Journal of Business and Organizational Development *Volume 4, September 2012*

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www.cenresinpub.org
ISSN 2277-0046

EXPORT BUSINESS: A STRATEGIC OPTION FOR MICRO-ECONOMIC DEVELOPMENT IN NIGERIA

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ABSTRACT

Export business has attracted the attention of both the private and public sector in Nigeria. It is the type of business that integrates nations together, because no nation is said to be self-sufficient in her production and distribution of products and services. This paper examines the strategic options in export business in Nigeria. It went further to study some export problems that prevents the country from achieving its economic development. Such problems include; companies ability to finance export marketing expansion, ineffective government assistance programs, procuring exchange rates, interest rates, trade regulations, import restrictions, ability to read, speak and understand the language of potential markets, ability to locate reliable agent/distributor, deterioration of products during transportation, understanding price mechanism, ability to meet quality and quantity on continuous basis, competition from other domestic products and among others. The study went further to proffer some solutions that is believed to assist the country in achieving her vision.

Keyword: *Export business, Export potentials, Problems and Prospects.*

INTRODUCTION

The rates of technology advancement in most developing countries of the world have attracted diverse views from business experts in various field of human endeavour. It is acknowledged that country's ability to survive the exogenous shock is largely dependent on the degree of involvement in international business. This is why Rodrik (2010); Brigulio (2009) and World Bank, (2010) opined that the degree of economic openness is determined by the level of exposure to global economy. Since economic openness is measured by the ratio of international trade to GDP, the transmission channels by which the openness is realized can be import or export related (UNDP, 2011). The importation and exportation of goods and services are the two ways countries achieve their economic development. Suffix it to say that, developing nation like Nigeria endowed with mineral deposits to export, rely more heavily on the exportation of oil product that only offer 4% employment opportunities to its citizens than other non-oil sectors. In a similar vein, agriculture which has been considered as the backbone to many nations development is completely neglected and forgotten by the government of many developing countries. Furthermore, a country like Nigeria, import more than she export, thus making the country the dumping ground for all kind of toxic and hazardous products. It is against this backdrop that the researchers are determined to examine the strategic potentials for micro-economic development in developing nations with more emphasis on Nigeria.

THEORETICAL CONSIDERATIONS

Potential Effects of Export Business on Economic Growth

Modern trade theory however contends that international trade need to be accommodated with modern industrial characteristics; the features of which are increasing returns to scale and imperfect competition (Helpman and Krugman, 1985). A country cannot solely depend on particular industrial activities and still be more proactive to offset national factor disadvantages (Arip et al, 2010). Export plays a crucial role in propelling an increase in national output thus leading to higher economic growth and development. Naude and Rossouw (2008), provide an extensive review of the theoretical links between export and economic growth which is summarized thereafter. Early theories of economic development from Adam Smith to the standard Hecksher -Ohlin- Samuelson model of international trade shows that countries should specialize in producing and exporting goods according to their comparative advantage to achieve economic development. According to Naude and Rossouw (2008), in their contributions put forward by Rosenstein-Rodan (1943); Prebish , (1950); Singer (1950) viewed economic diversification rather than specialization as a determinant for economic development. Developing countries relying on the primary sector are prone to commodity shocks, price fluctuations and declining terms of trade and the resulting fluctuations and uncertainty hinders economic planning, reduce import capacity and undermine investment by risk adverse producers (Dawe, 1996). Concentrating on exports would therefore assist in stabilizing earnings and provide significant development benefits. (Ghosh and Ostry, 1994; Bleaney and Greenaway, 2001; Naude and Rossouw 2008) reviews four strategic stands of literature that were put forward during the 1980s and 1990s to explain the potential effects of export business on economic growth. The first literature argued that an increase in exports leads to higher growth in line with the export led growth as experienced by the developed Countries. Alexander and Warwick (2007) contended that an increase in exports for goods experiencing rising world demand lead to higher growth and is a suitable for developing countries. However, the significance of the export activities will depend on the type of goods that are exported and it is consistency with world demand.

