CHAPTER FOUR

AN ASSESSMENT OF THE EXPORT- LED GROWTH STRATEGY IN NIGERIA

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Abstract
This chapter assessed Nigeria's Export-Led Growth Strategy (ELGS) from 2015 to 2023. However, for issues of data availability, empirical data collected spanned from 2015 to 2022. Annual data on macroeconomic variables such as Real Gross Domestic Product (RGDP), Gross Domestic Product growth rate (GDP growth rate), domestic debts, external debts, fiscal deficit as a percentage of GDP, inflation rate, unemployment rate, imports, exports and trade balance were used. All the variables were sourced from the Central Bank of Nigeria [CBN] (2022). The series was analyzed using lines and bar graphs to draw some salient points on the gains of ELGS. It was found that the Nigerian economy witnessed very slow economic growth during the period under review, with two episodes of recession in 2016 and 2020. This study also found that, despite the strategy, the country's imports surpassed her exports most of the time, and her exchange rate depreciated significantly. At the same time, both inflation and unemployment were on the rise. Thus, this study recommends that all tiers of government in Nigeria must improve infrastructure to boost domestic output for exports. The governments are encouraged to avoid contracting more public debts but diversify their revenue bases through taxation and investment.

Introduction

The Export-Led Growth Hypothesis (ELGH) posited that, for an economy to grow, it must increase its exports of goods and services to earn foreign exchange and curtail imports. The ELGH philosophy is closely linked to the "Mercantilist School of Thought". Smith (1776) coined it "the mercantile system" a dominant economic thinking that dominated Western Europe between the 16th and 18th centuries. Mercantilism involves government regulation of trade to promote domestic industrial growth, usually to the detriment of other countries. It thus restricts imports and encourages exports to acquire and preserve the stock of gold or foreign exchange (Pettinger, 2019). Mercantilism can also be viewed as an economic protectionism since it places a premium on self-sufficiency by ensuring a favorable trade balance via import restrictions and export promotions (Corporate Finance Institute [CFI], 2022). This may be why Franklin (1774) posited, "No nation was ruined by trade, even seemingly the most disadvantageous".

The export-led growth strategy has proved very useful to several countries. For instance, Dritsakis (2006) found that export growth played a leading role in the development processes of European Countries, Japan and the United States of America. Similarly, Ramos (2001) examined the relationships among exports, imports and economic growth in Portugal from 1965 to 1998 and found that the growth of exports was more important in stimulating economic growth in the country.

Nigeria adopted the export-led growth strategy between 2015 and 2023, where some commodities were banned outright from importation to stimulate domestic production and enhance exports for foreign exchange earnings. However, it is unclear whether the strategy has made the economy fare better. According to the African Development Bank (2023), Nigeria experienced a decrease in real GDP growth, falling from 3.6% in 2021 to 3.3% in 2022. This decline was primarily due to a reduction in oil production. The industrial sector contracted significantly, with a 5% shrinkage. However, this was offset by growth in the services sector (7%) and the agriculture sector (2%). The decline in GDP growth was driven by a contraction in public consumption (2.5%) and a substantial decrease in net exports (80%). Growth in income per capita also declined, dropping to 0.8% in 2022 from 1.2% in 2021. The fiscal deficit narrowed slightly to 4.9% of GDP in 2022 from 5.2% in 2021. It was financed by borrowing, increasing public debt to $103.1 billion, which is about 22% of GDP. Inflation in the country reached a two-decade high of 18.8%. This was driven by increases in energy and food prices and the pass-through effects of exchange rate depreciation.

