria. In evaluating the potency of these reforms in this aspect, one would not hesitate to ask if the export sector of the economy has actually contributed more to the nation's growth in the reform era than in the pre-reform era. To answer this question, this paper seek to ascertain if the banking sector reforms in Nigeria has actually enhanced the contribution of export earnings to the nation's growth.

In an effort to achieve the above stated objective, the rest of this paper is organized as follows: section 2 briefly introduces the Nigeria's export promotion council. In section 3, we present an overview of Nigeria's foreign trade with more emphasis on export. Section 4 discusses the banking sector reforms in Nigeria. Section 5 reviews related literature. Section 6 exposes us to the relevant methodological issues. Section 7 presents the results of the study and discusses the findings. Section 8 finally summarizes and concludes the study.

2. The Nigerian export promotion council: a brief over view

To ensure the promotion of export in Nigeria, the country's Federal government in 1976 established the Nigerian Export Promotion Council (NEPC). This was achieved through the promulgation of the Nigerian Export Promotion Council Decree No. 26 of 1976, now an Act in line with the democratic governance of the Country. This Act was amended by Decree No. 72 of 1979 and further amended by the Nigerian Export Promotion Council Decree No. 41 of 1988 and complemented by the Export (Incentives and Miscellaneous Provisions) Decree No. 18 of 1986 (Wikkipedia, 2016).

Wikkipedia (2016) further reported that the Nigerian Export Promotion Council (Amendment) Decree No. 64 and 65 of 1992 was promulgated to enhance the performance of the Council. The Council is the leading Federal Government Agency charged with the broad responsibility of promoting non-oil export in Nigeria to diversify away from oil and build a formidable economy. With the vision of promoting non-oil exports to become the key driver of the Nigerian economy, the NEPC on establishment, was charged with the following specific responsibilities:

- To promote the development and diversification of Nigeria's export trade.
- To assist in promoting the development of export related industries in Nigeria.
- To spearhead the creation of appropriate export incentives.
- To actively articulate and to promote the implementation of export policies and programmes of the Nigerian Government.
- To co-ordinate and monitor export promotion activities in Nigeria.
- To collect and disseminate information on products available for export.

- To collect and disseminate to local manufacturers and exporters information on foreign markets.
- To Provide technical assistance to local exporters in such areas as export procedures and documentation, transportation, financing, marketing techniques, quality control, export packaging, costing and pricing, publicity and in other similar areas.
- To maintain adequate and effective representation in other countries.
- To provide, directly or jointly, with training institutions, training for its staff and assist with the manpower development of the export community in Nigeria.
- To organise and plan the participation of Nigeria in trade fairs and exhibitions.
- To administer grants and other benefits related to export promotion and development.
- To undertake studies of the current economic conditions, with special attention to the export sector with the aim of advising government on necessary policies and measures.
- To co-operate with other institutions on matters relating to export financing, export incentives and specialized services to exporters.
- To establish specific trade promotion facilities in Nigeria and in other countries including the establishment of permanent showrooms at important commercial centres in other countries.
- To engage in export promotion publicity
- To pursue the simplification and streamlining of export procedures and documentation on continuous basis.
- To assist in finding appropriate solutions to practical problems encountered by exporters in the process of exportation.
- To plan and organise outward trade missions and provide support from Nigeria.
- To provide support services to inward trade missions from other countries.
- To perform such other functions as maybe conducive to the achievement of the objective of the Export Decrees.

3. Nigeria's foreign trade: a brief statistics

In the past decade, Nigeria's trade with other countries of the world has fluctuated severely. As shown in table 1, by 2005, Nigeria imported from other countries goods worth €19,714 million, a 19.4 percent growth from the 2004 figure of €16,510 million. In 2006, import grew by 18.1 percent. It grew further by 22.2 percent in 2007, 30.1 percent in 2008 before falling by 15.9 percent in 2009. By 2010, the country experienced a 15.3 percent growth in its import which later grew further by 19.0 percent in 2011. There were however insignificant growth in import between 2012 and 2014 as the country's import grew by 3.0 percent, 8.2 percent and 2.9 percent in 2012, 2013 and 2014 respectively.