Secondly, Naude and Rossouw(2008) reviews the endogenous growth theory that sees export diversification from primary commodities into high skilled, high technology manufactured goods as an important lever for growth through productivity gains , manufactured goods having more positive spillovers as pointed out in Herzer and Nowak-Lehmann (2006). Export encourages knowledge spillovers from improved production techniques, new management and marketing practices into other industries.(Al-Marhubi, 2000). Herzer and Nowak-Lemann(2006) also contends that exporting generates a learning process on international markets requirements , quality control and standards , marketing , management and logistics considerations Chang(1998) . The endogenous growth model therefore introduced the "beneficial effect of spillovers" with export diversification improving productivity. (Berthelemy and Soderling, 2001, Al-Marhubi, 2000) In the same vein, Agosin (2007) argues that long run growth is associated with learning to produce an expanding range of goods. Growth is viewed by Agosin (2007) as being the result of adding new products that embody productivity change to the production and export basket so that countries that have few local sources of productivity growth benefit by opening new sectors that have higher factor productivity. In the product-cycle literature, innovation by developed countries lead to an increasing variety of products which are imitated by low- wage developing countries so that diversification , export growth and economic growth are linked , knowledge spillovers playing an important role in such a link (Matadeen, 2011). In the third strand, Naude and Rossouw (2008) take a portfolio approach. While acknowledging the Heckser-Ohlin-Samuelson comparative advantage model, argued that because of uncertainty associated with primary commodities production, risk–averse producers to under-produce. (Ruffin ,1974; DeRosa, 1991). Export diversification is therefore needed to offset uncertainty if financial institutions that can provide insurance are lacking especially as is the case in many African countries (Chang, 1991; Osakwe, 2007). The fourth strand of the literature pointed out by Naude and Rossouw(2008) deals with what Sachs and Warner (2001) term the "natural resource curse" .Economies possessing a lot of natural resources, tend to grow slower than more diversified economies. Resource rich countries concentrate on the export of few natural resources like oil , minerals , coffee , diamonds (Arezki and Van der Ploeg, 2007).Three reasons advanced by Naude and Rossouw(2008) for the negative impact of abundant natural resource endowment on growth are: the first is "Dutch disease" phenomenon , the second is rising rent-seeking behavior and corruption and thirdly, civil conflicts. The "Dutch disease" refers to the appreciation of real exchange rates during periods of prosperity which leads to loss of competitiveness by other exporting sectors and capital flight. Recent seminar contribution to the literature was made by Imbs and Wazziarg (2003). They found a U-shape pattern between domestic sectoral concentration and per capita income across countries .

Countries at first diversify and then specialize as they move to higher levels of income. Based on their empirical findings, Imbs and Wacziarg (2003) formulated some theoretical arguments on Economic diversification which is initially favored because as income increases, it is expected that economic agents will demand a larger variety of consumer goods and producers invest on a wide range of sectors based on the portfolio argument as developed by Acemoglu and Ziliboti (1997). In a similar development, Hesse (2008) opined that specialisation will later set in at higher income levels because of agglomeration effects and specialization benefits as laid down by the Ricardian trade model. The entrepreneurial cost-discovery process represents a new stand of literature as propounded by Hausmann and Rodrik (2003), Hausmann et al (2006), & Hausmann and Klinger (2006). These authors argue that entrepreneurs do not have information on the cost of exporting and penetrating new markets and if their goods are successfully introduced in new markets , the gains will be socialized but in case of failure , they will have to bear all the losses so that new investment and innovation is suboptimal. In line with this, Vettas (2000) argues that discoveries about foreign demand may not be available to domestic producers. Foreign buyers are made aware of the product only when exporting starts and these information spillovers to other domestic producers. Hesse (2008) on his own part said that imitation in this case lead to higher output and higher growth. Herzer and Nowak-Lehman (2006) are of the view that empirical work on the export diversification and economic growth relationship remains limited.

Export Opportunities

Exporting is a process of earning profits by selling products or services in foreign markets (Wikipedia, 2012). On the other hand, an exporter is therefore one who engages in selling of goods and services in foreign markets.There abound great export opportunities largely unknown either due to ignorance or lack of an export culture caused by years of undue focus on the oil sector in a country like Nigeria (while neglecting other critical sectors such as manufacturing, handicraft, solid minerals and agriculture). Since the oil boom era of the 70s and until recently, oil product has dominated the export scene to the detriment of the agriculture and allied products which were hitherto the mainstay of the economy. However, government is currently making a shift to the agriculture and non-oil sector to enhance the revenue base of the economy. The reason for the new focus is the need to diversify foreign exchange earnings through increased export activities in the non-oil sector. This will in no doubt stimulate greater capacity utilisation to meet both the domestic and foreign demands. Oil era is fast aging. Government cannot alone give a 100% enablement hence the exporter, the broker, the producers, small and medium scale entrepreneurs need to further create wealth through a thorough knowledge and understanding of export business (Ajigbotosho, 2006).

