

TITLE PAGE

**THE EFFECT OF EXCHANGE RATE FLUCTUATION ON THE
NIGERIA MAUFACTURING SECTOR(1986-2010)**

BY

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APPROVAL

This project the effect of exchange rate fluctuations on the Nigeria manufacturing sector (1986 – 2010) has been assessed and approved in partial fulfilment of the requirement for the award of Bachelor of Science (BSc) degree in accountancy.

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DEDICATION

This research work is dedicated to God Almighty, to my beloved parent; Mr and Mrs G.A.H.King-George to my siblings Mercy, Blessing and Rejoice and to Opaluwa David, J, C.Umeh and Abu A, Ameh.

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ABSTRACT

This paper examines the effect of exchange rate fluctuations on the Nigerian manufacturing sector during a twenty five (25) years period (1986 – 2010). The argument is that fluctuation in exchange rate adversely affects output of manufacturing sector. This is because Nigerian manufacturing is highly dependent on import of input and capital goods. The methodology adopted for this study is empirical. The econometric tool of regression was used for the analysis. The population target of this study is the total number of 25 years from (1986 – 2010) (25) annual time series as data relating to other years after 2010 are not available. The used in this study is the secondary source of data. The data to be utilized in this study we be sourced through library research, publications of the Central Bank of Nigerian (CBN) i.e. statistic bulletin, National Bureau of Statistic(NBS), on line information and economic journals. Based on the findings, the researcher found out that exchange rate has no significant effect on economic growth of Nigeria also that there is no significant effect of fluctuation on exchange rate on the manufacturing sector. Some recommendations for policy were made based on the findings. Amongst others is the need to strengthen the link between agriculture and manufacturing's sector through local sourcing of raw materials thereby reducing reliance of the sector on import of input to a reasonable level

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Following the fluctuation of the naira in 1986, a policy induced by the structural adjustment programme (SAP), the subject of exchange rate fluctuation has become a topical issue in Nigeria. This is because it is the goal of every economy to have a stable rate of exchange with its trading partners. In Nigeria, this goal was not reached in spite of the fact that the country embarked on devaluation to promote export and stabilize the rate of exchange. The failure to realize this goal subjected the Nigerian manufacturing sector to the challenge of a constantly fluctuating exchange rate. This was not necessitated by the devaluation of the naira but the weak and narrow productive base of the sector and the rising import bills also strengthening it. In order to stem this development and ensure a stable exchange rate, the monetary authority put in place a number of exchange rate policies.

However, very little achievement was made in stabilizing the rate of exchange. As a consequence, the problems of exchange rate fluctuation persisted in macro-economic management, exchange rate policy as an

important tool derives from the fact that changes in the rate of exchange have significant implications, for a country's balance of payment position and even its income distribution and growth. It is not surprising since its behaviour is said to determine the behaviour of several other macro-economic variable (Oyejide, 1985). It is even more so for Nigeria which had embarked on a course of rapid economic growth with attendant high import dependency.

The manufacturing sector plays a catalytic role in a modern economic and has many dynamic benefits that are crucial for economic transformation. In an advanced country, the manufacturing sector is a leading sector in many respects. It is a quest for increasing productivity in relation to import substitution and export expansion, creating foreign exchange earnings capacity, raising employment, promoting the growth of investments of a faster rate than any other sector of the economy, as well as wider and more efficient linkage among different sectors (Fakiyesi, 2005). But the Nigerian economy is under-industrializes and its capacity utilization is also low. This is in spite of the fact that manufacturing is the fastest growing sector since 1973/74 (Obaden, 1994). The sector has become increasingly dependent on the external

sector for import of non-labour input (Okigbo, 1973). In the ability to import therefor; can impact negatively on manufacturing production

Oyejide (1985) posited that the breakdown of the Bretton woods system induce variability in the rate of exchange worldwide; Nigeria inclusive.

Umubanwer (1995) has noted that three adverse consequence of this on ability to import. Devaluation which further aggravates the situation has not significantly affected economic performance in the positive direction in Nigeria (Ojo, 1990). The impact of fluctuation in exchange rate on manufacturing output had not receives adequate attention. This paper attempts to give attention to the issue.

1.2 STATEMENT OF THE PROBLEM

This research work is meant to emphasize on the issue of fluctuating exchange rate on the Nigeria manufacturing sector. Some of the problems which cause the fluctuation of exchange rate on the Nigeria manufacturing can be seen below.

The exchange rate of the naira was relatively stable between 1975 and 1979 during the oil boom or (regulatory require). This was also the situation prior to 1990 when agricultural products accounted for more

than 70% of the nation's gross domestic product (GDP) (Ewa, 2011:78), however, as a result of the development in the petroleum oil sector in 1970, the share of agriculture in total export declined significantly while that of oil increased.

Furthermore, more manufacturing companies are faced with the problem, not recognising the fact that fluctuation in exchange rate adversely affect output of the manufacturing sector, this because Nigeria manufacturing sector is highly dependent on import of input and capital goods, this is in spite of the fact that manufacturing sector is the fastest growing sector since 1973 (Obadan, 1994), this sector has become increasingly dependent on the external sector for import of non-labour input. The impact of fluctuation in exchange rate on manufacturing output has not received adequate attention.

Instabilities of foreign exchange rate is also a problem to manufacturing sector; however, instability to import therefore can impact negatively on manufacturing production; furthermore, Jhingen (1997), emphasized that exchange rate fluctuation cause uncertainty and impede on international trade.

Thus uncertainty in trade transaction post a lot of problems such as inflation, which determine the internet balance of a country, it has also

tended to undermine the international competitiveness of non-oil export and make planning and projection difficult at both micro and macro levels of the economy, some small and medium scale enterprise have been strangled out as a result of low dollar naira exchange rate.

1.3 OBJECTIVES OF THE STUDY

In a highly import dependent economy like Nigeria, the naira exchange rate has become one of the most widely discussed topic in the country today. This is not surprising as this topic has had a lot of impact on the Nigerian manufacturing sector. It is therefore, the objective of this study to evaluate the effect of exchange rate fluctuation on the Nigerian manufacturing sector.

To investigate empirically, the effect of exchange rate fluctuation on Nigerian import or export and capital goods.

To determine if the continuous fluctuation of exchange rate of naira have an impact on the quality and quantity of output of manufacturing firms.

1.4 RESEARCH QUESTIONS

To what extent does exchange rate fluctuation affect the importation of input and capital goods?

Does exchange rate fluctuation have effect on the quality and quantity at goods manufactured by Nigeria firms?

To what extent does exchange rate fluctuation affect the exportation of made in Nigeria goods?

1.5 FORMULATION OF HYPOTHESES

The hypothesis of the study includes the null hypothesis denoted as 'H₀' and alternative hypothesis as 'H₁'.

H₀: Exchange rate fluctuations have no effect on the importation of input and capital goods.

H₁: Exchange rate fluctuations have effect on the importation of input and capital goods.

H₀: Exchange rate fluctuation has no significant effect on the quality and quantity of goods manufactured by Nigerian firms.

H_1 : Exchange rate fluctuation has a significant effect on the quality and quantity of goods manufactured by Nigerian firms.

H_0 : Exchange rate fluctuations do not affect the exportation of made in Nigeria goods.

H_1 : Exchange rate fluctuations affect the exportation of made in Nigeria goods.

1.6 SIGNIFICANT OF THE STUDY

The study would identify the strengths and weakness of exchange rate policy and management, identify those parts that are mostly affected by instability in exchange rate provide the general public with adequate information on the foreign exchange transaction and its impact on the manufacturing sector. In general, the study benefits the following;

1. The government will benefit as it will enable them ascertain the extent of the variation of exchange rate affect the quality of input and capital goods imported into Nigeria by manufacturing firms, the government can make policies that will help Nigerian manufacturers prosper in the business.

2. The manufacturers will be much aware of the impact of the exchange rate fluctuations on their firms.
3. To the students, it will be a work base for further research.
4. To the public it will be a thorough understanding of the exchange rate fluctuation and having taken appropriate measure will lead to a stable economy.

