THE IMPACT OF INDUSTRIALIZATION ON NIGERIA'S ECONOMIC DEVELOPMENT

BY

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APPROVAL PAGE

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DEDICATION

This work is dedicated to Almighty God and also to my beloved mother, Mrs. J.N Madueke and my lovely siblings Ijeoma and Ebuka for their support throughout my years of study in this university.

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I wish to express my appreciation to God Almighty who strengthened, inspired and guided me throughout the period I am writing this project.

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ABSTRACT

The industrial sector remains a strong sector of any economy, be it developed or developing. The developed countries are noted for their high industrial performance. The effect of the industrial activities on the economy of underdeveloped or developing nation si still under contention. It's a fact that the economy will not grow without its industrial activities. These activities include: agriculture, manufacturing, mining and mineral processing and export opportunities for manufacturers. This study specifically analyze the impact of industrialization to economic development. It postulate that inspite of the effort of Nigerian government, Nigeria still show a stunted growth because of some constraints. In order to redress these problems, it was suggested that government should ensure policy consistency by allowing fiscal and monetary policies to work themselves out before a counter policy is introduced, also, industrial policy must be designed, reviewed and implemented in such a way that it will facilitate and not discourage investment in the sector. Based on the above, the prosperity of the nation to a large extent dependents on the development and sustenance of the industrial sector.

CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND OF THE STUDY

Industrialization is regarded as a central object of economic policy in most developing economies. They see industrialization and agriculture as an integral part of development and structural change. Some economic analyst are of the view that industries play a vital role in the economic growth and development of any country. In this research work, effort is made to analyze the impact of the industrial sector to the economic development of Nigeria.

Generally, the industrial revolution which took place in Britain between the late 18th and 19th centuries has gotten much to do with the present set back on industrial development led to the factory process that metamorphosised into industrial production. Thus, history recorded that the industrial sector performance in Nigeria's economic growth is as old as the nation itself. It dates back to the amalgamation of the southern parts of the country in 1914 to for

the geographical land mass called Nigeria. By a representative of the colonial administration of Britain Lord, Fr. Fredrick Lugard.

As soon as independence was over, the government of Nigeria embarked on import substitution as an industrial strategy in order to reverse the problem of deficit balance of trade and fasten industrialization among other reasons.

Right from the first national development plan (1962-1968) to the fourth national development plan (1981-1985) rapid industrialization received priority in Nigeria's development objectives. The government sector for instance, the allocation of 16.2 percent of the budget plan to the manufacturing sector during the third national development plan (1975-1980) was the highest. The industrial policies and strategies of development were adoption of import substitution strategy, expansion of indigenous equity participation in foreign owned enterprises, provision of integration, linkages and diversification of industrial increased domestic resources content of industrial product and provision of financial and manpower resources to promote research and adoption of technology to encourage the small and medium scale industries and

public sector participation and control of some large industrial products such as iron.

To withstand the rising problems of the sector and economy in general, Nigeria embarked on structural adjustment programme (SAP) in 1986 on the assumption that structural adjustment programme (SAP) would corrects these problems. It has important implication on both the government and industry. It has brought government re-appraised of the regulatory environment, the structure of protection for local industries and the package of incentives available. For the private sector and industrialist in particular, SAP presented a new challenge which reported a more serious effort to control costs, increase production efficiency and remain competitive.

In the spirit of SAP, the second tier foreign exchange market (SFEM) was introduced in 1987 to allow market forces determine the foreign exchange rate, remove price distortions and thereby effect a more efficient allocation of resources.

Because of inability of the existing policies to live up to expectation, government therefore in 1988 adopted a new approach

to industrial development, which gave prominence to the role of the private sector. To give effect to this management approach, government, in August 1988, established the national committee on industrial development (NCID). The strategic management of industrial development (SMID) or industrial master plan (IMP) is predicted on the need to organize a network of sectors (referred to as strategic consultative groups) around on industrial activities with the aim of having a comprehensive and perception view of the investment problems in particular line of industrial activity. The (IMP) seeks to minimize the problems of policy and programme consistency in the development of the nations industries.