To combat rising inflation, the Central Bank of Nigeria raised the policy rate, peaking at 16.5% in November 2022, up from 11.5% at the beginning of the year. Despite the economic challenges, the country achieved a small surplus in the current account, amounting to 0.1% of GDP. This marked a reversal of three years of deficit. The country's gross international reserves declined by 7.5% to $37.1 billion, equivalent to 5.7 months of import cover. The nonperforming loans ratio in the banking sector stood at 4.2% in 2022, below the regulatory requirement of 5%. The capital adequacy ratio also exceeded the regulatory benchmark, reaching 13.8%. The country continued to face challenges in terms of poverty and unemployment. The multidimensional poverty rate remained high at 63%, and the unemployment rate was 33.3%. These issues have elicited concerns regarding the performance of the export-led growth strategy adopted by Nigeria between 2015 and 2023.

Equally, studies on export-led growth in Nigeria have yet to clearly establish whether Nigeria is fully ready to adopt the export led strategy to boost her macroeconomic performance. Whereas Kareem (2008) and Osabohien *et al*. (2019) concluded that export-led growth strategy was beneficial to Nigeria, Jubrilla (2021) found that export-led growth strategy had no tangible benefits to the Nigerian economy. These conclusions also call for further interrogation to examine data trends within the last eight years to verify whether or not the strategy has enabled the Nigerian economy to grow, create jobs, and earn foreign exchange to maintain a strong currency, favorable trade balance and good fiscal standing. This investigation will be significant for policy realignment for a better international trade strategy for Nigeria's economic growth and general macroeconomic performance.

Theoretical Review

This subsection reviews some theories of international trade that have links with boosting economic growth. Franklin (1774) emphasized that trade does not harm any country, no matter how disadvantaged the country may appear to be in the international trade arrangements. But the mercantilists' views on trade presuppose that when an economy imports more, it loses, but when it exports more, it gains. Accordingly, some theories of international trade that have relevance to economic growth have been propounded by several scholars. However, in this study, two main theories are reviewed: the theory of "absolute advantage" and "comparative advantage".

Ricardo (1817) posited that specialization and free trade would benefit the trading benefit the trading partners enormously, even if some partners may be relatively inefficient. In order to bring out the meaning in his statement, and compare the absolute advantage and comparative advantage. Absolute advantage pertains to the ability of a country, individual, or entity to produce more of a good or service using the same amount of resources as another. It focuses on productivity and efficiency in producing a specific good or service. For example, if Country A can produce 100 cars using the same resources that Country B can only produce 80 cars with, then Country A has an absolute advantage in car production. This concept was introduced by Smith (1776).

Conversely comparative advantage looks at the opportunity cost of producing one good or service in terms of another. It's not just about producing more but producing at a lower opportunity cost. For instance, even if Country A can produce cars and computers more efficiently than Country B, it might still be more beneficial for Country A to specialize in the product with a comparative advantage and trade for the other product. This theory allows both countries to benefit from trade by focusing on what they can produce at a relatively lower opportunity cost. The comparative advantage concept was developed by Ricardo (1817).

Comparative advantage emphasizes that even if a country doesn’t have an absolute advantage in producing any goods, it can still benefit from specializing in and exporting goods for which it has a lower opportunity cost than other countries. This principle forms the basis for international trade and specialization, providing mutual benefits for the countries involved.

Empirical Literature

Duru *et al*. (2020) examined the relationship between trade liberalization and economic growth in Nigeria from 1981 to 2018. The study found that trade liberalization did not contribute to economic growth in Nigeria. This finding suggests that the extensive campaign for trade liberalization in developing countries, promoted by international organizations in the late 1980s and early 1990s, did not have the expected positive impact on Nigeria's economic growth. The results indicated a unidirectional causality from real Gross Domestic Product (GDP) to trade liberalization in Nigeria. This means that changes in real GDP influenced trade liberalization, but the reverse relationship was not observed. Thus, while trade liberalization is an important policy tool, it should be implemented cautiously and in conjunction with other policies to ensure that it positively impacts economic growth in Nigeria.