1.7 SCOPE AND LIMITATIONS OF THE STUDY

This research work is designed to cover a very long period that is (1986-2010). The scope consists of the regulatory deregulatory exchange rate period i.e. the fixed exchange rate and floating rate period. The study is structured to evaluate Nigerian exchange rate as the pilot of economic growth and development. Thus, this study is therefore limited to the effect of exchange rate fluctuation in the Nigerian manufacturing sector.

1.8 DEFINITION OF TERMS

1. Exchange rate: This is the price of one country's currency in terms of another
2. Foreign exchange: Foreign exchange is a means of payment for international transaction; it is made up of currencies of other countries that are freely acceptable in settling international transactions.
3. Dutch auction System (DAS): This is a method of exchange rate determination through auctions where the bidders pay according to their bid rates.
4. Exchange control: This is a foreign exchange arrangement in which the government purchase all coming foreign exchange and is the only source from which foreign exchange can be purchased legally.

CHAPTER TWO

INTRODUCTION

2.1 REVIEW OF RELATED LITERATURE

Perhaps one of the greatest development challenges that has confronted Nigeria since 1986 when the fixed exchange rate system was abolished and replaced with the flexible exchange rate system is the designing of policy measure to enhance exchange rate appreciation in Nigeria. This is particularly the case after the abysmal failure of the Structural Adjustment Programme (SAP) devaluation policy package designed to aggressively promote export in Nigeria.

Nigeria being an import dependent nation particularly for their capital goods and considering the centrality of the rate of exchange, of such a country's currency to her trading partner's currency, a good number of writers have expressed their interest and position on this important subject. Interest in this area has significantly increased over the years as being generated by the fluctuation and the depreciating nature of such an important economic variable as well as its effects on other sectors of the economy, more recent data provided by Ekonem (1997) show that manufacturing companies are operating below 40% capacity and they

are import dependent. For several years, the manufacturing sector has concentrated basically on the import of raw materials. This seems to be attributed to the overcrowding of the important sector of the Nigerian economy by multinational corporations. As a result, this sector has been deviced by high interest rates, rising inflation, naira depreciation, foreign shortages and consumer's strong resistance to local productions.

Olisadebe (1991) expressed that the naira exchange rate given its macro-economic impact specially Nigeria is perhaps one of the most widely discussed topic today. According to olisadebe (1991), one worrisome development in the naira exchange rate in recent years, especially since the introduction of the structural Adjustment programme (SAP)in 1986 is that it has continued to depreciate as a result of which some people have called for fixing of the exchange rate even at a par with the united states dollar. On the equilibrium of exchange rate, the author remarked that such rate ensure the simultaneous attainment of internal and external balance.

The effect of exchange rate fluctuation on the Nigeria manufacturing sector has long been a major concern for producer and even policy maker. This is particularly the case in Nigeria where countries trade extensively with each other, the cries that began in the rate fluctuation

and therefore renewed about consequence, for trade inside the community.

According to Ogo et al (1990}, the exchange rate should be in principle be left to the vagaries of the market forces of demand and supply. He further emphasised that in practice no Government even really hands of completely the determination of the exchange rate at some levels, which is often different forces the competitive market rate. This policy, which is often different from domestic political pressure, lead to persistent excess demand for relatively cheap import. Hence, Ogo [1990] argue that exchange rate devaluation by an economy conceptually relates both substitution effect and income effect. Devaluation of the domestic currency deduce, the price of domestic goods, this induced increased demand by foreigner for the product of the country [substitution effect]. Ogo et al (1987) included that the heavy debt burden being born by the African country has a depressive impact on the economy. This has not only stifled growth and productive capacity or manufacturing capacity, social problems created have been tremendous with dramatic increased in the sector of debt service payments, coupled with reduction in foreign earnings. The value of import which rose by 25% and 61% in 1980 and 1981 respectively declined by 13% in 1997 and an estimate 18% in

1986. The import of import compression of this magnitude cannot be over emphasised.

Olukoshi [1990] gave in rightful study into the dynamics of exchange rate fluctuation in Nigeria with regard to the establishment of second tier foreign exchange market; hence the market was established as a cordial element of the country's structural Adjustment Programme [SAP] whose essence is the restoration, in the modern form of a healthier path to national economic development. The programme itself was introduced against the backdrop of a myriad of mounting economic problems which the country had to grapple with since the middle of 1991 following the slump in oil price and demand in the world market and the consequent adverse effect it had on domestic crude oil production, government finance export revenue, external reserve, and debt servicing capacity. Beside, the currency experienced large external aid fiscal imbalance, high inflation, and externally with the pound, the country's exchange rate maintained parity with the sterling in November (1967) in the purchasing power parity theory which was used after the first world war to demonstrate that failure or fluctuation in the exchange values of some notable currencies including the naira was mostly due to inflation in those countries using price increase in two different countries with varied monetary levels.

An increase in price in country "A" and stable price level in country "B" while protect consumer in the letter context increase consumption and demand the other farmer's currency more that before with direct implication for units of goods bought previously Ajay (1989).

Olukola (1992) relates the fluctuation of the exchange rate to the inability to sustain the fixed exchange system, which seek to fix the exchange values of currencies. He maintain that the essential feature of fixed exchange rate between countries.

The floating exchange rate is a system which supply and demand is left free to determine the currency exchange rate. This policy allows currency price changes to assist in correcting balance of payment deficit in its balance of payment the value of its currency increase and the higher currency prices decrease import and increase export by so doing it affect the manufacturing sector in the level of productivity.

Bangura (1997), said that this policy trust contained ingredient to correct exchange rate fluctuation in Nigeria

Exchange rate fluctuation occurs in a free floating exchange rate scenario. This is a context where the rates of currencies are purely determined by forces of demand and supply without any government

intervention. Free-floating exchange rate labours prospects and possibilities for growth and trade balance but must be accompanied by other macro-economic growth sustained increments in output. This posits that the benefit accruable to a nation that emphasises on free-floating exchange can only be optimised where her production capacity and trade balance as well as payment balance are not favourable and sustained overtime to with stand shock of deficit this favourable context in anathema to developing countries like Nigeria, fixed exchange rate had bought about on the economy.

However, this foreign exchange market (AFEM) was introduced by January 1995. As a way of further liberalization of the market, AFEM was replaced by the daily inter- bank foreign exchange market (IFEM) in October 1999, which has been retained since then ebong (1989)

Abode (2005) was of the view that recent development dearly indicate, that the IFEM is under severe pressure, which has refused in exchange rate instability for instance, the naira depreciated on the average rate 65% to% N101-65 \$1.00 in 2000.

Similarly, it depreciated further to N111.44 to US 41.00 by June 2001. The IFEM has also been characterised by a widening arbitrage premium between the official and parallel market premium average 27%.

However, in 1999 and 2000, the premium expands to 6.6 and 8.3 % respectively. In first six months of the year 2000. The parallel market premium widened to 16.6%. The demand pressured and the consequent depreciation of naira exchange under the IFEM can be attributed to the expansionary fiscal policy of the government and resultant persistent excess liquidity in the banking system a sticky supply structure in the economy generally and of foreign activities, output and high import dependency.

An analytical study of foreign exchange rate fluctuation in Nigeria reveals a myriad of distortions. Ayida (2001) disclosed that despite the huge amount of foreign exchange, which the bank injected into the market, the impact has not been felt in the real sectors of the economy, especially the manufacturing sector. Random surveys have revealed that an appreciable proportion of total foreign exchange demand is for the procurement of finished goods and payment.

For invisible, often a code for capital flight. In effect, a number of authorized dealers are not transparent in their foreign exchange dealings. In domestic output and high import levels the pressure in the foreign exchange, which would have increased the supply, based and thus enhance the economy external balance.

It is acknowledged however that this failure by the local manufacture environment and mainly structural deficiencies in the economy, including in fractural deficiencies in critical areas.

Okidegbe (1989) link exchange rate fluctuation with the activities of universal bank ploy vital roles in international trade their international department performing essentially three financial functions, which has direct implication for exchange rate fluctuations which includes collecting, lending, buying and selling of foreign exchange.

The collection according to Udeh (1996) involves the banks in serving as vehicle for payment between its indigenious customs and foreigners.