Table 1: Nigeria's Trade with the Rest of the World, 2004-2014 (€ Million)

YEAR	IMPORT	% GROWTH	EXPORT	% GROWTH
2004	16510		26828	
2005	19714	19.4	34978	30.4
2006	23278	18.1	45941	31.3
2007	28453	22.2	48862	6.4
2008	37021	30.1	59142	21
2009	31142	-15.9	37774	-36.1
2010	35902	15.3	58429	54.7
2011	42736	19	75972	30
2012	44015	3	81781	7.7
2013	47619	8.2	71868	-12.1
2014	49008	2.9	67720	-5.8

Source: The International Monetary Fund (IMF) as reported by the Directorate-General for Trade, European Commission.

Table 2: Nigeria and the Rest of the World: Trade Balance and Total Trade, 2004-2014 (€ Million)

YEAR	TRADE BALANCE.	% GROWTH	TOTAL TRADE	% GROWTH
2004	10319		43338	
2005	15264	47.9	54692	26.2
2006	22663	48.5	69219	26.6
2007	20410	-9.9	77315	11.7
2008	22121	8.4	96163	24.4
2009	6632	-70	68916	-28.3
2010	22528	239.7	94331	36.9
2011	33236	47.5	118709	25.8
2012	37766	13.6	125796	6
2013	24249	-35.8	119487	-5
2014	18712	-22.8	116728	-2.3

Source: The International Monetary Fund (IMF) as reported by the Directorate-General for Trade, European Commission

However, Nigeria exported goods worth €26,828 million to the rest of the world in 2004 (see table 1). This grew by 30.4 percent in 2005, 31.3 percent in 2006, 6.4 percent in 2007 and 21.0 percent in 2008 before falling by 36.1 percent in 2009. The country's export unimaginably grew by a staggering 54.7 percent in 2010. It grew again by just 30.0 percent in 2011, 7.7 percent in 2012 before going down twice again by 12.1 percent and 5.8 percent in 2013 and 2014 respectively.

During this period, Nigeria experienced a favourable balance of trade. Table 2 shows that with a total trade worth of €43,338 million in 2004, its trade balance was €10,319. As total trade grew by 26.2 percent in 2005, trade balance grew by 47.9 percent. By 2006 when total trade grew by 26.6 percent, trade balance grew by 48.5 percent. In 2010 when total trade grew by36.9 percent from the 2009 figure of €94,331 million, trade balance grew by 239.7 percent from the 2009 value of €22,528 million. There were however negative growth of total trade between 2013 and 2014. In 2013, total trade fell by 5.0 percent from €125,796 million and fell again by 2.3 percent in 2014 as the country's trade balance fell by 35.8 percent from the €37,766 million of 2012 and further by 22.8 percent in 2014.

4. Banking sector reforms in Nigeria: a hint

In the quest to enhance the achievement of basic macroeconomic goals, the Nigerian government in 2004 embarked on a reform (bank consolidation) aimed at strengthening the country's banking sector. The reforms actually started with the bank consolidation programme launched by the Professor Chukwuma Soludo led Central Bank of Nigeria (CBN).

The policy thrust of the reform was to make the banks more viable and strong enough to play crucial roles in driving development across all sectors of the economy, including its export related industries. The consolidation exercise started with raising the capital base of banks from N2 billion to a minimum of N25 billion in shareholders' funds. During this period, there were a number of mergers and acquisitions among Nigerian banks in order to meet this new capital requirement. By the end of 2005, this exercise drastically reduced the number of banks from the 2004 figure of 89 to 25.

By 2009, the Lamido Sanusi led CBN advocated several reform programmes still aimed at strengthening the country's banking sector. These programmes rest on four broad pillars as follows:

a. enhancing the quality of banks.
b. establishing financial stability.
c. enabling healthy financial sector evolution.
d. ensuring that the financial sector contributes greatly to the real economy.

Eventually, the CBN reforms under Sanusi resulted in significant changes in the structure and composition of the Nigerian banking industry. This created expansion and growth opportunities for banks and investors already existing in Nigeria and some others that had plans of coming into the Nigerian market.

