EFFECT OF FEDERAL GOVERNMENT POLICY ON NIGERIAN EXPORTERS

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Abstract

Nigeria is one of the most populous country in sub-Saharan Africa, with a current population of well over 140 million people. The country like most countries in the sub-region had her independence in 1960 from Britain. Her vibrant economy then was mainly agrarian and that economy survived through the export of cash crops. However the discovery of oil immediately after independence changed all that and Nigerian became a major exporter of crude oil and abandoned the development of the export of the above mentioned primary products. At a time Nigerians were importing tooth picks and currently over 70% of her refined petroleum products are imported. Efforts to drive her non-oil exports have proved unsuccessful due to her weak macro-economic environment which is not industry based. Our manufactured products cannot effectively compete in the world market. It is expected that government should make effective use of the vast oil resources to kick start the economy, develop the private sector which, actually should be driving the economy for total quality management of the economy and especially the non-oil exports. So the country’s weak macro-economic environment has stalled industrialization and hence our export potentials since our export products and packaging cannot compete in today’s international market.

Keywords: Environment, development, economy

Introduction

Nigerian started experiencing oil boom in the 1960’s. However before this oil boom, the Nigeria economy was relatively balanced with each principal economic sector, namely agriculture, manufacturing, and services, contributing its fair share of development to the total national effort and Gross Domestic Product (GDP). It should also be noted that before the 1960’s the dominant role of agriculture in Nigeria’s economy was such that with very little support from government, agriculture was able to grow at sufficient rate to provide adequate food for an increasing population, raw materials for newly emerging industrial sector, increasing public revenue for government, foreign exchange from exports which provided for the growing external needs and employment opportunities for an expanding labour force. Then, the little support given by the government to agricultural development was concentrated on export crops like cocoa, groundnuts, palm produce, rubber and cotton, since food self-sufficiency did not seem to pose any problem worthy of attention.
It is a common knowledge that pre-independence (1960), the economies of the three major regions were sustained by the export of agricultural products. The North then had the popular groundnut pyramids from where they exported the cash crop. The West their cocoa from which the government earned revenue to sustain their free education programme. The “Cocoa House” still standing at Ibadan to date is the symbol of the impact of that crop to the economic development of that region. The East prided herself with the export of palm produce. The palm tree is a symbolic agricultural product that all the waste by-products can be recycled into another useful cash earning product. Other agricultural crops and natural resources with which the country was generally endowed were timber, livestock, cereals, pulses, citrus, soya, cassava, yam etc. Invariably, Nigeria had a vibrant rural economy, while wealth and development were relatively evenly spread, and people were rather contented to live in their villages. Then, apart from oil and gas, the country had vast deposits of solid minerals such as iron ore, coal, lead, zinc, tin, columbite, kaolin, gypsum, barite, bitumen, etc. which were not sufficiently developed.

The role of oil in Nigeria’s economy and export development

According to Schatzl (1964) the first indication that Nigeria might be rich in petroleum was early last century, when oil seepages were seen at Aroromi in the present Ondo State. The exploration of this find was started by a German company, the Nigerian Bitumen Corporation in 1908. However this pioneering effort was terminated by the outbreak of the First World War in 1914. Continuing, Schatzl said that in two decades after the above effort, an Anglo-Dutch consortium, came to Nigeria as Shell D’ Arch (the forerunner of the present Shell Petroleum Development Company SPDC of Nigeria) to start exploration activities in 1937 after being awarded the sole concession rights covering the whole territory of Nigeria. After many years of searching with investment of millions of Naira, (then British Pound Sterling) a commercial discovery of crude petroleum was recorded at Oloibiri in the Niger Delta in 1956. In 1956, Shell started oil production and export from the Oloibiri oil field in the present Rivers State at a rate of 5,100 barrels per day. Production doubled the following year.