However, looking at the effect the circularly movement tends to be upward both in IFEM and Bureau De-change market respectively.

The exchange rate of the naira-vis-à-vis the united state dollars was ₦21.8881 (average) the response to international trade is ₦17.03789.1.

2.2 THEORETICAL CONCEPT OF EXCHANGE RATE

As we earlier said that (2004) defines exchange rate as the price of one currency in terms of another.

Exchange rate is also the rate of transformation of one currency to another.

An arbitrage in economy and finance is the practices of taking advantage of price difference between two or more markets, striking a combination of matching deals that capitalizes upon the imbalance, the profit being the difference between, the market prices.

Arbitrage can also be seen as the mechanism whereby speculative purchase foreign currency in a market where its price is low and selling same in other trading centres where its price is high.

2.3 THEORETICAL FRAME WORK FOR EXCHANGE RATE FLUCTUATION AND MANUFACTURING OUTPUT

The monetary and traditional flow theory serves as the theoretical basis for this study. The monetary approach to exchange rate determination postulates that the relative supply of and demand for money between

two countries is the basis for determination of exchange rate. It views increase in the supply of money as being able to generate inflation. Hence resulting in exchange rate depreciation, the model opines that a situation of falling price with a given nominal money supply result in exchange rate depreciation. While the traditional flow model is essentially based on the principle of the interplay demand and supply. The force of the market interaction between demand supply determines the rate of exchange. However, when there is speculation or expectation of a change in the rate of exchange, this could lead to the disequilibrium even without any change in the initial determined factor.

Exchange rate can adversely affect the ability to import and therefore manufacturing output. Fluctuation in exchange rate will cause instability in purchasing power and hence negatively impact on investment, other hand the effect on manufacturing output and overall income level will also affect investment in import of input and in variably the exchange rate. This is because among the determining factors of rate of exchange are the demand for foreign exchange, the supply itself being influenced by an economy's productivity level.

2.4 THE OBJECTIVES OF EXCHANGE RATE POLICY IN NIGERIA

The main objective of exchange rate policy in Nigeria is services

1. To preserve the value of the domestic currency
2. Elimination of payment arrears
3. To maintain a favourable external reserve position
4. Reduction of dependent on import and oil export
5. Stabilisation of exchange rate and price level which are consist with those of our trading partners.
6. To have a realistic exchange rate which will remove the existing distortion and disequilibrium in the external sector of the economy?
7. Encouraging local production of input
8. Attract foreign investment
9. Encourage export
10. Achieve a high level employment
11. Improve the level of productivity
12. Improve on balance of payment position and purchase economy wealth.

2.4.1 EXCHANGE RATE SYSTEM

FREELY – FLUCTUATION EXCHANGE RATE SYSTEM

This is obtained when the forces of demand and supply in the foreign exchange market determine a consistent set of exchange rate. The ruling exchange rate must be free from arbitrary controls by the government.

The advantage of this freely fluctuating rate system include according to Jinghen (1997).

A system of flexible exchange simple in its operative mechanism, the exchange rate move automatically and freely to equate supply and demand. It does not allow a deficit or surplus to build up and eliminates the problem of scarcity of surplus of any one currency.

It also avoids the need to induce change in price and income to maintain or restore equilibrium in the balance of payment.

The demerits of a fluctuating exchange rate system are according to Jinghan (1997), it has been pointed out by the critics at flexible exchange rate that market mechanism may fail to bring about an appropriate exchange rate.

The equilibrium exchange rate in the foreign exchange market at a point may not give correct signals to concerned parties in the country. This may lead to wrong decisions and misallocation of resources within the country.

2.4.2 THE PEGGED EXCHANGE RATE SYSTEM

This entails of the exchange rate of the local currency with a defined margin around the exchange rate of an international currency.

This system was popular during the gold standard era between 1928 and 1929 when more than forty European countries defined their currency unit as consisting of a given weight of gold.

However, the danger therein includes; the factor affecting the determination of the exchange rate of the international currency may not be related to the prevailing economic situation in the domestic economy of the local, especially in the manufacturing sector of the economy.

Under the system, the naira was greatly over valued leading to government subsidizing imports.

2.4.3 NIGERIAN EXCHANGE RATE SYSTEM

The Nigeria experience in exchange rate system management is often chronicled under three periods namely, from the colonial era (1956 to 1975), 1976 to 1985 and from 1986 and to date.

2.5 TYPES OF EXCHANGE RATE

According to mark(1999). In the foreign exchange market at a particular time, there exist not one unique exchange rate but a variety of rates depending upon the credit instruments used in the transfer function.

Major types of exchange rate as follows:

2.5.1 SPOT RATE

Spot rate of exchange is that rate of which foreign exchange is made available on the spot. It is also known as cable rate or telegraphic transfer rate because at this rate cable or telegraphic sale and purchase of foreign exchange can be arranged immediately. Spot rate is the day to day rate of exchange.

2.5.2 FORWARD RATE

Forward rate of exchange is the rate of which the future contract for foreign currency is made.

2.5.3 FLEXIBLE RATE

Flexible or floating exchange rate refers to the system in which the rate or exchange is determined by the forces of demand and supply in the foreign exchange market.

2.5.4 FIXED RATE

Fixed or pegged rate refers to the system in which the rate of exchange of the country is fixed in term of gold to another country.

2.5.5 MULTIPLE RATES

Multiple rate refers to a system in which a country adopts more than one rate of exchange for its currency. Different exchange rates are fixed for importers and exporters and for different countries.

2.6 FACTORS AFFECTING RATE OF EXCHANGE

Jinghan (1997) and Paul (1996) agreed that factor that cause change in demand and supply in the foreign exchange market are responsible for changes in exchange rate.

Jinghan (1997) say that it is change in relative price levels that cause change in the exchange rates.

When the import are more than export the demand for foreign currency increases and the rate of exchange of the foreign currency will increase until that of the domestic currency will fall of the exports are more than the import the demand for the foreign exchange will decrease and the rate of exchange for domestic product that is the manufacturing sector suffer a great loss. Jinghan (1997), say that short term of long-term capital movement also influence the exchange rate.

Capital flows tends to appreciate the value of currency of the capital importing country and depreciate the currency value of the capital exporting country.

According to him structural change is another important factor that influences the exchange rate of a country. Structural changes are those changes, which bring changes in the consumer demand for

commodities. They include technological changes etc. which also affect the cost of structure along with the demand for products.

2.7 FLUCTUATION IN THE EXCHANGE RATE OF THE NAIRA

The unidirectional movement of exchange of rate along the path of depreciation since 1986 when foreign exchange auction sessions were introduced suggests strongly that something is basically wrong in the exchange rate management system (Obadan 1990). A lot of factors have been suggested as causing the naira exchange rate fluctuation among them is:

- a. Excess demand for foreign exchange amidst inadequate functioning of the foreign exchange market.
- b. Poor performance of autonomous sources of foreign exchange inflow.
- c. Fluctuation/instability of the crude oil market.

Important as these factors might have been it must also be noted that the problem of exchange rate depreciation cannot be divorced from the problem of fragile export basis and structure built in high import dependence of the economy. Also, too much revenue has been placed

on a very imperfect market system to determine crucial prices, like the exchange rate in Nigeria.

This fluctuation in the exchange rate of the naira has been the reason for various problems which the Nigeria economy has been experiencing instability in the extremely difficult to predict the direction in which economy will move in the near future thereby creating a situation of uncertainty which lead to market failure.

2.8 FACTORS INFLUENCING THE DETERMINATION OF EXCHANGE RATES

The dual and multiple exchange rate regimes are usually adopted to correct some peculiar economic problems and may be jettisoned as soon as the objective for which they were introduced have been attained under a free-float regime, however, the two main factors that influence the determination of the exchange rate and its movement are:

1. The policy stance of government, which is based on the state for economy market.
2. The activities of operations in the foreign exchange market.

3. Also any factors that affect the supply and demand of one currency will affect the exchange rate of the other tradable foreign currency.

Generally, there are three main theoretical foundation of exchange rate determination. These are traditional flow, the portfolio balance and the monetary model (CBN) brief (1996).