However, in the heat of severe macroeconomic volatility in Nigeria and the continuous crash of the global crude oil price, the Godwin Emefiele led CBN since it came to power in June 2014, have also advocated several policies aimed at promoting the country’s productive sectors. In an effort to support the federal government in its desire to hurriedly return the economy to glory, the CBN in recent months have made several policies aimed at encouraging domestic production. One of the policies implemented was actually aimed at limiting the access of importers to foreign exchange. The apex bank in its regulatory activities, earlier ordered all financial institutions and the Bureau De Change (BDC) operators not to sell foreign exchange to any person who is not a local producer. When the BDCs flouted the order, the apex bank finally shut the official window through which it sell foreign exchange to them.

5. Abridged literature review

In recent decades, international economics studies (both theoretical and empirical) have been dominated by the study of the relationship existing between international trade and economic growth. This relationship has been traced back to the works of Adam Smith and David Ricardo in their classical foreign trade theories. According to them, trade between countries enhances the growth of individual countries and the world economy at large, as specialization that accompany comparative advantage ensures that countries utilize their productive resources at full potentials. This classical view has however been criticized by modern economists who argued that the theory is applicable only to the developed world. According to Nurkse (1959), foreign trade performed as the engine of economic growth in countries like Canada, United States and Australia in the 19th century simply because they are advanced. Kravis (1970) supported Nurkse (1959) by asserting that the real reason for growth through foreign trade in those countries was the abundance of natural resources in their respective countries. According to Cairncross (1961), while developed countries utilize their resources for the production of export goods, developing and underdeveloped countries use theirs basically for the production of commodities consumed domestically as only an insignificant proportion of their productivity are destined for export. A good number of other theorists in their views have supported the existence of relationship between foreign trade and economic growth. Some of these theorists are: Beckerman (1962), Lamfalussy (1963), Kaldor (1970), Thirlwall (1979), Lucas (1988), Rivera-Batiz and

Romer (1991), Young (1991), McCombie and Thirlwall (1994), Chuang (1998), Blecker (2009) among others.

Just as the theoretical literature, empirical literature in this area of international economics have focused much on the empirical determination of the relationship between economic growth and export in what is popularly referred to as the 'export-led growth hypothesis'. Several researchers have investigated this hypothesis. Given that their results heads towards a particular direction (export enhancing growth), there are little discrepancies with particular respect to the magnitude of effect flowing from export to economic growth. Some of these discrepancies have been attributed to differences in economic conditions of countries studied, differences in sample characteristics and differences in methodologies used, among others. Some of these studies include Tyler (1980), Feder (1982), Ram (1985, 1987), Abu-Qarn and Suleiman, A. (2001), Alam (2003), Cuaresma and Worz (2005), Herza, Lehmann and Siliverstovs (2005), Love and Chandra (2005), Parida and Sahoo (2007), Ullah, etal (2009), Omisakin (2009), Pistoresi and Rinaldi (2012) as well as Chang, Berdiev and Lee (2013) among others.

6. Methodological issues

The nature and magnitude of relationship existing between export trade and economic growth has been a subject of long standing debate in international economics. However, the non existence of consensus result and conclusion on this subject has made its study current and still a subject of further debate.

In this study, we ascertain if Nigeria's export activities has actually responded positively to banking sector reforms which the country embraced in 2004. In other words, we examine if the outcome of export-led growth hypothesis has changed for Nigeria between two periods: the pre-banking reform period and the banking reform period. We therefore specify two identical models for the two periods as follows:

$$GDP_{Nigt} = \alpha_1 + \alpha_2 NEXP_{Nigt} + \mu_{1t} \quad ....6.1$$

for the pre-banking reform period and

$$GDP_{Nigt} = \beta_1 + \beta_2 NEXP_{Nigt} + \mu_{2t} \quad ....6.2$$

for the banking reform period.

where GDP_{Nig} is Nigeria's gross domestic product, a proxy for growth of the country. NEXP is Nigeria's export. μ is the stochastic error term with its usual characteristics.