Orhan *et al*. (2022) x-rayed the relationship between exports and economic growth in the context of Turkey and presented the findings of a study conducted over two different periods: 1999: Q1–2013: Q4 and 2014: Q1–2021: Q4. The study examined two hypotheses: the export-led growth hypothesis and the growth-led export hypothesis. Export-Led Growth Hypothesis suggests that an increase in exports leads to economic growth, and the Growth-Led Export Hypothesis suggests that economic growth causes an increase in exports. It was found that for the period 1999: Q1–2013: Q4, only the growth-led export hypothesis is valid for this period. During the period, an increase in economic growth led to a 0.42% increase in exports. For 2014: Q1–2021: Q4, the study found that both the export-led and the growth-led export hypotheses are valid. This finding suggests a more dynamic and bi-directional relationship between exports and economic growth during this time frame. A 1% increase in economic growth rate increased exports by 0.38%, and a 1% increase in exports increased economic growth by 1.36%. This means that export-led strategy may not always support economic growth.

Alimi and Muse (2012) examined the role of exports in Nigeria's economic growth. The study used time series data from 1970 to 2009 and various statistical techniques to analyze the relationship between economic growth and exports. Having found the variables to be of mixed order of integration and that they were cointegrated, the Granger Causality test was employed. The Granger causality test examines the causal relationship between GDP and economic growth. The results indicate a unidirectional causality running from economic growth to exports. This implies that economic growth drives export expansion in Nigeria. The study provides empirical support for the growth-led export hypothesis in the case of Nigeria. This suggests that policies promoting economic growth, such as import substitution industrialization (ISI) strategies, positively impact on exports.

Deme (2002) provided an excerpt on the relationship between trade openness and economic growth in the context of Nigeria. The study employed various econometric techniques to analyze this relationship, including co-integration, vector autoregressive (VAR) modelling, and impulse response analysis. This hypothesis posits increased international trade (export and import) leads to higher economic growth. The study used quarterly data from 1970 Q1 to 1997Q1, which spans nearly three decades. Nigeria is considered a relevant sample for this study due to export earnings' significant role in its economy (about 25% of GDP) and their substantial contribution to the federal government's budget (over 90%). The study employs Johansen's co-integration techniques to assess long-run relationships among the variables. The study also examined the causal links between trade openness and economic growth within a Vector Autoregressive (VAR) framework. However, it does identify short-run causal links between some measures of trade openness and economic growth. The results of the impulse response analysis suggest that variables showing a causal link to economic growth have the most significant impact during the third quarter.

Methodology

This study adopted a content analysis to draw and the posers earlier raised in the introductory section of this paper. Thus, annual time series data were sourced from 2015 to 2022 on macroeconomic variables such as official exchange rate, trade balance, consumer prices, real economic growth, economic growth rate and unemployment. The data were sourced from the Central Bank of Nigeria [CBN] (2022) and presented in graphical form for easy analysis.

Data Presentation and Discussions

To further make the assessment more realistic, this section made use of graphs and charts to give a snap view of the behavior of some macroeconomic variables during the period under review when the Export-Led Growth Strategy (ELGS) lasted between 2015 and 2022 since data for 2023 was not available.

Performance of Gross Domestic Product (GDP)

One key expectation from ELGS is substantial improvement in the level of economic growth. Figure one gives a smart view of how Nigeria's real GDP performed from the period under study.