- The traditional model sees exchange rate as the product of the interaction between the demand for and supply of foreign exchange.
- The portfolio balance approach sees the exchange rate as the result of the substitution between money and financial asset in the domestic economy and the substitution between domestic and foreign financial assets.

The short falls of these approaches, which includes the overshooting of the exchange rate forget and the feet that the substitutability between money and financial asset may not be automatic. This led to the development of the monetary approach.

- The monetary approach, which is based on the importance of money, sees exchange rate as a function of relative shifts in money stock inflation rate and domestic output, between an economy and a trading partner economy. The purchasing power party (PPP) a

component of the monetary approach is often applied as a proxy for the monetary model in exchange rate analysis the purchasing power parity (PPP) between two currencies is defined as the amount of the currency of one country which endows the holds with the same amount of purchasing power.

Although experience has shown that the PPP is along run approach to determining the equilibrium exchange rate. It is however of practical relevance for short run exchange rate analysis is the product of the base period exchange rate and the ratio of relative price between trading partner economic.

2.9 FACTORS THAT CAN AFFECT THE MANUFACTURING PROCESS

The manufacturing process is affected by supplies and equipment in addition to management styles. The manufacturing process is a complex one that can be impacted by many factors.

- Supplies
- Equipment
- Factory overhead
- The need for special port and

- The people who work at all points in the process

The more variable there are, the greater the possibility of disruption to the smooth operations of a factory. Management styles can also have a positive or negative impact on this process.

2.9.1 SUPPLIES

Many manufacturers depends on raw materials supplied from outside source, some of the factors that can delay or hamper a regular delivery schedule include a glitch at the site of a supply source, problem with transportation or in element weather. If supplies are not forth coming as needed, the potential for shutdown or a major slowdown in the manufacturing process can result.

Alternatively, a smooth supply operation and well managed inventory promote production as scheduled.

2.9.2 EQUIPMENT

When a manufacturing process involves complex machine to complete production, a temporary malfunction or a breakdown in an intricate piece of equipment can affect the manufacturing process.

Identifying means of improving efficiency of all working parts of production promotes a confined and more efficient operation. Positioning of equipment and the personnel required to operate machine can also affect production. In a paper on manufacturing cycle times, Madam Chinehokor of Intel Corporation and several of his academic and research colleagues explain the concept of 'process drift'; which they describe as a common occurrence in manufacturing processes where machine fail to function properly due to lack of cleaning.

2.9.3 FACTORY OVERHEAD

Manufacturing depends on utilities to power machines cool equipment and light the workspace in their factories. Even a temporary shutdown of the power supply or lack of a steady water source can impact production, thus affecting the manufacturing process. In addition, management styles can have a significant impact a production in both negative and positive ways.

2.9.4 PEOPLE

The workforce, especially 'touch labour' the workers directly involved in the manufacturing process, can affect that process in many ways for example sick days and vacation taken by key personnel must be figured into production to prevent a negative impact on manufacturing process.

An intangible factor that affects the manufacturing process and is dealt with after the fact is human error.

Alternatively human insight into a manufacturing process leading to more labour-efficient and cost-efficient methods of production can affect the manufacturing process in a positive way for example in a paper published by MIT, William E. Jordan and Stephen C Graves etc. flexibility as a key strategy in improving the manufacturing process.

This involves being able to manufacture different products in the same plant at the same time.

2.10 FACTORS THAT CAUSE THE CURRENCY FLUCTUATION

Currency fluctuation according to Ogo (1990). A market based exchange rate will change whenever the values of either of the two component currencies change.

A currency will tend to become more valuable whenever demand for it is greater than the available supply it will become less valuable whenever demand is less than available supply increased demand for a currency is due to either on increased transaction demand for manager an increased speculative demand for money. The speculative demand for money is much harder for a central bank to accommodate but they try to do this by adjusting interest rate. However, it has been agreed that currency speculation can undermine real economic growth.

Currency fluctuations are caused by changes in the market price of any currency.

Factors which lead to currency fluctuation include; change in a country's interest rate, unemployment level, perceived social and political stability or lack thereof; increased market demand for a specific currency related supply and demand.

2.10.1 THE CAUSES OF FLUCTUATION IN EXCHANGE RATE

According to Joom A. Jonnla there are various factors which affect the demand for and supply foreign currency which are ultimately responsible for the short term fluctuation in the exchange rate important among those are:

2.10.2 TRADE MOVEMENT

Any change in import or exports will certainly cause a change in the rate of exchange.

If import excess export, the demand for foreign currency rises, hence the rate of exchange moves against the country conversely, if export excess imports the demand for domestic currency rises and the rate of exchange moves in favour of the country.

2.10.3 CAPITAL MOVEMENTS

International capital movement from one country to another may either be for short periods avail of the high rate of interest prevailing abroad or for long periods for the purpose of making long term investment abroad.

Any export or import of capital from one country to another will bring about a change in the rate of exchange.

2.10.4 STOCK EXCHANGE OPERATIONS

These include granting of loan, payment of interest on foreign loans, repatriation of foreign capital, purchase and sale of foreign securities etc. which influence demand for foreign funds and through it the exchange rate.

2.10.5 BANKING OPERATION

Banks are the major dealers in foreign exchange. They sell drafts, transfer funds, issue of credit, accept foreign bills of exchange take up arbitrage operations etc. These operation infill the demand for and supply of foreign exchange and hence the exchange rates.

Banks rate also exerts a significant influence on the rate of exchange. A rise in bank attracts foreign funds, hence the demand for home currency rises and the rate of exchange move up. The opposite happens when the bank rate is lowered.

2.10.6 POLITICAL CONDITIONS

Political conditions in a country are a potent factor both in exchange speculation and the international movement of capital.

2.11 MANUFACTURING SECTOR

Manufacturing is the production of goods for the use of sale using labour and machine, tools.

The term refers to a range of human activities from handcraft to high technology, but is most commonly applies to industrial production in which raw material are transformed into finished goods on a large scale. Such finished goods may be used for manufacturing other.

Manufacturing take turns under all types of economic system. Manufacturing is usually directed toward the mass production of product for sale to consumers of a profit. However, modern manufacturing include all intermediate processes required for the production and integration of a product's component.

The manufacturing sector is closely connected with engineering and industrial design. Manufacturing sector is the secondary sector of the

economy includes those economic sectors that erode a finished usable product; production and construction.

2.11.1 THE IMPORTANCE OF MANUFACTURING TO THE ECONOMY

1. Improving the performance of manufacturers

The influence of manufacturing goes far beyond the direct contribution to national product and employment. Manufacturing is a global business underpinning all economic activity. Spending on goods accounted for more than half of all consumer expenditure whilst manufacturing goods makes up around two-thirds of all exports.

2. Adding value

Essentially value can be added to goods through increasing this quality and specification of the product providing superior level of service in providing the product changing the image of product through market.

All these measures service to differentiate the product from those offered by competitors. In the face of increasingly competitive market

and even more demanding consumer, the ability to add value to product is crucial to future prosperity.

The importance of this is reflected in an increase in gross value added from manufacturing in Nigeria.

2.11.2 MANUFACTURING IS CRITICAL TO OUR ECONOMY

Largest multiples manufacturing has the largest multiples of all sector of the economy. Every naira in final sales in manufacturing products supports. In the other sector of the economy by contrast, the financial service sector generates only about few naira (aonun).

Manufacturing productivity consistently outputs productivity growth in other sectors of the economy.

However, today manufacturing employees earn higher wages and receive more generous benefits than other sector or working Nigerians.

Diversified employment; manufacturing employs workers at all skill and education levels for non-college educated workers, manufacturing is a crucial source of goods often highly skilled jobs that pay about average wages.

The manufacturing sector is of vital importance in manufacturing our innovation capacity. Manufacturing, an increase in the productivity of manufactured exports and import-replacing goods in Nigeria will be necessary to bring down our trade deficit to sustainable level and to reduce Nigeria's international debt burden.

Critical to other high value added sectors of the economy the maintenance of a strong and vibrant manufacturing sector is essential to other high value added sectors of the economy.