Following Gujarati (1995), models (6.1) and (6.2) present four possibilities as follows:

(a) Coincident regressions where $\alpha_1 = \beta_1$ and $\alpha_2 = \beta_2$.
(b) Parallel regressions where $\alpha_1 \neq \beta_1$ but $\alpha_2 = \beta_2$.
(c) Concurrent regressions where $\alpha_1 = \beta_1$ but $\alpha_2 \neq \beta_2$.
(d) Dis-similar regressions where $\alpha_1 \neq \beta_1$ and $\alpha_2 \neq \beta_2$.

However, pooling all the n_1 and n_2 observations together and applying the dummy variable approach, we estimate a model such as

$$GDP_{Nigt} = \lambda_1 + \lambda_2 D_i + \theta_1 NEXP_{Nigt} + \theta_2 \left(D_i NEXP_{Nigt}\right) + \varepsilon_t \text{ ....6.3}$$

where D is a dummy taking the value of 0 for observations in the pre-banking reform era and 1 for observations in the banking reform period. λ_2 is the differential intercept and θ_2 the differential slope coefficient. ε_t is the usual stochastic disturbance term. On a general note, a differential parameter indicates by how much that particular parameter differ between the two periods under examination.

The objective of this paper was achieved by estimating model (6.3) and determining the value of θ_2. This parameter explained by how much the contribution of export to economic growth differs between the pre-banking reform period and the banking reform period.

Nigeria's Gross Domestic Product (GDP) at current prices was used as a proxy for the country's economic performance. Data for all series were obtained from the International Monetary Fund's World Economic Outlook database. All data series are annual and span the period, 1994-2014. The first ten years (1994-2003) represents the period of pre-banking sector reform while the rest of the sample represents the period of banking sector reforms.

7. Results.

From model 6.3, it could be deduced that

$$E(GDP_{Nig} / D_i = 0, NEXP_{Nig}) = \lambda_1 + \theta_1 NEXP_{Nig} \text{ ....7.1}$$

and

$$E(GDP_{Nig} / D_i = 1, NEXP_{Nig}) = (\lambda_1 + \lambda_2) + (\theta_1 + \theta_2) NEXP_{Nig} \text{ ....7.2}$$

From table A3 in the appendix, the estimate of model 6.3 as deduced in models (7.1) and (7.2) are

$$E(GDP_{Nig} / D_i = 0, NEXP_{Nig}) = 1081.820 + 21.9546\, NEXP_{Nig} \text{ ......7.3}$$

and

$$E(GDP_{Nig} / D_i = 1, NEXP_{Nig}) = 7350.771 + 152.4588\, NEXP_{Nig} \text{ .....7.4}$$

However, the table A3 shows that while the differential intercept is statistically significant, the differential slope coefficient is statistically insignificant. This is an indication that models 6.1 and 6.2 differ only in their locations, implying that they are parallel regression models. The economy of Nigeria fared better in the era of banking sector reforms only by NGN6268.951 intercept compared to the pre-reform period. The implication of this outcome is that even if Nigeria had closed its border between 2004 and 2014 and earned zero revenue from export, its national income would have still grown by about 579.5 percent per annum.

Though insignificant at explaining what happens to Nigeria's income, the differential slope coefficient has shown that the economy fared better in the era of banking sector reform than in the preceding era. Nigeria's export earnings during the period increased by about 594.4 percent. This indeed has absolutely little to say about the country's gross domestic product value.

The implication of this result is that the modern banking sector reform which came into existence in Nigeria by 2004 has yielded results far below the level desired by the economy, especially as contributed by the export sector. This is however ironical. Nigeria as we all know is a country abundantly blessed with natural and human resources. With a population currently estimated at about 183 million, Nigeria is one of the ten largest producer and exporter of crude oil. A highly significant proportion, if not all of Nigeria's oil output goes out as export as the country had no active refinery between 2004 and 2014. It then follows that the proceeds of the country's crude oil export rather than entering Nigeria's treasury, are diverted to private pockets/bank accounts of political office holders. No wonder the immediate past administration (government of Dr. Goodluck Jonathan) was seriously alleged to have diverted over $20 billion United States, money meant to be deposited in the account of the Nigerian National Petroleum Corporation (NNPC) with the Central Bank of Nigeria (CBN). This result however does not conform to a priori expectation, as a country producing nearly 3.0 million barrels of oil per day is expected to have its national income being significantly influenced by its export proceeds.