A number of fiscal and monetary policies together with institutional reform measures have been undertaken by the Olusegun Obasanjo administration since transition in May 1999. With these measures, it is envisioned that Nigeria will be transformed into a major industrialized nation and an economic power.

1.1 STATEMENT OF THE PROBLEM

The industrial sector is known to be the strength of the value-added processes in many economies. Nigeria is wanting to industrialize must encounter some problems which are militating against industrialization for the purpose of this study, it is pertinent to survey those problems which are forming obstacles to industrialization.

Industrial sector encountered the problem of low price elasticity of export and lack of comparative advantage. This means that Nigeria share of foreign exchange market cannot appreciate despite the numerous incentives granted to the industrial sector.

The absence of an indigenous entrepreneurship class couple with other problems of multinational corporation affect the structure and influence the nature of utilization of scientific and technological labour for national development.

Realizing that industrialization can indeed have some adverse effect on the economic growth and development of the country, one

will logically ask low effective are the industrialization policies in Nigeria?

1.2 OBJECTIVES OF THE STUDY

It has been observed that most industries in Nigeria have not realized their economic development goal even with the existence of manufacturing industries within the economy. Therefore this work researches the following objectives.

i. To determine the role of manufacturing industry in the economic development of Nigerian economy.
ii. To examine ways in which industrial sector in Nigeria can be made to play a better role towards high productivity for economic growth of Nigeria.

1.3 HYPOTHESES OF THE STUDY

The following hypotheses are tested on this study:

HO: The industrial sector contribution has no significant impact to economic development of Nigeria.

Hi: The industrial sector contribution has significant impact to the economic development of Nigeria.

1.4 SIGNIFICANT OF THE STUDY

The significant of this study lies in the fact that it will expose the extent to which industrialization has contributed to economic development of Nigeria. It will highlight some obstacles hindering increase in industrialization and industrial output in Nigeria.

This work will be relevant to entrepreneurs and government by directing them on the easiest means of embarking on industrial development plan. The relevance of this work also lies in the fact that it adds to the already existing literature on industrial output.

Furthermore, this research work will assist students of economics, government and real potential industrialist, investors and other related coursed. Other researchers will see this work veritable material in their field of study .

Finally, since no knowledge is a waste, readers of this work will find it interesting to know that high industrialization is the shortest route to economic development.

1.5 SCOPE OF THE STUDY

This research work deals on the impact of industrialization on Nigeria's economic development. The date used is a secondary data, which was obtained from the publication of the central bank of Nigeria statistical bulletin and the amial report of accounts. The analytical tools employed on this research include t-test and regression analysis.

1.6 LIMITATIONS OF THE STUDY

A study of this nature cannot be done without some problems and as such it was constrained by many factors namely:

TIME: While embarking on this detailed research work, the researcher was having lectures, preparing for examinations, engaging in such activities and domestic work as well. So time was not enough for the researcher to perfect the work.

FINANCE: Financial inadequacy was the major limitation of this work. The researcher was financially dependent as a student. The need for materials, trips and logistics needed for this research was not adequately provided.

DATA: The controversial nature of the Nigeria data delayed this work. It took the researcher a lot of time before the harmonization of the data used in this research work.

CHAPTER TWO

2.0 LITERATURE REVIEW

This chapter reviews the existing literature on industrialization with special emphasis on the industrial sector and Nigerian economy. It went further to cover roles/contributions of industrial sector to Nigerian economics development, characteristics of industries sector performance of industrial sector and policy measures to the industrial sector.

2.1 THEORETICAL LITERATURE

Prior to Nigeria independence in 1960, the predominant economic activity were agricultural production and marketing of imported goods. Under colonial rule, Nigeria remained an agricultural country: exporting raw material to Britain and importing from its finished goods. Industrialization was not part of the colonial economic policy which anchored on making the colonies producers of primary raw material for foreign industries and importers of manufacturing goods. There in, lay the origin of dependence of Nigeria economy on commodity market of

industrialized western world for its foreign exchange. While the internalization of the country was discouraged, rudimentary foundation for a modern Nigeria economy, however were laid. The process of colonial rule and formal economic exploration ended in 1996. Therefore, the use of the first indigenous administration set itself on attaining political independence, and transformation of the country into a modern industrial economy.