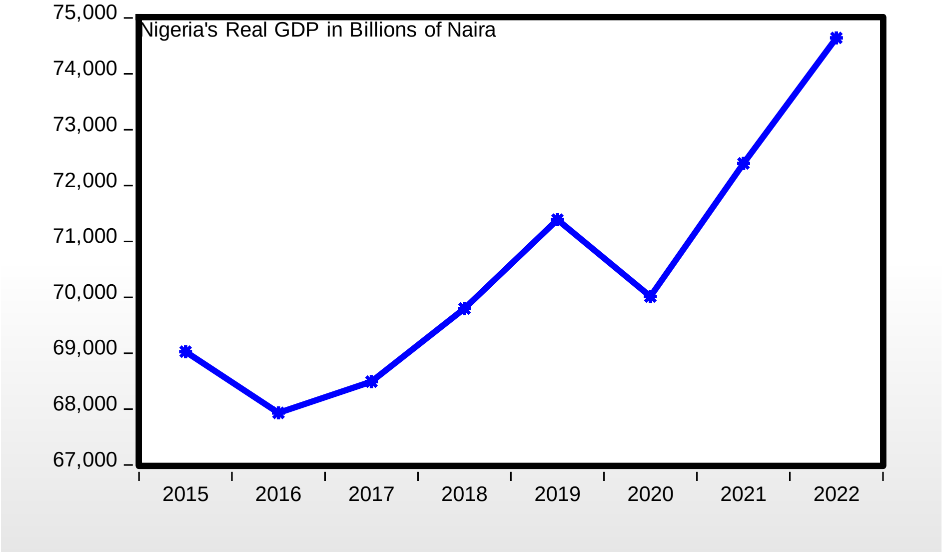

Figure 1: Trend in Nigeria's Real GDP (2015-2022)

Figure 1 shows that, while Nigeria's RGDP in 2015 was over 69.02 trillion naira, it slid down to 67.93 trillion in 2016 before it improved marginally to 68.49 trillion naira in 2017. The RGDP kept an upward movement in 2018 to hit 69.80 trillion and 71.39 trillion naira in 2019 when Nigeria held her general elections. In 2020, Nigeria's economy slid into recession for the second time within the period under review to record an RGDP of 70.01 trillion naira. This may be attributable to the lockdown measures introduced to curb the effects of the Corona Virus Disease code-named COVID-19 that lasted between March and November in 2020. However, the economy returned on the path of growth such that Nigeria's RGDP was 72.39 trillion naira in 2021 and 74.64 trillion naira in 2022. It can be seen that, during Nigeria's ELGS, her economy witnessed some growth in output with two episodes of recessions. The growth level can be slow since the difference in RGDP in 2022, and 2015 is about 5.4 trillion naira, only indicating an average growth of less than 1 trillion during the period under review.

Trade Balance Performance

Another key target for adopting some restrictive trade measures alongside ELGS was to enhance the level of Nigeria's exports, curtail her level of imports and improve her balance of trade position. The trend of the performance of those variables is in Figure 2.

