THE IMPACT OF FISCAL POLICY ON NON-OIL EXPORT TRADE IN NIGERIA

Onwe Godwin  
Department of Economics  
Ebonyi State University  
Abakaliki  
Ebonyi State  

&  
Thomas Okoro  
Department of Economics  
Ebonyi State University  
Abakaliki  
Ebonyi State  

ABSTRACT  
This paper tries to evaluate the impact of fiscal policy on non-oil export trade in Nigeria economy. Data were obtained from the CBN Statistical bulletin for the period 1981-2012 and analyzed using the ordinary least square regression. From the result of the analysis, it was established that total government expenditure had a significant and negative impact on Non-oil export trade in Nigeria. It was also found that taxation had a negative impact on non-oil export trade. It was recommended that the government expenditure should be refocused and be redirected towards production of goods and services so as to enhance non-oil export performance in Nigeria. It was also recommended that government should review the existing tax policies and make careful adjustments in a way that will promote non-oil export and the growth of the economy.

Keywords; fiscal policy, Nigerian economy, CBN statistical bulletin, taxation and Non-oil export.

INTRODUCTION  
Fiscal policy is a policy whereby the government uses public expenditure and public revenue to achieve the desirable effects and avoid the undesirable effect on national income, production and employment. According to Arthur, Sheffrin and Sullivan (2003) fiscal policy is the use of government revenue collection (Taxation) and expenditure (spending) to influence the economy. There are thus two main instruments of fiscal policy, each of which has its own effect on the economic growth of a country. These instruments are taxation and government spending in various sectors. The changes they produce can affect the following macroeconomic variables in an economy.
- Aggregate demand and the level of economic activity.
- The distribution of income.
- The pattern of resource allocation within the government sectors and relative to the private sector.
These instruments can also result to three possible situations, and these are Expansionary Fiscal Policy, Neutral Fiscal Policy and Contradictory fiscal policy.

Expansionary fiscal policy involves government spending exceeding tax revenue and is usually undertaken during recessions.
Neutral fiscal policy is usually undertaken when the balance budgets of an economy is in equilibrium. Government spending is fully funded by tax revenue and overall the budget outcome has a neutral effect on the level of economic activity.
Contradictory fiscal policy occurs when government spending is lower than tax revenue, and is usually undertaken to pay down government debt.
Nigeria is endowed with various kinds of resources needed to place her amongst the top emerging economies of the world. Unfortunately the Nation has not experienced the economic prosperity expected of a Nation so richly blessed. Through export promotion for instance, Nigeria can improve the standard quality of living and also enhance her Global economic rating. A strategic appraisal of Nigeria's export promotion by Adesina A. Fagbenro (1999) indicates that there is the need to review aspects relating to non-oil export trade so as to harness the vast potential that is largely under-utilized in the various sectors of the economy.

According to Yusuf (1999) the discovery of oil and realization that foreign exchange could comparatively be easily desired relegated attention to the non-oil sector to the background. Crude oil as at 1996 constituted about 97.4% of total export earnings while non-oil exports accounted for only 2.6%, it declined systematically as the proportion of total exports fell from about 40% in 1970 to about 20% in 2006. In addition, the spread of the non-oil export items experienced decline in the period under study. Thus, it becomes an issue of great relevance to investigate whether fiscal policy in Nigeria has had any significant impact on the growth of non-oil export trade in Nigeria.

Statement Of The Problem

There are two components of fiscal policy which each component has its own impact on the non-oil export trade of a country (Sullivan 2003). These components include taxation and government spending. Although various factors have been adduced to Nigeria’s poor economic performance but the major problem has been the economy’s excessive dependence on the large revenue from oil market without any significant economic diversification reflecting the effect of the so called "Dutch disease".

The government over the years has taken various measures to develop the non-oil export sector all to no avail. The need to correct the existing structural distortions and put the economy on the path of sustainable growth is therefore compelling. Due to this, the question of what else that is needed to be done in order to develop the non-oil export to realize the potentials of the sector is raised. So to say, this work is carried out to know how fiscal measures can be used to develop the non-oil export trade in Nigeria.

Empirical Literature Review

A number of empirical studies have been carried out to evaluate the success of the fiscal policy in stimulating export performance and economic growth. Most of these studies employ cross sectional analysis of Inter-country data on export and Gross Domestic Product (GDP).