2.11.3 TYPES OF MANUFACTURING INDUSTRIES (SECTORS)

Manufacturing is a huge component of the modern economy. Everything from knitting to oil extracts reaction to steel production fall under the description of manufacturing rests upon the idea of transforming raw materials, either organic or inorganic, into product that are usable by society. These are the general sectors.

1. Clothing and Textiles

Clothing and textiles are based around the processing of raw wool to make cloth, as well as knitting and sewing these to make garments, this industry includes tailors and all involved with fabric and sewing. It also

includes all uses of wool and other raw product to make towels and sheets.

2. Petroleum Chemicals and Plastic

This sector is involved in changing chemical, coal and crude oil into usable products. Parts of this sector include the making of soaps, resins, paints and pesticides.

This also include manufacturing of machine, rubbers, manufacturing is considered a port of plastic work or course.

3. Electronic Computers and Transport

This field are closely related though usually they are treated as different fields.

Many products in this field use electric power and all use a power source. This field includes all appliances and micro-proceession semi-conductors and chips.

4. Food

Food, agriculture and livestock raising is the simplest of all manufacturing industries. The inclusion of agriculture today into manufacturing shows how agriculture has charged over the years.

Initiating more factories for food production than an organic style farm of centuries ago from the farm to the dinner table including things like canning and purifying.

5. Metals

Along with oil chemical manufacturing metals also are part of what is often called 'heavy industry' while the remainder of the sector are occasionally called 'light industry' or consumer oriented industry.

6. Wood, Leather and Paper

These products are all rather simple to define and understand. Wood include all forms of manufacturing floors and housing as sawing and laminating leather includes all canning and cutting.

2.11.4 PROBLEMS ENCOUNTER BY MANUFACTURING SECTOR

The problem encounter by manufacturing and marketing organization in Nigeria. According to Adesung, Adebola B Nigeria has made substantial headway in manufacturing since the 1986s and has become one of the

leading manufacturers, upgrading its industrial base and upping productivity.

The following are problems facing the Nigerian manufacturing sector.

1. Low Productivity

The rapid development of Nigeria's manufacturing is largely fed by its vast pool of cheap labour. The quality and competitiveness of Nigeria's manufacturing sector has grown slower than its scale.

Compared with developed industrialized countries, Nigeria's productivity and value added are still at a low level, which is a fundamental problem that Nigeria cannot avoid during its rapid development.

2. Rising Labour Cost

As a matter of fact manufacturing cost in Nigeria are rising faster than manufacturing development. However, among the three key factors that impacts the cost of manufacturing labour, raw material and fuel. Labour cost has always been an issue that Nigeria companies have to deal with.

A vast pool of cheap labour has been a boon to Nigeria's manufacturing capabilities but that advantage cannot sustain the development of Nigeria's economy anymore.

2.11.5 TOP CHALLENGES CURRENTLY FACED BY THE MANUFACTURING INDUSTRY

Government and companies should work together. Challenges faced by the Nigeria manufacturing warrant appropriate responses from both the government as well as the industry for improving the competitiveness of the sector. There are a few areas where both the government and the industry need to put in efforts through a well-designed public-private partnership mode.

- i. The manufacturing sector needs to access the vast market possibilities available at the bottom of the income pyramid in the country.
- ii. The first essentially for ensuring manufacturing competitiveness is macro-economic stability.
- iii. Lowering the cost of manufacturing and improving the quality are essential for competitiveness.
- iv. The invented duty structure caused by FTAS as well as in all cases even otherwise needs to be rectified.
- v. Domestic indirect taxes are often singles out as a major reason why Nigeria manufacturing is uncompetitive.

2.11.6 SOLUTION FOR THE PROBLEM FACED IN A MANUFACTURING COMPANY

Pankajistate solution to the problem faced in manufacturing company. Company contain three 'M' that is MAN, MACHINE, MONEY.

1. Money can solve the problem with management and availability of funds.
2. Man, man power is the essential and integral part of an industry; solve their problem by motivation, payment, good facilities.
3. Machine, it is the heart of industry knowledge and experience technical staff can make effort to maintain machines healthy.

2.11.7 THE MAIN OBJECTIVES AND STRATEGIES OF MANUFACTURING

Manufacturers produce tons of goods everyday all of which impact consumers indirectly or directly. Similar to any industry, the manufacturing industry has specific objectives and corresponding strategies that are designed to improve a company's bottom line.

These relate to quality, safety, vendor seduction, problem identification and resolution and efficiency and costs.

1. QUALITY

When manufacturer do not produce a high quality product, customers can begin to lose faith in the product and stop buying. Even if a company does an excellent job or sorting poor products from good ones, poor products mean a loss to the company, as the company cannot sell those items. For these reasons, one objective of manufacturing is reducing flaws and maintaining high product standards. Strategies might include weekly product sample reviews, while tactics might include physical tests of the product or visual inspections.

2. SAFETY

Manufacturers often rely on heavy equipment, much of which is automated. This equipment-although on asset in terms of hoisting production numbers – poses some risks to employees for example workers can be burned by heating elements or struck by joints that disconnect.

Manufacturers must, therefore, strive to reduce the potential for injury on the manufacturing floor. To do this, a strategy might be to enforce more regulations or often incentives for being accident free. The safety concern does not extend just to workers, however manufacturers also

want to ensure that their product do not hurt customer or the general public any particularly because injuries can prompt consumers to sue.

3. VENDORS

It is fairly rare for a manufacturer to have all the raw material. It needs to produce an item. For example, a cereal maker might not grow its own corn and therefore would have the objective of finding vendors that are both reliable and reasonable with prices.

They also want to have strategies in place for what to do should vendors falter, as production should not stop simply because the company can't use a particular vender.

4. PROBLEM

In manufacturing everything from machinery wear to lower than expected raw material quality can create major problem. Another manufacturing objective, therefore, should be to make some predication about the problem that could arise so that those risks can be managed properly.

A related objective is to identify the source of the potential problems. This isn't always easy, though, as problem could stem from more than one place in the manufacturing process.

5. EFFICIENCY AND COSTS

Efficiency is interconnected with cost in manufacturing in general, the more efficient a manufacturing company is, the lower its cost are however, if workers are taking too long to finish a project the company may have to pay workers overtimes or hire additional temporary staff to get back on schedule. Inefficiency can also waste other resources such as the raw materials that go into the product. It cost the company money to replace those resources.

Another key objective of manufacturing therefore, should be to keep the manufacturing process as efficient as possible.

2.11.8 ADVANTAGES OF MANUFACTURING COMPANY

The manufacturing sector is of the economy is responsible for taking raw material and turning them into finished products. Given the constant demand for finished products new manufacturing companies are launched frequently.

i. DEMAND

Although a successful manufacturing company hinges upon a competent business model, the demand for manufactured products continues to grow-however; so long as the product is not out model and the manufacturing facilities are flexible business can remain strong.

ii. JOB SATISFACTION

While manufacturing may be a tough business, it can also be a satisfying one instead of producing a service or experience a manufacturer creates an item. This may provide the owners of a company with the satisfaction of having made costs, deeply value. One enjoys the satisfaction of the crafts-man on a large scale.

2.11.9 DISADVANTAGES OF MANUFACTURING SECTOR

According to Michael Wolfe, there are various disadvantages of manufacturing sector they are;

1. Cost; one of the disadvantages of starting a manufacturing company is the overhead costs associated with doing so. A company that creates product can bank on paying for marketing materials and

labour, while unless the product is wholly new competing with other companies offering similar goods.

This generally leads to a low margin making manufacturing a risky venture unless the business model is well thought through.

ii. Balance of Raw Materials

When a company produces manufactured products it must always purchase raw material with which to construct the product.

Given that these materials are required to produce the product, a company will be forced to purchase the material for whatever price they go for or cease production.

Therefore, a manufacturing company may see a steep decline in profit if the price of raw material spikes.

2.12 OVERVIEW OF MANUFACTURING

Manufacturing has long been a cornerstone of our national economy. This crucial sector is central of the creation and retention of good jobs and a good standard of living for working families.

In both large cities and smaller communities, manufacturing jobs- especially unionized jobs-offer powerful economic benefits.

As a sector, manufacturing firms are especially valuable to the economy because when they export goods, they bring back to their communities much of the wealth earned from sales around the country and the world.