Pearson (1978), said, in 1959 the sole concession rights over the whole country granted to Shell was reviewed and exclusive exploration rights were extended to companies of other nationalities in line with the policy of increasing the pace of exploration while at the same time ensuring that the country was not too dependent on one company or nation. Shell encouraged other companies to join in the exploration and by 1961, Mobil, (now Exxon Mobil), Gulf (now Chevron Texaco), Agip, Safrap, etc had joined the explorers for oil in the onshore and offshore areas of Nigerian. These new entrants made significant discoveries of oil in the Nigeria Niger Delta Region, thereby giving a quantum boost to our oil reserves, daily production and export, and consequently Petro-dollars from the export. Like the popular SWOT analysis in Marketing, the strength of the oil find, became strengths and weakness which affected the other export commodities and the new found opportunities in the upstream oil industry became threats to other sectors of a formerly vibrant and balanced economy.

All the crude oil, produced then, was initially wholly exported unrefined, while our needs for petroleum products locally were satisfied through importation. In 1965, a refinery with a processing capacity of 35,000 barrels per day was commissioned in Port Harcourt. The supply of white or refined petroleum products from this refinery was enough to meet domestic demand and the excess fuel oil was largely exported due to our low level of industrialization since we do not have manufacturing concerns to use the fuel oil. According to Aghara (1985), surprisingly, since 1965 we have built four additional refineries, but today Nigeria, about the 6th producer-member of Organization of Petroleum Exporting Countries (OPEC) exports about 3.0 billion barrels of crude oil per day and imports well over 60% of her refined petroleum products. This is sad since one had expected that 40 years after our first refinery was built that export of refined petroleum product should be leading the non-oil export sector of our economy, including meeting the requirements of the West African sub region and even other African Countries.

The initial indications of problems in the agricultural sector started in the first decade of the country’s post independence (1960-69), which rapidly worsened in the second decade during (1970-79). The situation was further compounded by the oil boom that created serious distortions in the economy and exacerbated mass labour migration from the agricultural sector of the rural communities to the cities. Since than agricultural activity has steadily declined, resulting in the sector reducing its status as the mainstay of the Nigerian economy.
According to Edordu (2003), presently, Nigeria displays the characteristics of a dual economy, a modern sector heavily dependent on oil revenues against a relatively poor traditional agrarian economy. The capital intensive nature of the oil sub-sector and its very low employment capacity coupled with the consequent lopsided development of the economy in general, have become a source of grave concern to the Federal Government of Nigeria (FGN). Continuing, Edordu said for instance that in the year 2001, the oil sector accounted for 76.5% of federal governments revenue, 94.5% of export earning and 10.6% of GDP at factor cost, while non-oil exports accounted for just 5.5% of total earnings. With crude oil price well above USD$60 per barrel since 2005, the contributions of non-oil exports to the nations export earnings have continued to decline. What the above scenario shows is that Nigeria is a mono-export economy fully dependent on oil. If this background is viewed from the fact that oil is a wasting asset with specific life span, we cannot wait to develop or diversify other revenue generation potentials or sources. This will guarantee a balanced and sustained economic growth, especially when our crude oil reserves must have declined to levels that cannot sustain the current over 90% contributions to our export earnings and economic growth.

Problems of formulating export policy strategy for Nigeria

Export Policy strategy formulation is not new in Nigeria. As a matter of fact, many attempts have been made since independence in this direction, though with mixed results. In some instances, such efforts were more or less Export Promotion Document lacking in content and actual strategy for effective export drive. Very important is the mode of change of government since independence which were non-democratic with the succeeding regime coming in to correct the ills of the past government thereby rubbing all efforts of the past government, whether goods or bad. In one instance, an inter-ministerial committee was set up to formulate an export strategy, and the work of this committee was in an advanced stage but not completed before a new government took over office and, or course, the strategy formulation was discontinued, and dumped in the dustbin of history.

From the part of government, officials given the task of export strategy formulation, apart form having other equally important official assignments, may not be very technically competent to deliver on the assignment hence the delays and poor output. Another issue is the proper articulation of what an “export strategy” should include. For effect, an export strategy should encompass the key roles of all stakeholders in the export process. So an export strategy should include the following, (Markham, 2003). The contribution of export to the overall national development plan.