8. Summary and conclusions

In this study, we ascertained if banking sector reforms embraced upon by Nigeria about 2004 has actually enhanced the contribution of export to the country's economic performance proxied by its gross domestic product. Applying the dummy variable approach to this structural sensitivity problem, we found that Nigeria's GDP responded insignificantly to export proceeds both prior to and during the banking sector reforms. This could imply that so far, the reforms had no serious effect on the economy, with respect to its objective of supporting local industries in their efforts to contribute to the diversification of the country's export trade.

However, this result does not imply that the banking sector reforms have failed the country. It only explains to the authorities that the proceeds of export (mostly from the country's major source of foreign exchange: crude oil) does not enter the coffers of the country, but rather diverted to their private pockets. The federal government of Nigeria should as a matter of urgency block all leakages from the NNPC. This will go a long way in eliminating or reducing the diversion of export proceeds. Meanwhile, the country's apex bank should not discontinue with its reforms aimed at encouraging local producers, as encouraging local producers is synonymous with promoting export trade.

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APPENDIX

Table A1: ADF UNIT ROOT TEST FOR GDP

ADF Test Statistic	-3.600002	1% Critical Value*	-4.5743
		5% Critical Value	-3.6920
		10% Critical Value	-3.2856

*MacKinnon critical values for rejection of hypothesis of a unit root.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(GDP,2)
Method: Least Squares
Date: 01/28/16 Time: 17:35
Sample(adjusted): 1997 2014
Included observations: 18 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(GDP(-1))	-1.502047	0.417235	-3.600002	0.0029
D(GDP(-1),2)	0.049382	0.249213	0.198152	0.8458
C	-3977.961	1805.470	-2.203283	0.0448
@TREND(1994)	965.1631	272.9492	3.536054	0.0033

R-squared	0.726572	Mean dependent var	570.0128
Adjusted R-squared	0.667980	S.D. dependent var	4295.337
S.E. of regression	2475.023	Akaike info criterion	18.65902
Sum squared resid	85760361	Schwarz criterion	18.85688
Log likelihood	-163.9312	F-statistic	12.40059
Durbin-Watson stat	2.141904	Prob(F-statistic)	0.000313

Table A2: ADF UNIT ROOT TEST FOR NEXP

ADF Test Statistic	-4.590836	1% Critical Value*	-3.8304
		5% Critical Value	-3.0294
		10% Critical Value	-2.6552

*MacKinnon critical values for rejection of hypothesis of a unit root.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(NEXP)
Method: Least Squares
Date: 01/28/16 Time: 17:37
Sample(adjusted): 1996 2014
Included observations: 19 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
NEXP(-1)	-1.620711	0.353032	-4.590836	0.0003
D(NEXP(-1))	0.348240	0.228434	1.524470	0.1469
C	3.828561	2.323205	1.647965	0.1189

R-squared	0.659446	Mean dependent var	-0.470263
Adjusted R-squared	0.616877	S.D. dependent var	14.83798
S.E. of regression	9.184257	Akaike info criterion	7.416798
Sum squared resid	1349.609	Schwarz criterion	7.565920
Log likelihood	-67.45958	F-statistic	15.49114
Durbin-Watson stat	1.903714	Prob(F-statistic)	0.000181

Table A3: ESTIMATE OF MODEL 6.3

Dependent Variable: D(GDP)
Method: Least Squares
Date: 01/28/16 Time: 17:48
Sample(adjusted): 1995 2014
Included observations: 20 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1081.820	1161.583	0.931333	0.3655
DU	6268.951	1497.217	4.187070	0.0007
NEXP	21.95455	87.82611	0.249978	0.8058
DUNEXP	130.5042	232.5836	0.561107	0.5825

R-squared	0.547666	Mean dependent var	4559.851
Adjusted R-squared	0.462853	S.D. dependent var	4262.685
S.E. of regression	3124.135	Akaike info criterion	19.10856
Sum squared resid	1.56E+08	Schwarz criterion	19.30771
Log likelihood	-187.0856	F-statistic	6.457357
Durbin-Watson stat	2.044595	Prob(F-statistic)	0.004521