The positive effects of a healthy industrial sector spread far beyond manufacturing itself. Reports from the National Association of Manufacturing (NAM) indicate that each naira's worth of manufactured goods creates another ₦1.43 of activity in other sectors, twice the (₦71) multiples for service.

Manufacturing has long been a dynamic economic sector, registering remarkable sustained productivity growth.

MULTIPLIES EFFECTS

Manufacturing has direct links to-and effect on-other sectors of the economy. These relationships can be both 'backwards' (such as with mining or construction) or 'forward' (such as with warehousing, transportation and the wholesale and retail trade of the finished products).

Growth in manufacturing therefore fuels other sectors, creating jobs and investment in non-manufacturing sectors. The (NAM) National Association of Manufacturing study cited in this overview uses this estimate of a manufacturing multiples to demonstrate how much additional output is generate by a naira's worth of demand for manufactured products.

However, manufacturing has the highest multiples of all sectors (the wholesale and finance sectors have the lowest multipliers).

Furthermore, in addition to the productivity levels, the good wages and the value multipliers, high-wage manufacturing is critical to communities in other ways. This sector has been a basic contributor to tax revenues, responsible throughout the 1990s for our third of all corporate taxes collected by state and local government.

Manufacturing-despite the job losses it has recently sustained is still a vital and important sector for regional economies throughout the nation.

More than 14 million people are working in manufacturing today, and many firms report that they are hiring nationwide manufacturing hiring projections for the second quarter of 2006 are out pacing last years.

The Nigeria manufacturing sector today faces serious challenges that cannot be ignored and should not be minimized. But at the same time, unions and their manufacturing employers are fighting to build and keep these important jobs here at home.

2.12.1 SUMMARY ON THE NIGERIAN MANUFACTURING SECTOR

The impact of exchange rate fluctuations on the Nigerian manufacturing sector, the argument is that fluctuations in exchange rate adversely affect output of the manufacturing sector. This is because Nigerian manufacturing is highly dependent on import of inputs and capital goods. These are paid for in foreign exchange whose rate of exchange is unstable.

Thus, this apparent fluctuation is bound to adversely affect activities in the sector that is dependent on external sources for its productive inputs.

However, the manufacturing sector has not performed any better because of the influence of the earlier mentioned factors which affect the manufacture sector performance. These are an inverse relationship

between exchange rate fluctuations and the manufacturing sector performance.

THE NIGERIA MANUFACTURING

The manufacturing sector makes significant contribution to economy development through its incomes and employment linkage with other sector of the economy is both developing and developed countries.

But, while agriculture's relative share of GDP was falling, manufactory's contribution rose from 4.4 % in (1959) to 9.4 % in (1970), before falling during the oil boom to 7.0% in (1973). Increasing to 11.4 % in 1981 and declining to 10.4 % in 1988.

Whereas manufacturing increased rapidly during the 1970s tariff manipulations encouraged the expansion of assembly activities dependent on imported inputs, these activities contributed little to indigenous value added or to employment and reduced subsequent industrial growths.

The manufacturing sector produced a range of goods that included milled grain, vegetable oil, meat products dairy product sugar, refined, soft drinks, beer, cigarettes, textiles, footwear, wood paper products soap paint, pharmaceutical goods, chemical product, tires, tubes, plastic

cement, glass, metal goods, agricultural machinery motor vehicle and jewellery.

From 1962 to 1986, Nigeria's valued added in manufacturing fell 25 %, partly as a result of inefficient resource allocation caused by distorted price, (especially for exports and import substitutes) and prohibitive import restrictions. Between 1986 and 1988, World Bank structural adjustment programme (SAP) measures contributed to larger increases in manufacturing's contribution to GDP, which grew 8 % in (1988). However, these measures include liberalised regulations governing the import of capital raw materials and components. The creation of import substitution industries and beginning in (1988) privatization the SAP increased production efficiency, cut into the black market and reduced factory closures resulting from import bans on essential imports.

2.12.2 INDUSTRY OVERVIEW

Working to rebuild Nigeria's Manufacturing Industry, Nigeria's manufacturing industry has suffered from neglect, since the country's economy has depended on the petroleum sector since the 1970s. As the government tries to diversify the economy, it is working to reinvigorate

the manufacturing sector so as to increase its contribution to Nigeria's prosperity.

Lagos and its surrounding are home to about 60% of Nigeria's Industrial base, other key industrial centres are Kano, Ibadan and Kaduna Nigeria's most important manufacturing industries include beverages, cement, food processing textiles and detergents.

Restoring the Manufacturing Sector

Manufacturing contributed of 4.2% GDP in 2009 up from 3.6% in 2008. The sector's contribution to GDP has changed little over the course of decade.

Even as industries like cement and beverages attract investment from home and abroad, other industries are closing up shop, between (2000) and (2001). More than 850 manufacturing companies either shut down or temporarily halted production capacity utilization in manufacturing is around 53%, imports of manufactured goods have contribute the biggest category of imports since the 1980s.

But the government is working to revitalise the ailing sector, in May (2010) the Nigerian government announced a USDI 3 billion fund to help

banks extend credit to the manufacturing sector. Following the decline in available financing after the onset of the global economic crisis.

The biggest problem facing manufacturing sector over the past decade has been inadequate infrastructure, in general and lack of power supply in particular.

The country set a target of generating 6'000mw of electricity by the end of 2009, but estimated national demand is 25'000mw manufacturers have mainly installed their own generators to compensate for spotty supply from the state. The manufacturing industry as a whole generates around 72% of its own energy needs.

But operating these generators greatly increases the cost of manufacturing goods and the cost increases passed on to the consumer, making it difficult for Nigerian goods to compete with cheaper imports.

2.12.3 MANAGEMENT PROBLEMS OF MANUFACTURING INDUSTRIES IN NIGERIA

It is a fact that there are some factors that are responsible for the poor performance of the manufacturing industry in Nigeria. The manufacturing industries in Nigeria play a vital role in the Nigerian economy and also in the lives of the people.

The manufacturing industry is like an organization that is motivated by a number of tractors to utilize input like raw material, land and man power in the production of physical or tangible product for their consumer satisfaction.

However, some of the problems identified were in the area of transportation, the current economy depression, the activity of competitors, communication, inflation, imitation of products etc.

2.12.4 NIGERIA'S MANUFACTURING SECTOR IN 2012

An overview of how the manufacturing sector fared in 2012 Oladunjoye (2012). The manufacturing sector of the Nigerian economy appears to be gradually bouncing back to reckoning, based on the achievement recorded in the sector to the outgoing year.

Manufacturing activities were paralysed at the beginning of the year due to the partial removal of fuel subsidy by the Federal government, which consequently led to an increase in the pump price of petroleum products, after mass protest and industrial action across the country.

Activities in the sector picked up by the second quarter of the year with the ministry of trade and investment, the supervising ministry of the sector, evolving policies and carrying out measures to make the operating environment conducive for operators in the sector.

The Federal Government kicked off an Industrial Revolution, that it said would strategically position and empower the nation's manufacturing sector as the key driver of economic growth through job creation and increased contribution to Gross Domestic Product (GDP).

Minister of trade investment Olusegun Aganga, according to him the Industrial Revolution Plan would be based on areas where the country had comparative advantage adding that the government had embarked on far-reaching reforms aimed at improving the business, climate and making Nigeria the preferred investment hub in Africa and globally.

Meanwhile, effort of the federal government at during investment into the manufacturing sector seem to yield positive result, the country

recorded on 58.9billion investment in the last year, making Nigeria the number one investment destination in Africa.

The minister also recorded that Nigeria an increase net inflow of 46%, better than the net growth of other West African countries put together, which he contributed to the renewed effort of the present administration to bring foreign direct investment into the country. However, players in the manufacturing sector said the sector is still inundated by myriad of challenges, which affected their operation in the year. The challenges arising from unfriendly operation environment and infrastructure constraints, particularly in the area of power and energy, and of course, security which when added up to other recurrent business threatening economic and social ailments would easily wipe and any gain of progress and recovery.