- A clearly defined objective framework.
- An unambiguous policy direction to achieve the above set objectives.
- Well defined areas of emphasis for likely policy and institutional intervention to pre-empt unforeseen implementation problems or difficulties.
- It should include performance indicators to facilitate monitoring and evaluation of export performance.
- There must be set targets and time frame for achieving these targets.

Nigerian national development policy and export strategy objectives

In realizing the very urgent need to jump start her economy, the Federal Government in 2004, launched the National Economic Empowerment and Development Strategy (NEEDS) in response to the development challenges of Nigeria, (NEEDS Policy 2004). One of “NEEDS” four pillars of policy thrusts is to promote exports and equally diversity exports away from oil. It also seeks the transformation of Nigeria into an economy that is robust, stable, dynamic, competitive and export-driven. NEEDS which is the main policy thrust of Obasanjo administration partly draws on ‘Vision 2010’ which preceded NEEDS as the official national development policy of Nigeria. It therefore envisages, inter alia, economic reforms which are designed to generate sustainable economic growth rate of 6-10% per annum in real terms between 1998-2010.

The development policy recognizes that the envisaged economic performance requires government intervention in specific areas which include orientation of the economy towards a diversified export-oriented development based on national comparative advantage. This initiative is apparently informed by official recognition that trade, more specially export, plays the role of an ‘engine of economic growth’ under certain conditions. The challenge is, therefore, to defined a national export strategy, the Implementation of which will enable the non-oil sector play its rightful role in the national development agenda and to achieve a more balanced export-led development of the economy.
The export development strategy objective of NEEDS document over the next five years (2005-2009) include the following:

To provide a strategic framework and guide for national consensus building to mobilize the following core institutions:

(i) Export-stakeholder public institutions and policy making bodies.
(ii) Trade support service providers.
(iii) Organizations, institutions and associations that represent non-oil private sector exporters
(iv) Export companies.

For needed substantial support services to promote export oriented cross sectoral development of Nigeria’s human and non-oil natural resources and production capacity building. To realize the non-oil export potential of Nigeria, and stimulate on a broad front export-led or driven balanced development of the economy. To manage in a manner that permits mass participation in the activities and consequent economic rewards of export by the greater majority of the Nigeria population.

Consequent upon the above, the NEEDS document envisages non-oil earnings growth as follows:

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<th>Year</th>
<th>2005</th>
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<td>Growth</td>
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These growth rates are even projected to about 50% by the year 2010. In view of the above policy objectives this paper will now take a critical look at the problems of the export sector of the economy and how these problems impact on the government realization of the lofty ideals of the NEEDS document.

**Problems of the export sector and impediments to export expansion and marketing**

From the foregoing, strategy formulation goes beyond the scope of problem solving, it is important to have in focus problems of the export sector and factors that discourage export activities, as identified through our economic development, experience as a nation, and even by stakeholders, and to ensure that appropriate provisions are made in the strategy to address them. These problems and factors include and are not limited to be following.

**Economic Development Problems**

We can understand our export problems better when we look at the stages of economic development and how far we have fared as a nation. We will look at it from three stages: the primary (extractive) or pre-industrial society; the secondary or industrial society; and the tertiary or post-industrial society. According to Bell (1973) the primary (extractive) or pre-industrial society is one of subsistence. The labour force is engaged in agriculture, mining and other activities which require a lot of physical exertion and strength. Productivity is low due to lack of technology. Low productivity leads undevelopment of the large populations. Export activities here if practiced at all are limited to primary products.

In their contribution, Fitzsimmons and Fitzsimmons (2001) said that, the secondary or industrial society which is the goods producing stage, is characterized by energy and machines which in turn multiply out-put per labour hour and also restructure the nature of work. Work is generally accomplished in the rather artificial environment of the factory, where people tend or work with machines. The rhythm of life is machine-paced and dominated by rigid working hours, world of schedules and acute awareness of the value of time to ensure quality. The improvement of production create room for the distribution and marketing of goods. There will be improved employment level and income which is expected to be followed by the development of infrastructure and other economic activities, including the development and export of these manufactured goods. This leads to improved employment level, income-created space and the need for the service industry.