Exporter's Role

- Producer must appreciate and enhance quality
- Both exporter and producer must synergize to enhance quality
- Knowledge of the market is essential
- The exporter must understand both the domestic and international regulations as it affects the product.
- The exporter and producer must interact with various regulatory bodies in order to keep abreast of current issues e.g. NEPC.

Benefits of Export Business

- Wealth creation for self and economy
- Reduces unemployment
- It enhances profitability
- It enhances quality
- It increases clientele level outside the local environment

- Best practices enhanced because of international standards requirement, etc.

Opportunities in Non-Oil Sector

The following agricultural products abound in Nigeria and can be exported; all that is expected of the exporter is to collaborate with the farmers in order to enhance large-scale production.

- ✓ Cassava – Nigeria is highest producer in the world (2001)
- ✓ Walnuts Onion
- ✓ Cashew nuts and kernel Tomatoes
- ✓ Kola nuts (dried and fresh) Lettuce
- ✓ Quincy seed (Bitter kola) Mushrooms
- ✓ Potatoes Mangoes
- ✓ Flowers – Roses Beans
- ✓ Bananas Pepper
- ✓ Guava Ginger
- ✓ Shea nuts
- ✓ Cocoa
- ✓ Cashew nut, etc.

Export Incentives by Government

1. Export expansion grant (EEGF) is an inducement to growth
2. Duty Draw Back Scheme – refund of duties and surcharges on import which form inputs for the manufacture of exportable

Challenges of Nigerian Export Marketers

Generally it could be recall that the history of Nigeria involvement in the league of exporting activities in the world could be traced even before the discovery of crude oil in the early 1950s. Earlier before then, Nigeria's export trade was more on crude system of agriculture, mining and other related products (Opara, 2010). The unhealthy experience of Nigeria Government as a result of Oil glut in the world market in the 1980s was discouraging and heightened the Nigerian ever-growing import bills, and balance of payments issue. According to Opara (2010), the result of this economic imbalance, which is structurally deficient with its attendant consequences, is that Nigeria began to encourage other alternatives to oil as sustainers of its economic growth and development. Government therefore began to place emphasis on export promotion, especially that of manufactured goods from the country. However, the earnings realized from manufactured and semi-manufactured products were insignificant relative to the Country's foreign exchange earnings as at 1980s (Ogunnusi, 1986). These trends of course, still existed up till the late 2000s. Petroleum crude dominated Nigerian export trade and accounted for 95% of foreign exchange as at 1979. This false wealth enhanced the structure of Nigerian economy up till 1990s, and encouraged Nigerians to be more consumption oriented, import dependent and above all less export oriented. The declining role of export sector in Nigeria economy in the 1970s was the beginning of the country's later economic problems, because the agricultural and non- oil export sector which contributed an annual average of 88.4 percent of total foreign exchange earnings in the 1960s, declined to 5.2 percent annually between 1971 and 1985, according to CBN economic and financial review (1989). Export crop-sub sector's downward contribution was also noted in the fourth National Development Plan (1981-1985) and was identified as a major problem of the manufacturing sector which resulted from shortage of industrial raw materials. This problem led to many industrial projects, which were planned for execution in the third plan, but could not take off. Apart from the problem resulting from inadequate quality land resources, labour and manpower shortages, insufficient capital investment and technological inadequacies, are some other major problems of the non-oil export sector. There was also persistent decline in the prices of primary commodity in the world market. Nigeria as a matter of fact lost her competitive position in the production and export of some of the commodities to Malaysia and Cote d'Ivoire, which produce the same commodities with the country. Some challenges have been identified as being responsible for not achieving the desired economic development through export business. One of such problems is exporting raw materials by Nigerian exporters, and these commodities are further processed and imported back to Nigerian consumers at a higher price. Nwakama (1986) noted that the absence of forward integration in the Nigerian non-oil sector is largely responsible for the failure of the Nigerian economy not to expand. Lack of backward integration is also accused of been responsible for the industrial sectors low growth and expansion. To have insight to the performance of the Nigerian export promotion programmes, the number of participants and the total sum paid to beneficiaries with respect to duty drawback scheme and export expansion grant fund between 1988 to 1996 was inadequate, hence the desired objectives could not be achieved. Examining the broad nature of the Nigerian assistance programs, and their good intentions as briefly stated above, the programmes could be described as laudable, although some of the assistance programmes appear not to be in operation, because the scheme are largely on paper. Iyanda (1982) similarly, argued that the Nigerian government's approval of export credit guarantee scheme was more on paper, since it is yet to be operated. In the same manner, the commercial banks failed persistently to comply with CBN guidelines on credit to the export sector, while it was also noted that successive governments were simply paying "lip service" to the promotion of non-oil export.