However, the available statistic on macro-economic indicators showed some development within the year including an exchange rate, which established within a bond of N155 and N161 to the dollar inflation rate which went up from 10.3% in December (2011) to 11.3% in September (2012), a GDP growth rate which also went down from 7.40% in December 2011 to 6.28% at the end of second quarter of 2012, According to Ajayi, external reserve rose from 334.4billion in December

(2011) to 345.6 billion as at November 19 (2012) interest rate remained double digit, having between 17% and 28% as against a single digit rate expected by business operators.

Furthermore, major challenge faced by the manufacturing sector in the course of the year, according the survey, including insecurity in most parts of the north and few spots in the south, which impeded turnover and distribution through the year, rising cost of production due to high cost of capital and alternative source of power, increasing cost of labour, due to scarcity of required skill.

2.12.5 THE UNTOLD HARDSHIP OF NIGERIA'S MANUFACTURING SECTOR

AyodleSamuel(2012) Monday January, 7th 2013 describe the untold hardship of the Nigeria manufacturing sector performed "poorly in the outgone year, as export, say the manufacturing sector contributed only 5% to the nation's Gross Domestic Product (GDP). The Lagos chambers of commerce and industry (LCCI) in the business, environment Report, 2012 disagreed with the federal Government claims of significant economic growth on the nation's economy, while the Nigerian

Associations of chamber of commerce, industry mines and agriculture in (NAEOMA) recently said no fewer than 800 companies in Nigeria closed shops between 2009 and 2011 mainly due to harsh operating business environment.

NACOMA president Dr Herbert Ajayi, said more than host of survey firms had been classified as cavilling, which poses a serious threat to the survival of the manufacturing industry in the country, capacity utilization in industries hovered around 30% and 45% on the average with 100% overhead cost. Political and Economic factors contribute greatly to the decline in the manufacturing sector, for instance poor infrastructure and epileptic, power supply are also key impediments to the industry. The industry as a whole operation on more than 70% of energy it generates using generators an operating these generators greatly increase the cost of manufacturing goods in Nigeria he stated. Other factors includes increase in the price of petroleum products used by industries multiple taxation, Smuggling and inadequate access to finance both local and aboard. However, the manufacturing sector is facing challenges in the force the economic crisis that has accentuated the loss of competitions against manufacturing products from china. However, the federal government to ensure that SME, and manufactures get loan at single

digit and eliminate delays, associated with loan processing stressing the urgent need to responsibly check the inflow of take, imitation and substandard goods into the Nigeria market.

2.12.6 THE ROLE OF CENTRAL BANK OF NIGERIA IN EXCHANGE RATE MANAGEMENT

Despite the various amendments, the CBN Act has remained unanimous in setting out the objective of the bank which is for our purpose and in relation to exchange rate and foreign exchange management require the CBN to

1. Maintain external reserve to safeguard the international value of the Lagos funder currency.
2. Promote monetary stability and a sound financial system in Nigeria
3. Act as banker and financial adviser to the federal government.

According to Olanisadebe (1996) this is a very difficult assignment because maintaining the external value of the naira requires other factors that forgoing exchange disbursement and vitalization are in line with

economic priorities and within the foreign exchange budget and thereby ensure a visible balance of payment and stability of the naira.

According to CBN billion (1997) the unification of the exchange rate coupled with a liberalised trade and exchange regimes would ultimately led to fall convertibility of the naira, the CBN's intervention in the foreign exchange market is confirmed to the smoothing of the amplitude of the fluctuation in the market.

CHAPTER THREE

INTRODUCTION

3.1 RESEARCH METHODOLOGY

Scientific research can employ any of the different research method, documentary method etc. the choice of the research method to be used depends on the nature and objectives of the study under review.

For the purpose of this research and in order to develop a strong and robust model, an economic analysis will be carried out that is, a quantities analysis of actual economic phenomenal based on the concurrent development of theory and observation related by appropriate method of interference (Gujarali 2003). Economic techniques enable us to measure the effect of exchange rate fluctuation on the Nigeria manufacturing sector for policy formulation the numerical value of the coefficients of the variables in the model are very importance.

Economic method is a specialized tool for research that will facilitate model specification, parameter estimation, the application of appropriate statistic an econometric test and to have the basis for precise policy formulation, multiple linear regression (MLP) method will be used.

3.10 RESEARCH DESIGN

The research design for this project that is the methodology to be adopted in this research study is the multiple linear regression techniques employing linear regression method and it will basically be used to explain the effect of exchange rate fluctuation on the Nigeria manufacturing sector. Through the research instrument that will be used in sourcing for the data, necessary to appraise the problem.

3.11 SOURCE OF DATA

The data to be used in this study are annual time series, secondary data on, manufacturing gross domestic product, manufacturing foreign private investment, manufacturing employment rate and exchange rate within the period under review that is from 1986-2010.

The data to be utilized in the study will be source through library research, publication of the central bank of Nigeria (CBN) i.e. Statistical Bulletin, National Bureau of Statistics (NBS), economic journal and online information (internet).

3.12 RESEARCH INSTRUMENT

The instrument used for this study is the software that will be used to analyze the data is statistical views popularly called statistical package for social sciences (SPSS).

3.13 RELIABILITY AND VALIDITY OF RESEARCH INSTRUMENT

The research used regression method to test the reliability and validity of the data collected that is the statistical package for social science (SPSS) and the gathering of data interest is to build a model. It is therefore, mandatory to transform any relevant time series are documented in their normal form. This is to reduce the effect of inflation and prevent errors while forecasting. The real value is given by deflating the nominal value using the statistical software. The annual data obtained will be interpolated in order to avoid problem of inappropriate records.

3.14 POPULATION OF THE STUDY

Population refers to the universe of one's research target audience. The population target of this study as earlier stated will be the number of years from 1986-2010 annual time series as data relating to the other year after 2010 are not available at the CBN.

3.15 SAMPLE AND SAMPLING PROCEDURE

A sample is a part of a population and the techniques for selecting these samples is referred to as sampling procedure. This segment specified the number of year's between 1986-2010 [24] years which make up the total number and this will serve as the sample size of the study. The Techniques for drawing the sample was through the multiple linear regression Techniques employing linear regression model [MLR] of the classical linear regression model will be used to carry out, this is because the equation is specified in a linear form. The multiple linear model was chosen for the estimation because of the following reasons, that is it has more than one variable.

3.16 METHOD OF DATA ANALYSIS

In this section, the necessary statistical and econometric criteria that will be employed in the evaluation of the model will be stated or defined. The researcher will apply the following statistical and econometric techniques to analysis the model.

3.8.1 FIRST ORDER TEST

First order test is the necessary test that has to do with the statistical tools of analysis that will be employed in data analysis. They include:

3.8.2 COEFFICIENT OF MULTIPLE DETERMINATIONS (R^2)

This will be used to measure the proportion of changes in the dependent variable that is explained by the changes in the independent variable. It is also called the measure of goodness of fit. The value ranges from zero to one.

DECISION RULE: If the coefficient is greater than or equal to (\geq) 50%, it shows that independent variable has a significant influence on dependent variable, but if otherwise the reverse will be the case.

3.8.3 F-TEST OF SIGNIFICANCE

F-ratio will be used to test for the statistical significant of the entire regression plane. A one-tail test will be conducted at 5% level of significance level and, $k-1$ (v_1) and $n-k$ (v_2) of freedom.

3.3.4 SECOND ORDER TEST

Second order test is sufficient test that deal with econometrics tool(s) that will be employed in data analysis. Here, we will only make use of autocorrelation test.

Model specification, however, neither foreign exchange nor the rate of exchange, stable or otherwise can influence output of the manufacturing sector alone.

Two other variable; manufacturing employment rate foreign private investment play important role, the model in its implicit form is given as

$$MGDP = \beta_0 + \beta_1 MFPI + \beta_2 MER + \beta_3 ER + \epsilon \text{ ----- } 3.2.1$$

Where GDP = Manufacturing Gross Domestic Product (Dependent Variable)

$\beta_0, \beta_1, \beta_2, \beta_3$ = Parameters of the estimate

MFPI = Manufacturing foreign PrivateInvestment – (Independent Variable 1)

MER = Manufacturing Employment Rate –
(Independent Variable 2)

ER = Exchange Rate (Independent Variable 3)

ϵ = Error Term

3.17 DECISION CRITERIAN FOR VALIDATION OF HYPOTHESIS

F-test of significance: Reject H_0 if P value (C) is less than α equal to 0.05 otherwise accepts which shows that the independent variable has significance effect on the dependent variable.