The tertiary or postindustrial society is concerned with the quality of life as measured by services such as health, education, recreation and total quality economic development. The central figure is the professional person rather than physical strength while performance is the key resource. Bell (1973) further suggests that the transformation from an industrial to a postindustrial society occurs in many ways which include: total development of infrastructure like roads, transportation, utilities, education and manpower to support industrial development; and there will be growth in quality population, trade
and other services like export, banking, insurance, etc. Bovee and Thill (1992), gave further reasons for growth of tertiary or postindustrial society, which include: economic prosperity and growth in dual income family all of which enhance disposable income which invariably induce purchase of quality goods and continued and sustained total quality economic production development and export of goods.

Going further, it will be noted that development experience has shown that countries that have witnessed long periods of export growth, achieved sustained gross domestic product (GDP) growth and transformation (Edordu, 2003). He went further to say that these countries include many South East Asian countries such as South Korea, Taiwan, Malaysia, Indonesia, etc, which are generally seen as export success stories that achieved significant growth and transformation. He continued, that exports are also credited with ensuring stable growth and enhancement of an economy’s capacity to contain external shocks that would otherwise create disruptive setbacks. So the strong correlation between export performance and stable growth experience in Asia would lead any observer of current events to suggest that an export-led or driven development strategy should be followed by other countries seeking growth especially oil producing third world countries like Nigeria.

Incidentally, since independence in 1960, Nigeria has followed essentially an import substitution development strategy and current conventional wisdom is that it did not bring the desired level of GDP growth at least on a sustained basis. Since the mid-1980’s Nigeria has reversed and reformed its policies with somewhat of mixed results. Why has the Asia experience not repeated itself in Nigeria after over twenty years of reform? The fact remains that as long as we cannot fully develop and sustain the secondary or industrial stage of our economic development and move to the third stage of tertiary and the postindustrial or services sector of our economic development, any discussion on how to transform ours into an export-driven economy will surely fail, the current NEEDS document not withstanding. The result will be that Nigeria will continue the export of primary and semi processed agricultural products. Edordu (2003) went further to clarified the above by saying that while GDP growth is a necessary condition of development, it is not sufficient since it is essentially a quantitative change. Economic transformation involves changes, in the composition of output and exports, as well as in the structure of resource use. In this regard, transformation of an economy requires a growing GDP accompanied by shifts in the share of primary output (agriculture and natural resources) towards secondary output (manufacturing) and tertiary output (services). The distribution of labour employed among the sectors is also expected to shift away from agriculture towards manufacturing and services. Even the income and wages structure of the average Nigerian worker is so low and at the exchange rate of USD$1 to NGN130, the average Nigerian worker cannot earn enough income to reflate the economy and move it into the industrial and tertiary stages of economic development.

**High Cost of Doing Business**

The high cost of doing business generally in Nigeria including export business is a well known development. This has the tendency of making Nigerian products expensive in the export market and therefore uncompetitive generally. This will then discourage Nigeria exporters from entering the export business. Some of the factors that account for the high cost of doing business in Nigeria include

It is common knowledge that it is cheaper to transact business at the Cotonou port in Benin Republic than at the Apapa and Tin Can Island ports in Lagos, Nigeria. Our port charges are relatively higher. The number of security checks at the Nigeria side for cross-border trade discourages Nigerian Exporters, since all the multiple security points are just avenues to collect/extract money from exporters. The Federal Government has had cause to request the inspector General of Police and other security agencies to reduce the number of checkpoints both at the ports and trans border trade routes. Difficulty and high cost of access to land for export production. Most times two communities lay claim to one landed property and most times payment is made to both communities. Again government documentation process and payment for such land can be frustrating, before one can get title to such land.

**Export Financing**

Financing business generally and export in particular is a major problem area. While some level of financing is expected from some international institutions like the Eximbanks, Nigerian banks should effectively kickstart finance export
business. This has not really been so since our banks are more interested in short-term trade lending than the long term export development financing, due to their weak capital base. In fact that was one of the reasons given by the apex bank The Central Bank of Nigeria (CBN), for the recent N25bn capitalization of banks which will encourage the emergence of mega banks to handle all types of business including long-term export financing. This issue of poor export financing by banks was highlighted by exporters who are members of Manufacturers Association of Nigeria Export Promotion Group (MANEG). They have held that the Nigerian Export-Import Bank (NEXIM) and other financial institutions responsible for what they called the poor export of Nigerian non-oil products (Vanguard Newspapers, May 12, 2006). Members of the association said that NEXIM had made little or no impact on export financing, while the capitalized banks that are supposed to provide loans to manufacturers at low interest are only interested in profiteering, and financing imports.