Early manufacturing activities predating independence were limited to semi-processing agriculture products as adjunct to the trading activities of the foreign companies. The agro based manufacturing units that were established include vegetable oil extraction and refining plants, starch making, tobacco processing, pottery raffia craft, mat making, wood carving and saw milling. They were followed by textiles, breweries, cement, rubber processing, plastic products, bricks making and pre-stressed concrete products. At the outset of domestic investment, capital was not sufficient and the indigenous private investors interested in large returns were preoccupied with trading, transport and construction

of business, they lack the technical know how require in manufacturing activities (CBN, 2009).

Besides the construction of roads, generation of electricity power required capitals and maintenance of law and order which created a conducive environment for trade. No particular industrial policy was initiated by the erstwhile cononide administration to promote industrial development in the country.

Post independence, Nigeria saw the involvement of national development plans. Later replaced by the three year National Rolling Plans (Within the context of the structural adjustments programme (SAP) which provided the conceptual framework for the development objectives, strategies for industrialization, government participation in the process of industrialization and the fiscal and related policies for influencing industrial development. As in other developing countries, the principal features and set objectives of the development plans included, among others, the desire to lay on enduring foundation for the future expansion of the productive capacity of the economy, achievement of high economic growth through increase in the share of manufacturing value added (MVA)

increase in export of manufactures, diversification of industrial activities and improvement in the standard of living of Nigeria's. The plans also sought to re-orientate the Nigerian entrepreneurs away from trading into manufacturing and processing activities as well as promote even development of the country through industrial dispersal.

The first National Development plans (1962-1986) was prepared and executed with the aid of foreign investment. Import substitution industrialization strategies were adopted with the aim of encouraging technological development, reduction in the value of import and encouraging foreign exchange savings by producing locally some of the imported consumer goods. The period saw the establishment of large scale capital intensive and import substituting light industry and assembly related, manufacturing ventures. Industries such as textile, wearing apparel paints, tyres and tubes, cement and other building materials producing units as well as grain milling factories were established as joint stock ventures between local and foreign companies which originally imported the goods, but has to diversify their business interest. The

period also witnesses initiation of policies and provision of a wide range of incentives for the private sectors, including protection from competing importers.

Report on the second Nigeria economic summit (1995) specifically stated that, presently these are approximately 650 major agro-allies industries in Nigeria. They include: textile industries, cotton ginneries, flour mills, feed mills, leather and leather goods industries, tanneries paper mills, breweries soft drinks, rice mills, confectionaries, tomatoes processing and timber industries. The total installed capacity for cereal processing alone in approximately 9 million metric tones annually. At present, these industries operate below 30 percent capacity like most other industries in the country. The pre SAP period saw several backward through direct farming. The prevailing economic environment which was characterized by high capital and production cost and very low returns on investment forced most of them to scale down their operation or even closed down. A viable portion which several manufacturing industries have taking to source their raw materials needs in the out grower scheme. Some association, a relationship

that has proved to be mutually beneficial to manufacturers and producers and which gives good cause for strong government intervention in the promotion of similar institution.

Report on the third Nigerian economic summit (1996) posits that the industrializations of the nation's economy should be private sector led, within a conducive investment environment. Additionally, industries policy should emphasize on small and medium scale industries, including collage industries. Effort should be made also to geared towards local raw material utilization, including utilization of abundant energy source such as; gees, coal and electricity. The vision for a private sector centered on industrial profit is that it will meet local and export needs while focusing on areas in which the country has comparative advantage in many areas of industrial production.

2.1.1 INDUSTRIAL SECTOR AND NIGERIAN ECONOMY

During Nigeria colonial era, Britain made no sincere effort to industrialize the nation. As a result, the industrial sector of Nigeria economy was relatively insignificant at independence in terms of its contribution to the GDP. Most of the earliest industries were

established by the colonial trading companies and hand full of other multinational companies concentrated on the production of light industrial commodities such as detergents, soft drinks, leather work, textile and confectionary.