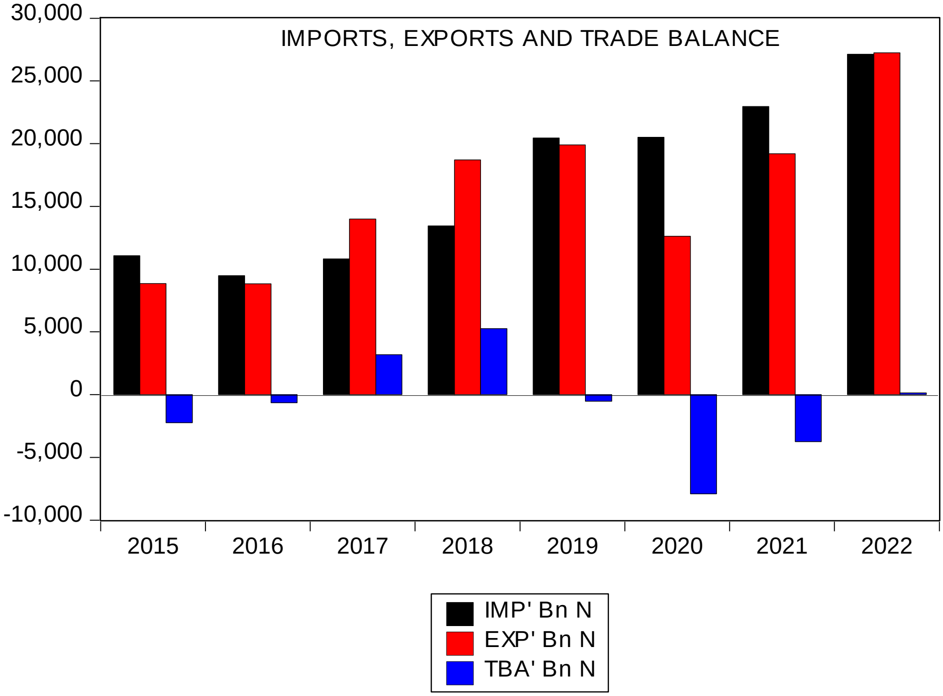

Figure 2: Exports, Imports and Trade Balance in Nigeria (2015-2022)

A quick look at the figure shows that Nigeria's trade balance during the period under review did not meet the government expectations. It can be seen that during the 7 year, Nigeria recorded a positive trade balance at marginal levels in 2017, 2018 and 2022 only. Specifically, in 2017, the country gained 3.18 trillion naira, 5.26 trillion naira in 2018 and 136.46 billion naira in 2022. However, her trade deficit figures were 2.23 trillion naira in 2015, 644.75 billion naira in 2016, 539.43 billion naira in 2019, a whopping 7.91 trillion naira in 2020 and 3.75 trillion naira in 2021. This trend shows that the ELGS could not curtail imports and improve exports and trade balance as was targeted by the government.

Fiscal Health Position of Nigeria

Again, another expectation of the government for adopting the ELGS was to improve her financial and fiscal health. The government aimed to improve its revenue by curtailing the domestic and external borrowing levels**.** Figure 3 presents a picture of the country's fiscal health during the period under review.

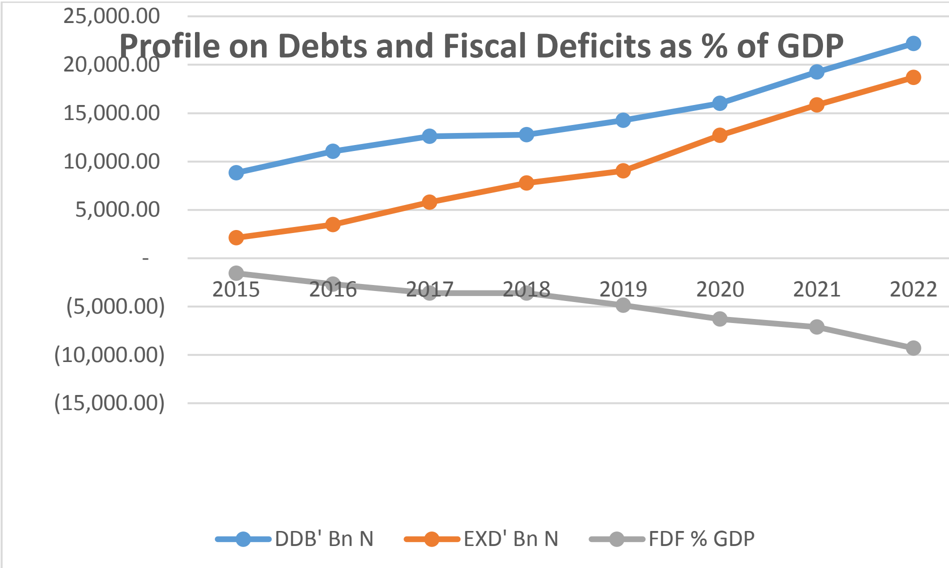

Figure 3: Nigeria's Debts Profile and Fiscal Deficits as a Percentage of RGDP

Figure 3 shows that both Domestic Debts (DDB) and External Debts (EXD) are in trillions of naira, and both have rising trends throughout the period under review. DDB was 8.84 trillion naira in 2015 and rose to 22.21 trillion in 2022. On the other hand, EXD stood at 2.11 trillion naira in 2015 and rose steadily to peak at 18.70 trillion naira in 2022. Throughout the study period, domestic debts were higher than external debts. However, each of the debts has a peculiar consequence on the economy. While both loans may have been useful in tackling some infrastructural and security challenges in the country, they must be repaid with interest. Whereas domestic debts are often criticized for crowding out domestic investment, servicing external debts places a burden on a county's foreign exchange earnings as they must be serviced in foreign currencies.

