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EXCHANGE RATE MOVEMENTS AND THE EXPORT SECTOR: NEW EMPIRICAL EVIDENCE FROM NIGERIA

The impact of exchange rate movements on the export sector in Nigeria is examined in this study through the use of time series data and the classical linear regression model (CLRM) estimation technique. The variables employed in this study are exchange rate, agric. output, manufacturing output, total export earnings, government capital expenditure, foreign direct investment and broad money supply (M2). From the result, it becomes apparent that exchange rate movements play a significant role in the performance of the export sector in Nigeria. More specifically, the findings show that exchange rate, manufacturing output, agric. output, government capital expenditure and foreign direct investment are positively related to export earnings while the broad money supply (M2) is negatively related. It is therefore recommended that the apex bank should keep a close watch on exchange rate developments in order to enhance exchange rate stability, which will in turn contribute to the development of the export sector in Nigeria.

Keywords: *exchange rate; movements; export sector; empirical analysis*

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The exchange rate is a key macroeconomic variable which performs a dual role which directly links it to the export sector – it serves as a nominal anchor for domestic prices and maintains international competitiveness (Stein, Fernandez, Rosenow and Zuluaga, 2018).

The export sector is rather strategic as it has been directly linked to the growth and development of economies around the world (Chen, and Juvenal, 2016). It is responsible for facilitating the sale of goods and services produced in the home country. This consequently leads to growth through increased revenue generation and foreign exchange earnings. Over the years, many developed nations (such as the so-called 'Asian Tigers') as well as some developing nations, including Nigeria, have adopted the export promotion industrialization strategy and this has gradually elevated the importance of the export sector in their respective economies.

The Nigerian export sector comprises oil and non-oil exports. Nigeria's major exports in the 1960s were agricultural produce, which accounted for over 80% on average. Non-oil exports continued to make up the bulk of exports in the country until the oil boom era during the 1970s. Ever since then, there has been a continuous decline in the percentage contribution of non-oil products to both the GDP and the

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total foreign exchange earnings in the country. Structurally, the sector, which had been dominated largely by crude oil export, remained unaltered for over three decades. For instance, crude oil exports accounted for 93.8%, 98.4%, 95.8% and 96.6% of the total exports in 1979, 1999, 2009 and 2011, respectively (CBN, 2013). Oil exports, as a percentage of the total exports, averaged 96% in the early 1980s, consequently causing a massive decline of non-oil exports to about 4%. The exchange rate movements witnessed as a result of the deregulation did not make the situation any better as non-oil exports further dropped to 3.1% over the span of the 2007-2011 period (CBN, 2013). As a result of this overdependence on oil exports, the Nigerian economy has been negatively impacted by the vagaries of the international crude oil market.

Furthermore, since the export promotion industrialisation strategy proposed by the Structural Adjustment Programme (SAP) policy did not achieve the desired results, the productive base of the economy was neither improved nor restructured. As a result, the pressures that fell upon the export sector increased causing it to be highly dependent on crude oil as a means of foreign exchange earnings.

Although this decline in the productivity of non-oil products in the country could be attributed to factors such as sheer neglect of the productive sectors, dysfunctional macroeconomic policies and mismanagement, recent arguments which have emerged from the literature on the topic opine that exchange rate movements may be a contributing factor to the truncation of the diversification within the Nigerian export sector. Hence, the present study intends to investigate the extent to which exchange rate movements impact the Nigerian export sector. The classical linear regression model (CLRM) is therefore used to estimate the impact of exchange rate movements on the export sector in Nigeria during the period 1981-2015. The findings show that exchange rate movements have significant positive impacts on the export sector, which in turn points to the conclusion that the Nigerian export sector can reap maximum benefits from exchange rate movements.

Literature review

Theoretical literature

1. Export- based theory

The export-based theory is a theory which emphasizes the development of the export sector as a means towards stronger economic performance. One of the most major proponents of the export-based theory was Douglas North who in the 1950s proposed that overall regional growth and ultimately development is a function of the external sales of locally produced goods and services.

The theory opines that the export sector plays the role of a multiplier because without export markets the expansion of an economy proves to be impossible. Thus, the export-based model suggests that every economy is divided into a basic sector and a non-basic sector. According to Cramon and Rovayo (2006), the basic sector