CHAPTER FOUR

INTRODUCTION

4.0 PRESENTATION AND ANALYSIS OF DATA

Years	MGDP (₦ M)	MFPI (₦ M)	MER (THOUSAND)	ER (B)
1986	4611.40	31467.92	3154.86	395000.0
1987	8977.78	42101.98	2344.40	419400.0
1988	8563.04	36785.55	3054.95	472800.0
1989	6344.14	39847.78	2942.45	534700.0
1990	6746.57	48136.67	4486.79	559900.0
1991	7253.73	87545.64	2491.32	621000.0
1992	8019.06	10183.74	2332.33	504000.0
1993	8121.07	13314.52	2412.33	594700.0
1994	7274.92	14489.30	2372.34	573400.0
1995	6874.80	48498.40	2382.35	698400.0
1996	6943.94	50043.34	3387.36	717500.0
1997	6978.31	52432.33	3297.68	737500.0
1998	6964.34	49270.87	3256.78	76810.00
1999	14410.60	49657.11	4362.52	923410.0
2000	14222.60	59463.98	6005.25	101500.0
2001	15092.21	62725.15	6987.61	1119400
2002	16109.10	69829.26	8281.17	1209700
2003	27037.23	70225.10	6649.60	1293600
2004	32685.97	71028.68	8385.17	1326700
2005	38366.91	76464.27	9078.77	1304000
2006	44106.61	80101.98	9335.70	1285000
2007	47952.73	83463.11	9599.90	1180500
2008	48562.81	81785.55	8906.23	1310300
2009	51859.10	85293.27	9293.42	1290000
2010	55542.02	86342.26	7346.41	1451200

SOURCE: CBN ANNUAL ABSTRACT OF STATISTICS FROM 1986-2010

BUREAU OF STATISTICS

MFPI: Manufacturing Foreign Private Investment

MGDP: Manufacturing Gross Product

MER: Manufacturing Employment Rate

ER: Exchange Rate

4.1 PRESENTATION OF RESULTS

The empirical results of the required analysis carried out in the study are presented below:

$$\text{MGDP} = \beta_0 + \beta_1 \text{MFPI} + \beta_2 \text{MER} + \beta_3 \text{ER} + \varepsilon$$

Values

$$\beta_0 = -5209.76$$

$$\beta_1 = 0.38$$

$$\beta_2 = 0.024$$

$$\beta_3 = -0.09$$

Therefore

$$\text{MGDP} = -5209.76 + 0.38 \text{ MFPI} + 0.024 \text{ MER} - 0.09\text{ER}$$

4.3 RESULTS

The co-efficient of $R^2 = 0.721$. this implies that 72.1% of variation of MGDP is account for by the variation in EFPI, ER and MER. This suggests that 78.5% for the changes in the manufacturing GDP are explain by the changes in the three independent variable (ie) manufacturing foreign private investment, manufacturing employment rate and exchange rate. From the above table "NS" stands for Not Significant while "SS" stands for Statistical Significant. It was observed from the coefficients on the MGDP output. A unit fluctuation induces 0.09% unit reduction in the in the out of the sector. Manufacturing output respondent to change to changes in exchange rate but it is said that the attendance fluctuation in rate of exchange create a problem of uncertainty which lives a negative impact on the sector. More so, fluctuations in the rate of exchange are not favourable to the economic activity in the manufacturing sector.

Manufacturing Employment Rate

On the other hand, has a significant difference the MD manufacturing Gross Product which shows that manufacturing GDP changes has much has 0.08units in response to unit change to employment rate. In order

words, employment rate is less than 1 which means there is low degree of elasticity due to improper utilization of human skill in the sector.

Manufacturing foreign Investment

The result shows that there is significant difference of manufacturing Foreign Investment (MFI) towards MGDG. It shows that a unit change in MGDG encourage 0.383 increase in the output of the sector.

ANOVA TABLE

In the anova table for the regression it shows that our P value (Sig) is less than 0.05 which means that there is a significant difference in the regression.

Model Summary(b)

Model	R Square	Adjusted R Square	Std. Error of the Estimate
1	.721	.681	9818.54664

a. Predictors: (Constant), Manufacturing Employment Rate, Manufacturing Foreign Private Investment, Exchange Rate

b. Dependent Variable: Manufacturing Gross Domestic Production

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5226223317.872	3	1742074439.291	18.071	.000(a)
	Residual	2024481020.229	21	96403858.106		
	Total	7250704338.102	24			

a. Predictors: (Constant), Manufacturing Employment Rate

Manufacturing Foreign Private Investment, Exchange Rate

b. Dependent Variable: Manufacturing Gross Domestic Product

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	
1	(Constant)	-5209.764	5425.417		-0.960	0.348
	M F P I	0.383	0.097	0.517	3.931	0.001
	E R	-0.009	0.009	-0.140	1.037	0.312
	M E R	0.024	0.009	0.383	2.686	0.014

a. Dependent Variable: Manufacturing Gross Domestic Product

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY OF THE FINDINGS

This research work "The Effect of Exchange Rate fluctuations on the Nigeria manufacturing Sector" was set to find out the effect of exchange rate on the Nigeria manufacturing Sector. Hypothesis was stated to guide the study. The hypotheses are stated thus: H₀: An exchange Rate fluctuation has no significant effect on the importation of input and capital goods.

To evaluate this hypothesis, annual time series data on manufacturing gross domestic product a proxy for economic growth, exchange rate, private foreign investment and manufacturing employment rate were collected from the year, 1986 to 2010. To analyze these data, multiple linear regressions were adopted employing Ordinary Least Square (OLS) techniques.

This analysis yielded some interesting results. From the results it was observed that exchange rate has no significant effect on economic growth of Nigeria. Also that dependent variable (Manufacturing Gross

Domestic Product) can be controlled by, exchange rate, private foreign investment and manufacturing employment rate.

Furthermore, from the result of our analysis due to our P- value for the exchange rate is $0.312 > 0.05$, we accept that, there is no significant effect of fluctuation on exchange rate on the manufacturing sector.

5.2 CONCLUSION

This study empirically verified the effect of exchange rate fluctuation on the Nigeria manufacturing sector. This against the back roping of the fact that exchange rate is a crucial variable and the manufacturing sector is expected to be the moving force in the drive towards industrialization. It is observed that the fact Nigeria is highly dependent on the external sector for import of input has made the effect of exchange devaluation worse especially in manufacturing because capacity to import was constrained by the depreciating currency lending to a corresponding decline in output.

It is pertinent to note that the devaluation of exchange rate in association with factors such as technological and human skills are necessary for a country to established in the export market which are lacking in the case of Nigeria.

5.3 RECOMMENDATIONS

In order to meet expectation and contribute significantly to economic growth and development, the following recommendation will be useful;

1. The need for local sourcing of raw material and input through agriculture should be intensified.
2. A technological policy aimed at developing a local engineering industry is advocated. By so doing, the link between agriculture and the manufacturing sector will be established, lending to expansion of export base which would attract more foreign exchange into the economy,. This could culminate into high external reserve build-up and reduce adverse pressure on balance of payment.
3. Manufacturing activities should be encouraged by government by giving incentives and subsidies to local manufacturers and improving the technological and infrastructural development so as to increase the sector's contribution to gross domestic product and employment within the country.
4. Change in exchange rate management strategy should be allowed to run a reasonable course of time. Jettisoning strategies at will and on

frequent basis has implication for exchange rate and obvious consequence for a sector that depends on foreign inputs.

5. The monetary authority [the central bank of Nigeria] should monitor the unethical practice of some commerce bank which has resulted in much fluctuation in the rate of exchange. More stringent punitive have to be taken against the culprit banks.
6. The country should therefore, embark on improving basic amenities like electricity, transportation, water supply, and telecommunication, human resource development, instead of implementing policies in an unhealthy economic and social structure.

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