At an interactive forum of the Special Adviser to the president (SAP) on export programme and Chief Executive Officer (CEO) of Nigerian Export Promotion Council (NEPC), Mrs Modupe Sasore with captains of the banking industry on Export Financing and the challenges, in Lagos recently, the National Chairman of MANEG, Mr. Romeo Barberopoulos (Vanguard May, 12, 2006), said that, it has become a matter of concern to Nigerian Exporters that interest on loan which appears low on the surface is not so in reality. He also said, that additional monies or charges imposed on exporters have made Nigerian Exports uncompetitive in the international market. Continuing, he told the NEPC boss that bank policies in Nigeria are anti-export and therefore negatively affecting the organized private sector, as regards financing. He further said that interest on loans which hovers around 17 percent, jumps to 22 percent and more by the time the banks add contract renewal and other fees and charges, which are not included in the original interest charged on loans. He continued that there was also a problem of poor networking of Nigerian banks outside the nation’s shores. Nigerian Exporters find it difficult to make money transfers expect they route such transfers through branches of indigenous banks in the United States or Europe as such service inadequacies of Nigerian banks had in the past led to stoppage of product exports from Nigeria. He therefore hoped that the N25 billion capitalization of banks would go a long way in making our banks to embrace internationally accepted banking standards.

However, in her contribution at the forum, the Assistant General Manager, Trade Finance at NEXIM, Mrs. Adewodu Abiodun said that NEXIM was prepared to guarantee and provide insurance for the credit of banks that would want to lend money to exporters. She however, added that the local banks were not keen on taking such facilities, but will rather take enough collateral from exporters to cover their risk. She said that most of the people who use NEXIM’s guarantee and insurance are actually overseas stakeholders, who are equipment suppliers to our local manufacturers. She also confirmed that NEXIM is being capitalized in line with the banking industry and this will help to position the institution better to serve the interest of exports. In her contribution, Mrs. Sasore of NEPC confirmed the problem of export financing, saying that the forum was put together to highlight problems that exporters faced in the bid to access funds, delay in notification and release of export recoverable, introduction and use of e-commerce and regular interface with the banks to remove obstacles on export financing.

May be Nigeria should borrow from the Credit Guarantee Insurance Corporation (CGIC) of South Africa. According to Coles (2002) CGIC, is an amalgam of South Africa’s export community, and its banking and insurance corporations. After its formation, the Re-Insurance Act was passed through parliament which gave the South African Government scope to re-insure Political Risk. Continuing, Coles said that under Commercial Risk, the buyer is responsible for his actions in meeting his payment commitments etc. Under Political Risk the buyer has no control over the actions of his own or another government. In South Africa CGIC takes Commercial Risks i.e. insolvency, repudiation, or protracted default for its own account, etc. and re-insures this through the international market. Political Risk is slightly more complicated, since it is more difficult to predict whether countries will go to war or not with the attendant economic and foreign exchange problems which is a big drawback on export activities.

This articulate export policy strategy by South African government must have impacted positively, for the gains and development of export and export financing in South Africa. No wonder, since the end of Apartheid in South Africa, we have witnessed in Nigeria the influx of South African products from manufactured and industrial raw materials and parts to communication technology and services.

Poor State of Infrastructure
It is common knowledge that the poor level of infrastructural development does not encourage business to thrive. Export manufacturers have to provide their own power generation and water-supply. Road network is still poor making transportation of goods an arduous task. Communication where available is rather expensive our mobile phone tariff is higher than that of most countries in the West Africa sub-region.