Maizels (1968) carried out a study on the relationship between exports and economic growth in sixteen countries in estimating the relationship; he performed time series analysis of exports and GDP. Maizels found out that there is no strong association between export and the growth of the economy. He however, offered two explanations for this.

First is the small sample size, and second the relative importance of exports in national income was not taken into account in each of the countries considered. Massal et al (2002) extended this study to eleven Latin American countries they employed a simple equation model and found that export earnings appear to make a remarkable impact on the growth of output.

Michael (2007) carried out studies on International statistical comparison of export performance and economic growth. He also adopted a simple equation model. He found the correspondence between growth in per capita income (a proxy of economic growth) and the ratio of export to GNP to be significantly positive for a sample of forty less developed countries. However, this evidence was significant only with respect to twenty-three less developed countries included in the sample. Comprehensive empirical studies of eleven countries with strong industrial based, also found a significant and positive relationship between economic growth and export promotion for less development countries, it was suggested that countries which neglect their export sector through discriminatory economic policies are likely to have to settle for lower rates of economic growth and he concludes that the export performance reflects export economic policies.

Krueger (2008) carried out a study on non-oil export growth relationship for ten countries covering 1954 through 1971. He employed a simple log - linear specifications for each country, one of the results from the study is that relationship between GNP and non -oil export earning is more correlated than the correspondence between GNP and total foreign exchange availability. A corollary result for this finding is a positive relationship between non - oil export performance and export - oriented policies. These results are quiet consistent with the bi -variant regression results employed earlier by (Emery 2007, Seren 2008 and Syron and Walsh, 2008) to investigate a similar phenomenon.

DIAGNOSTIC TEST OF THE MODEL

Diagnostic tests of the model were carried out as follows:
Explanatory power: The co-efficient of determination (R2). It measures the goodness of fit. It explains the total variations (NOEXP) caused by variations in the explanatory variables included in the model.

Decision Rule: The higher the R2 the greater the percentage of the variation of the dependent variable explained by the repressors, and the closer the R to zero, the worse the fit.

Decision rule: If the computed d value is less than the lower limit (dl), there is evidence of positive first order serial correlation, if it is greater than the upper limit (du), there is no evidence of positive first order serial correlation, but if (d) lies between the lower and upper limit, there is inconclusive evidence regarding the presence or absence of positive first order serial correlation.

DISCUSSION OF FINDINGS
Government expenditure has a significant effect on non-oil export trade in Nigeria. This finding is shown by the T-probability value of total government expenditure, 0.0000 which is less than 5% our chosen level of significance. Thus total government expenditure has real effect on non-oil export in Nigeria and shows a possible path through which policy action can be taken to enhance non-oil export. To achieve this, fiscal policy can be employed via government spending on export facilities, export promotion and technology acquisition in non-oil sector. This will improve competitiveness and output in the country’s export to be high in the non-oil sector.

CONCLUSION
This paper attempts to ascertain empirically the impact of total government expenditure on non-oil export trade in Nigeria. It also evaluates the impact of taxation of non-oil export trade in Nigeria. Data were obtained from Central Bank of Nigeria (CBN) statistically bulletin for the year 1981 to 2012. A single linear regression model was used in which non-oil export was the dependent variable and total government expenditure, taxation, human capital, exchange rate, Gross Domestic Product served as the independent variables.

Ordinary Least Square (OLS) method was used to estimate the parameters using E-view computer software. The result showed that there was a significant effect of government expenditure on non-oil export trade in Nigeria. Also it showed that there is a negative impact of total government expenditure on non-oil export in Nigeria. The result also showed that taxation has no significant impact on non-oil export trade in Nigeria. Finally, it showed that there is a negative impact of taxation on non-oil export trade in Nigeria.

RECOMMENDATIONS
From the foregoing we recommend as follows:
(1) Government expenditure fiscal should be refocused and redirect towards production of goods and services so as to enhance non-oil export performance in Nigeria.
(2) Fiscal policy should give priority attention to capital and public investment by making them of higher proportion in gross government expenditure thereby creating more jobs and enhancing the quality of public spending and the attainment of sustainable growth and development. Emphasis should be on the development of basic infrastructure (example, transportation, energy and communication) Human capital development should be a priority.
(3) The government should also review the exiting tax policies and make careful recommendation convenient with the economic system.
(4) The federal government should ensure that there is only a small margin between the producer price of non-oil exportable product and world prices, so that farmers or investors can benefit substantially from international trade.
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