However, after independence in 1960, Nigeria attempt to leap directly into a modern industrial structure through public investment in large scale industries. The state assumed the dominate position for lack of a strong indigenous entrepreneurial class and the major aim was to avoid the foreign control of industrial activities (Akinlo (1996). The nation thus adopted the policy of import substitution industrialization strategy (1981) and established industrial development centres starting within Owerri in 1963. Ukaegbu (1991) informed that to achieve 181 objective, industrial equipment and raw materials should be transported into Nigeria, installed and used for routine production activities either by multinational corporations, the state or indigenous private businessmen. Based on the above situation. Ukaegbu concludes that Nigeria industries as well as with industries in many developing nations are characterize by their inability to

revolutionize production. On the whole, Nigerian industries tend to be characterize by routine production activities, lack of backward linkage in the economy prevalence of highly-package technology performance of minor operations, lack of auxiliary industries and insignificant non-existent research and development (RID) activities.

The increase in industrial output in 1970 was due to the oil boom of that period which made foreign exchange available for importation of the needed industrial inputs. However, the oil glut of the late 1970s and early 1980s affected the industrial sector as stringent economic policies were put in place and many industrial businesses were closed down. The government embarked on deregulation, privatization and commercialization of public enterprises to reduce the financial burden of the government. Till today the industrial sector has been witnessing series of policy change to adjust the sector and direct it to the part of growth.

The capacity utilization of the sector was 76.6% in 1975 and 70.1% in 1980. It was impressive because of the increased foreign exchange caring during this period. But the oil glut of the early 80s adversely affected the sector. The capacity utilization crashed from

63.6% in 1982 to 40.3% in 1990 and 29.3% in 1995. It went up to 36.1% in 2000 and 41.1% in 2003. The value rose slightly to 45.0% in 2004 and 46.2% in 2005. The inconsistency in capacity utilization in the sector may be explained by the inconsistency in our economic policies and other problems confronting the sector in terms of the sectors contribution to GDP, it is no different from capacity utilization, it contribution failed from 11.2% to 8.6% in 1985. In 1990 it was 7.8%, 6.7% in 1995, 5.9% in 2000, 6.4% in 2003. Its contribution to GDP fluctuated a lot showing low epileptic and shanky the sector has been. Government policy on banning and unbanning of some vital inputs accounted significantly for the instability the growth rate of the sector is the worst of it. From impressive growth rate of 12.9% in 1982 to 4.2% in 1993. In 1990, it was 8.8% but 0.8% in 1994. It grew marginally to 3.6% in 2000 and 9.0% in 2003.

Manufactures Association of Nigeria (MAN) in her March 17, 2005 nationwide forum on reviving Nigerian industries, classified Nigerian manufacturing industries as follows:

30% closed down

60% Ailing

10% operating at sustaining level.

The cause of the poor performance of the sector may e summarized in the view of Ewakhids et al (2001) that on the whole, the Nigerian industrial sector of the late 190s, and even up to the early 2000s, captured by the manufacturing sub sector appears to have evolved from a combination of pre-independence neglect and later, the overprotection of the import substitution industries.

2.1.2 THE RATIONALE/REASONS FOR INCREASD INDUSTRIAL OUPUT

Most developing countries sees increased industrial output as a central objective of their economic policy, they see it as integral part of development and structural change. The government has always accorded it as an important pace in its various development plans to ensure an increased level of self-reliance in supply of industrial product.

The following are the reasons for increased industrial output.

1. **To Alleviate Poverty/Standard of Living:** With increase industrial outputs the standard of living of the people will increase or improve as a result of increase in goods and services, basic amenities and income capital.
2. **To Reduce Unemployment Rate:** Increased industrial output will reduce the number of people unemployed in the country when more people are employed in the industries.
3. **To Increase Export/Import Substitution**: With increased industrial output of the country more goods will be exported to another country leading to favorable balance of payment and also reducing the heavy depending on imported material/goods. And also there will be an increase of improve in output i.e. GDP.
4. **To Reduce Dualistic Economy**: With increased industrial output most of the less developing countries of the world will be developed i.e. bringing the gap between developed countries and developing countries (the rich and poor).
5. **To Achieve Vision 2020:** Increased industrial output will help to achieve the government vision 2020 to be among the top 20 economics of the world. It is result to massive

infrastructure development, sustainable economic stability/growth, security of life and property, economic stability good health facilities, quality education etc.