**Repatriation of Export Proceeds**

Exporters are required to repatriate their proceeds through the bank, unless they want to finance some imports with them. However, the difference between the black market currency exchange rate and that of official export proceeds encourage exporters to avoid official documentation so that they can earn foreign currency in cash, which is higher than the rate of export proceeds through the bank. For the past one or two years, the gap between the parallel and official exchange rate of the Naira to the US dollars is so significant that some importers will rather export unofficially so as to earn higher exchange rate. This will also add to the denial of export financing by most banks.

**Delay in Processing Export Grants**

Documentation delays make this bold effort of the Federal Government uninteresting. Export Expansion Grant (EEG), which provides for cash inducement to exporters, was recently increased from 20% to 40% since February 2003, by the Federal Ministry of Finance (Akobundu 2003). This incentive is available to exporters who have exported a minimum of NGN500,000.00 (about USD $4000 = 00) worth of products. However MANEG is apprehensive and uncertain of the fate of the new incentive in view of a number of very unclear issues appearing in the general statement of the budget on the EEG which may hinder and frustrate implementation. These issues which require clarification include: determination of eligible exporters; determination of eligible products, and role of MANEG and the duration of the new EEG regime which MANEG suggested should last for at least a 10 year period, to be of effect for a sustainable export development.

**Conclusions and recommendations**

Again quoting from Edordu (2003), successful export marketing should balance the attention currently given to market access with an equally vigorous support for export production. The Asian (Tigers) States which were at comparable levels of development some three decades ago with Nigeria have experienced significant output transformation and export expansion. The main drivers were suitable macro-economic environment support with industry-oriented Direct Foreign Investments (DFIs) and appropriate financing. Recent as well as past policies in Nigeria did not infuse sizable industry-oriented DFI, suitable financing and strong entrepreneurship into the export sector. These can be brought into a new exporting regime to support export-led economic development in Nigeria. According to Edordu, African Export-Import Bank (Afreximbank) for which he is the President, has introduced such a programme to assist its member states in the African sub-region to use exports as a potent instrument of transformation for a stable and sustainable development. From all the above, we are emboldened to make the following recommendations.

Our current level of economic and industrial development cannot support effective export of manufactured product. All DFIs should be directed towards strengthening the macro-economic environment, based on industry-orientation. This will change the quality of our export products and packaging and equally make them more competitive in the international export market. The excess crude oil fund should equally help to fast track this. It does not make any economic sense to accumulate foreign reserves when our economic development is at the primary stage. Infact, the money paid the Paris Club and other Foreign Creditors should have been deferred and used to strengthen our macro-economic environment for an export-driven economy. We should rather be exporting refined petroleum products to most of the African sub-region instead of importing same.

Development of infrastructural facilities should be pursued vigorously. There cannot be any alternative to good road network. The Federal Government of Nigeria should differentiate between politics and economic developments. Once State Governments build strategic federal roads in their states, they should be refunded since such roads if regleted may hinder transportation of exportable goods. The issue of poor power generation should not be contemplated at all. No serious investor will want to come to Nigerian and start investing in power generation for his manufacturing business. Communication network is rather very expensive especially the GSM when compared with rates in the West African sub-region. Most small and Medium Enterprises (SMES) cannot cope effectively with its current pricing. Now that NITEL
(the official government telecommunication company) has collapsed, the second National carrier should be made to take off and provide cheaper communications network with more data to cope with overall business and export communication, and transaction.

NEXIM should partner with Afeximbank and the local banks to ensure that all interested and genuine exports are not discouraged by proper funding. Documentation should be minimized for effect. The success of the South African Credit Guarantee Insurance Corporation (CGIC) should be replicated in Nigeria with NEXIM providing the enabling environment through the Central Bank of Nigeria (CBN) and the Federal Government.

NEPC should ensure that all bottlenecks in respect of documentation should be minimized and all export grants due exporters are not unduly delayed. The wide gap between the black market Naira exchange rate and the Bank’s Export Proceeds rate should be narrowed down or closed to prevent exporters from avoiding official documentation and exports. In the alternative, banks can pay export proceeds in dollars just like the banks that are part of the Western Union Money Transfer that now pay customers in foreign currency. This will be another strategic export incentive.

References