Again, a much more disturbing fact lies in the fiscal deficit rate as a percentage of the RGDP during the time under review. The fiscal deficit maintained a progressive negative trend throughout the period under study. The deficit was -1,557.8 % in 2015 and degenerated steadily to close at -9,319.6% in 2022. This finding has serious implications for the country's economy regarding the possibility of coping with such huge debt obligations in the future.

Inflation, unemployment and Economic Growth Outlook

The ELGS also considered the accompanying macroeconomic objectives of ensuring relative price stability and reducing unemployment when the economic growth rate is high. These are implicit assumptions of any economic growth targeting policy as canvassed by Philips (1958) and Okun (1962). To Okun (1962), an expansion in economic growth is expected to usher in higher employment levels, thereby reducing unemployment. According to Philips (1958), inflation is inversely related to unemployment, such that higher inflation levels reduce unemployment in the economy. Figure 4 is a graphical representation of inflation, unemployment and GDP growth rates.

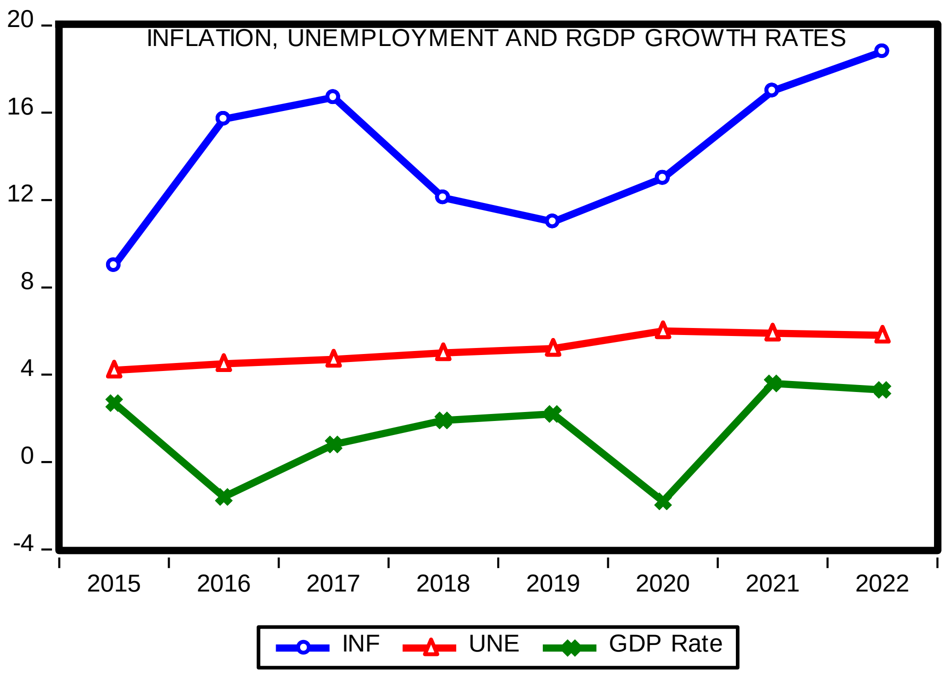

Figure 4: Inflation, Unemployment and RGDP Growth Rates (2015-2018)

A close look at Figure 4 shows that inflation rates over the year remain high in the double digits. With an initial inflation rate of 9.0% in 2015, the variable staggered upwards to close at 18.8% in 2022. During this time, the unemployment rate in Nigeria fluctuated mostly upwards between 4.2% and 6%, while RGDP growth rates were unfortunately very low, with two episodes of recession in 2016 and 2020. The highest GDP growth rate of 3.6 was recorded in 2021, immediately after the recession in 2020. Such low GDP growth rates may not create adequate employment opportunities to tame the tide of unemployment in an economy with high population growth like Nigeria.