2.1.3 PROBLEMS OF INDUSTRIAL DEVELOPMENT IN NIGERIA

It has been shown that low industrial output has helped substantially in reshaping the economic structure of Nigeria one may then ask: what are responsible problems for this slow rate of industrial development? The problems militating against rapid industrial growth are discussed as follows:

a. **Lack of Capital/Finance:** In almost all discourse of the problems of industries whether by their owners or those interested in their wellbeing their financial problems have tended to overshadow others which they also encounter in their daily struggle for survival. The major source of financing industries the world over is the owners capital. In Nigeria as in many developing countries, this problem is accentuated the unwillingness of sole proprietors to allow the participation of outsiders in what is usually a personal/a family venture.

According to Okeke (1991) industries in Nigeria are afflicted with difficulties with over abundance of problem chief among them is lack of capital and over reliance on market serve. Besides the fact that financial constraint presents all small scale industries from producing less competitive with his large scale counterpart, it also limits his ability to engage in aggressive selling technologies (Masha, 1986).

Oshhunbiyi (1989) was a total agreement with the above observation he describe finance as a major problem confronting industrialist at various stages of their business. he went further to state that “whether for the establishment of new, industries or to carry out expansion plans, the inability to attract financial credit has hindered the growth of this sub-sector”.

Owualah (1992) observed that financial problems of industries arise from multifarious sources which broadly can be classified as endogenous and exogenous. The endogenous problems include those due to under capitalization poor accounting and record keeping management incompetence and financial indiscipline. The origin of exogenous financial problem is partly

due to the behavior of institutional leaders and the capital market and partly, to past policy biases against them.

Finally, it is also important to state that because of our depressed economy and our debt problems, industrialist are finding it difficult to obtain enough trade credit or source capital abroad to enable them, expand their operations. It is also difficult to attract direct foreign investment capital or obtain multilateral and due to high rate of inflation prevailing in the economy.

b. Lack of Technical Know How

The technological know how and shortage of managerial man power is another problem facing the Nigeria industries. According to Babinton Ashaye (1985) it is rare for the entrepreneur to have strong managerial and technical expert. He said that many industrial entrepreneurs engage in industries where they do not have appreciable technological background or experience. He went further to say that "due to the size of such industrial units, technical advice and advisory department are normally non-existent hence there is lack of technical advice on operational problems in the workshop, development work on issues relating

to efficient utilization of labour, equipment and also proper use of raw materials, improved product design, technical training for staffs and know-how to resolve problems of high production cost and poor quality of products.

Finally, Akinkugbe (1988) state that the lack of efficient organizational structure and practice of modern management techniques in industries could be attributed to the lack of understanding of modern management practices certain owner manages coupled with their strong desire to run and invariably rain their industries alone.

c. **Weak Raw Material Based**: This is another problem of Nigerian industries. Due to poor state of its agricultural sector their has been lower weak production of raw materials, these resulted to excessive reliance on the external sector or capital equipment and raw material. That is Nigerian industries have been dependent on imported raw materials and capital goods. Most of the beverage industries cosmetics, cement rubber, (plastic producers), and some other food industries depends on imported raw materials for their production.

d. **Inadequate Basic Infrastructural Facilities:** Infrastructural facilities like road network railway, river transportation, airways, water facilities, irrigation, machinery and equipment hampered industrial development in Nigeria, it has resulted to closing of the existing industries while new ones are not coming and also inconsistent/epileptic power supply has contributed to low production of the Nigerian industries. Although some of them has resolve to the use of diesel engines to run their industries which will result to high cost of production. Also these problem Michelen tyre has closed in Nigeria because of these problem.

