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Non-Oil Export and Exchange Rate Nexus in Nigeria: Another Empirical Verification

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Abstract

This study examined the nexus between Exchange Rate and Non-Oil Export in Nigeria using time series data from 1985 to 2018. Secondary data were sourced from the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS) and World Bank Development Indicators (WDI). The study adopted Autoregressive Distributed Lag (ARDL) model and it was fitted with Seven variables; namely, Non-oil Export (NOE), Exchange Rate (EXR), Credit to Private Sector (CPS), Trade Openness (OPN), Inflation (INF), Interest Rate (INT) and Foreign Direct Investment (FDI). The results showed that the exchange rate has a positive and significant impact on non-oil export in Nigeria. Therefore, the study recommended that the Government should encourage international trade to boost non-oil export and increase foreign exchange earnings. Also, there is a need for the government to improve the financial institutions to make investment funds available. Lastly, there is a need to revisit the export-oriented policy to ensure that the non-oil sector is well catered for.

Keywords: Exchange rate, Nonoil exports, Economic growth, Empirical, Nigeria
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Ethical: This study follows all ethical practices during writing.

Contents

Contribution of this paper to the literature

This paper contributes to the literature by examining the nexus between Exchange Rate and Non-Oil Export in Nigeria using very recent time series data and novel ARDL model. The policy recommendations are quite useful for policy making in Nigeria if adopted.

1. Introduction

It is the primary objective of any developing country like Nigeria to be prosperous in international trade. Positive trade relations tend to promote economic growth and development of the country. However, the performance of the economy in terms of international exchange in diverse goods and services has not been quite impressive for over three decades. Despite the amount of foreign exchange generated from its oil and gas resources, economic growth has been very slow, and the incidences of poverty have increased. This can be attributed to the low level of non-oil export, which makes oil-producing countries like Nigeria fragile.

Imoughele and Ismaila (2015) in their study noted that the expansion of non-oil export to get rid of one product economy has been known as a contributor to economic development in oil-producing countries like Nigeria. The oil sector produces about 90% of export earnings but employs less than 6% of the teeming population (National Bureau of Statistics, 2017). Therefore, the growth recorded is in the possession of fewer than 10% of the Nigerian populace overwhelmed by expatriates and members of the political class who control production and revenue. More so, the oil sector by all accounts disengaged from different sectors of the economy and thus offers little or no linkage multiplier effect on the economy in general.

Enoma and Isedu (2011) argue that the reason why growth in Nigeria has no impact on poverty reduction and job creation is simply that the growth is not emanating from non-oil sectors like agriculture that employ more than 75% of the teeming population. Since the discovery of crude oil, non-oil exports have not been encouraging. For example, non-oil export decreased from 48% in 1970 to 20.6% in 1980 and a slight increase to 23.3% in 2005. The non-oil export later reduced to 19.9% in 2007 and recorded 25.9% in 2015 (Central Bank of Nigeria, 2017). This is much lower than the percentage it accounted for before the crude oil discovery when it was 90%. To cure this over-dependence on mono-cultured crude oil economy, there is a need to look inward and find a possible solution to diversify the Nigerian economy away from oil led-export towards the direction of non-oil-led export trade.

Promoters of this speculation accept that the non-oil-led export has extraordinary possibilities to push the Nigerian economy to the ideal growth and development. Onwualu (2012) maintained that the value chain approach to non-oil export can open up the economy and produce different activities which are capable of creating jobs, stabilizing the exchange rate, and improving industrialization. This means that the non-oil sector can contribute meaningfully to good economic performance if well managed. These potential gains may not be realized if the exchange rate of the domestic economy is highly volatile. Thus, the management of the exchange rate is seen as vital in determining the performance of non-oil export in Nigeria.

The exchange rate of a currency is required in the flow of goods and services in any nation. In Nigeria, there were a lot of policies measures put in place to control excessive demand for foreign exchange due to experiences in the late 1970s and early 1980s; this led to the introduction of the Structural Adjustment Programme in 1986. The objectives were to protect the value of the domestic currency, maintain a favorable external reserve, and ensure external balance without compromising the need for internal balance and the overall goal of macroeconomic stability (Central Bank of Nigeria, 2017). Exchange rates evolve naturally with the development of international trade and exchange. The United Kingdom was the first country to fix the value of its currency (pound sterling) in terms of gold. The bank of England, which is their central bank, was run mainly by goldsmiths in the 17th century before the conversion. In the bank, the notes (pound shillings e.t.c.) deposited in the bank could be converted back to gold within its subterranean vault; it safeguards the country's reserve. This made gold widely acceptable both in the country and the other countries as a means of exchange. Under the regime of a gold standard, the value of one country's currency relative to another was determined by the weight of gold (ounce), making it a means of exchange (Olisadebe, 1995).

Promoting non-oil exports has been one of the policy issues facing policymakers in Nigeria. Nigeria's export used to be primarily non-oil commodities with agricultural products representing the vast majority and has been contributing to the employment of more than 65% of the population around 1960. However, it fell from 48% in 1970 to 20.6% in 1980 and slightly increases to 23.3% in 2015 and a low record of 21.1% in 2016 (Central Bank of Nigeria, 2017).

Figure-1. Non-oil export value in billions.

Source: World Bank (2019).

Figure 1 shows that between 1985 and 1988 the non-oil revenue recorded a negative value but this increased to a positive value in 1989 from then it continues to fluctuate where it records an all-time high of ₦20.52 billion in 2017. Evidently, from the graph, we can see that the non-oil export is not stable for over decades. It's against this background; this paper seeks to investigate the impact of the exchange rate on non-oil export in Nigeria. The