Exchange Rate versus Inflation Rates Outlook

Inflation is an important macroeconomic variable because it connotes the cost of living and, by extension, a measure of the welfare of the people. Its central role in stimulating other macroeconomic variables has made central banks globally focus on the single objective of price stability. Vaish (2005) and Skousen (2007) posited that price stability is the most important monetary policy goal. Given that, during the ELGS, Nigeria recorded high external debts, slow GDP growth and an unfavorable trade balance, and as an import-dependent economy, one would naturally want to look at Nigeria's exchange rate during this time and her domestic price level since they are intractably linked. Figure 5 gives a snapshot view of their relationship.

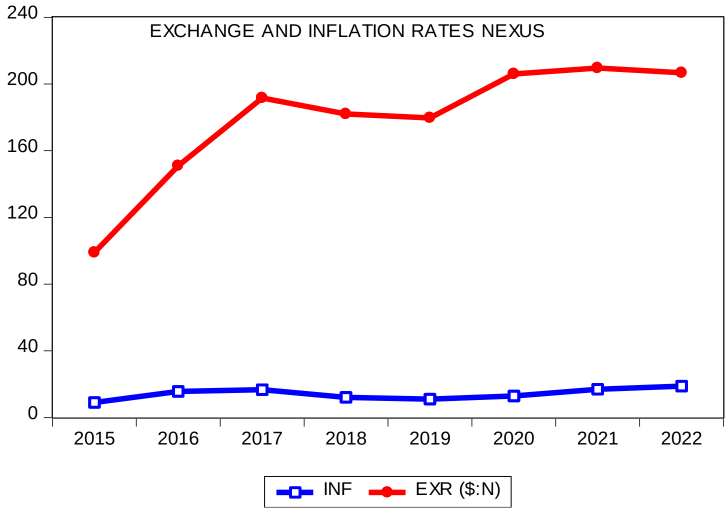

Figure 5: Exchange and Inflation Rates Nexus in Nigeria (2015-2022)

It can be observed that Nigeria's exchange rate fluctuated upward and maintained a positive overall posture, indicating that the naira depreciated against the American dollar during this time. On the other hand, inflation rates also maintained a positive upward trend during the same period. This shows that as the naira depreciates, inflation rates in Nigeria may likely rise especially, since Nigeria relies heavily on importing finished and intermediate goods. It can be inferred that ELGS has not been able to improve significantly on Nigeria's foreign exchange earnings. As such, it is affecting her exchange rates and inflation rates adversely.

Conclusion

Based on the various data sets analyzed by this study, it concluded that, the Exports-Led-Growth Strategy has not achieved its targets significantly. This is because the rate of economic growth during the period was slow. With two episodes of recessions, Nigeria's trade balance remained mostly in huge deficits, and the government's fiscal position was enmeshed in huge internal and external. During the period, unemployment was high amidst a high inflation rate. This means that ELGS in Nigeria was not properly conceived, and necessary measures for its successful implementation were not put in place.

Recommendations

Based on the study's findings, the following recommendations will be of immense relevance for public policy on economic growth and other accompanying macroeconomic variables.

i. The federal government of Nigeria needs to realize that, given its present level of development, it is still being prepared for restrictive trade policies and export-led growth strategy. The country should improve its infrastructure in the transportation and power sectors to boost local production of goods and services, curtail imports and encourage exports.
ii. Governments at all levels in Nigeria should avoid domestic and external borrowing as much as possible to reduce the pressure on government revenues used for debt servicing. This policy will improve the fiscal health standing of the government.
iii. There is a situation of inflation and unemployment rates moving in the same direction, implying that during the period under review the monetary authorities in Nigeria must strive to control the level of prices to a threshold level that can propel economic growth and create employment opportunities.

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