The usual complaints of NEPC since its establishment in 1976, has been that of inadequate funding. The gross inadequate funding of NEPC may have also been responsible for its ineffectiveness and inefficiencies. Similarly it was remarked that; "… owing to the ineffectiveness of existing package of export incentives as well as constrains, the orders received in some of its missions overseas could not be executed" (NEPC 1989). This is coupled with some administrative "bottle-necks" placed on the part of exporters which resulted in the inability of Nigerian exporters to respond urgently and successfully to the over fifty million Naira tentative orders received during the trade missions embarked upon in the past decade. Other challenges of exporting and non-exporting firms include: government restrictions, socio-cultural factors, economic forces, and technological forces. Rasesham and Soutar (1996), also identified other export problems as; companies ability to finance export marketing expansion, ineffective government assistance programs, procuring exchange rates, interest rates, trade regulations, import restrictions, ability to read, speak and understand the language of potential markets, ability to locate reliable agent/distributor, deterioration of products during transportation, understanding price mechanism, ability to meet quality and quantity on continuous basis, competition from other domestic and foreign producers in potential markets. It was to solve some of the above challenges that some agencies was set up. Some of these agencies include; Nigeria Export Promotion Council (NEPC), Association of Nigeria Exporters (ANE). The ANE is a private sector, non-profit organization that liaises with relevant government agencies over export matters. From the above analysis, we can infer that the Nigerian firms' export performance was below expectation in the attainment of the country's export and industrial policy objectives resulting from the countries inability to effectively checkmate most of the export challenges and take advantage of the potentials.

Prospects and Conclusion of Nigerian Export Business

The Nigerian export business is usually based on the individual companies' comparative advantage to either manufacture or procure goods for supply in foreign market. The Nigeria Export Promotion Council (NEPC), surveys on the various export potentials, and the foreign market opportunities of the country for industrial goods, such as Aluminium, household utensils, paper products, biscuits, confectionery carpets, wire-nails, nuts and bolts, mango-juice, coca-based beverage, instant yam-flour, beer, African phonographic records, wood products, African prints and handicrafts (Ogunnusi 1986). The study also confirmed that Nigerian firms can export agricultural and livestock products like cashew-nuts, chillies, Arabic-gum, tropical fruits, vegetables, livestock by-products, cashew nuts, chilies, Arabic gum, tropical fruits, vegetables, hooves and horn bones. The NEPC study shows that Nigeria has a comparative advantage to produce and supply the above products not only to other African countries, but also to other countries of the world, such as ECOWAS countries, U.S.A, and other developed countries. This study concluded that the immense opportunities and prospects that await Nigerian exporters in ECOWAS market, other developing nations and U.S.A., were evidenced by the fact that over N50 million worth of tentative export orders were generated within a space of six weeks from both countries missions. Export market opportunities for Nigerian non-oil exporters were also identified as European Union, Eastern Europe, South and North America, Asia, ECOWAS, sub-Saharan African, North African, Middle East and Mediterranean countries which Nigeria is yet to fully exploit (Ogwo 1998). However, the study carried out by NEPC (1996), also noted that in spite of the country's product advantage and various export potentials some exporting firms have problems of what product to offer for export, how to source the product, to which market to export, how to finance export, and cope with Nigerian export procedures and documentations? Another challenging issue that need to be corrected that goes in association with the country's product exporting is the consumer perception of made-in-Nigeria goods by local and foreign consumers. It is argued that a nation without a pride in its goods is a nation, which has not discovered itself. Iwok (1986) remarked that lack of pride in home-made product is an indication of immaturity and underdevelopment. This study sees the possession of great pride in home-made products as prerequisite for the attainment and sustenance of economic progress by any developing country. Today a nation can earn the highest level of respect and good image by possessing pride in its goods; it must determine its destiny by developing pride in its goods. The first step in enhancing Nigeria firms' product advantage in export marketing is to overcome the age-old colonial mentality of assigning superiority to foreign made products and regarding Nigerian products as inferior. The citizens need to convince other countries as to the quality of the products made in Nigeria. This is because Nigerians themselves ought to be the salesmen in terms of the support which they give to made-in-Nigeria products. Nwakanma (1986) asserts that with adequate research on the products, diligence and painstaking care in the handling of the products, especially with respect to the aesthetic quality, physical appearance, beautiful designs, and packaging and labeling, made-in-Nigeria goods will have enhanced comparative advantage in terms of perception, market opportunities and competition in the world market.

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