OTHER PROBLEMS INCLUDE:

e. Institutional and Administrative Bottleneck

These include various polices government put in place like excessive tax and these really decreased or reduced the coming of foreign industries in the country and folded the existing ones.

f. Militancy

This is one of the major problem against industrial development of Nigerian Delta/region, these militants has vandalized people line given or supplying gas to these industries, kidnapping of their workers thereby requesting a lot of money from these industries in that region.

2.1.4 GOVERNMENT INCENTIVES/POLICY MEAUSRES TO THE INDUSTRIAL SECTOR

Government has since independence in 1968 made conscious effort to reduce dependence on foreign manufacturers through supportive program aimed at making the local manufacturers meet local demand along the line of import substitution.

In order to achieve the above objective, the Nigerian government has drafted for the country an industrial policy document to guide its achievement. According to the Bureau of Public Enterprise (2005), Industrial policy can be defined as a systematic government involvement through specifically designed policies in industrial affairs, arising from the adequacy of

macroeconomic policies in regulating the growth of the industry. It went further to say that the instrument of industrial policy include; subsidies, tax incentives, export promotion, government procurement and import restrictions. Others include direct investment which formed the pivot of industrial policy from 1970s to 1980s. Foreign exchange rate policy, monetary policy and trade policy also help to shape investment decision. The industrial policy of Nigeria intend to achieve the following objectives.

- To generate and raise the production
- Increase export of locally manufactured goods
- Create a wider geographical dispersal of industries
- To improve the technological skill and capabilities available in the country.
- To increase local content of industrial output by looking inwards for the basic and intermediate inputs.
- To affect foreign direct investment

To achieve the above, the Nigerian government has put in place some policy measures or policies, these policy measures are looked

at from three perspectives. Funding industrial development, incentives to industry and institutional frame work.

A. FUNDING INDUSTRIAL DEVELOPMENT

Improving industrial production in Nigeria requires high financial resources. The private sector is expected to play the leading role while the government focuses on the facilitatory role. To help the industrialist to obtain a cheap inventible fund, government adopted two major strategies.

a. The provision of credit facilities on concessionary economic development banks.
b. Provision of equity funds and long term loans by the banking sector for the promotion of small and medium enterprises.

Based on the above, government has allocated substantial resources for funding industrial growth through the Bank of Industry (BOI). The bank was created from the merge of National Economic Reconstruction Fund (NERFUND). The bank is expected to facilitate the production of primary industrial inputs by providing medium and long term loan for Agriculture and agro-allied

industries. The bank emerge from the merge of people bank, Nigerian Agricultural and Corporation Bank and Family Economic Advancement Programme (FEAP).

To make funds available to small and medium scale enterprises (SMES) which help Nigeria government to achieve its objectives of self-reliance enhances poverty reduction etc. Government through the Central Bank has encourage banks to set aside 10% of their annual profit as equity funds and long term loans for the promotion of SMES. To attract foreign capital the government has put in place structures that will encourage capital inflow to the economy. These measures include deregulation of the economic policy stability, reduction in number of regulatory agencies and establishing the Nigeria investment promotion commission (NIPC). It also embarked on port reforms and establishment of Export processing factories and improving the infrastructural facilities in the country.

B. INCENTIVES TO INDUSTRY

To achieve the industrial development of the nation and promote a dynamic efficient and sustainable manufacturing sector,

government has set up a package of incentives. The incentives geared towards encouraging the private sector to play a leading role, promote geographical dispersal of industries and increase industrial output and domestic resources utilization and industrial linkages. The incentives are divided into fiscal measure and export promotion.

1. FISCAL MEASURE

i. **Tax Holiday:** This is exemption of some industries especially the infant ones from the payment of tax for the period of at least 5 years to enable them grow.

ii. **Tariff Protection:** This is imposition of a heavy import duly on foreign goods so as to protect local industries from international competition.

iii. **Import Duty Relief:** This is the granting of import duty relief to the importation of capital equipment by the government. This helps the newly established firm to be able to procure capital equipment cheaply, thereby increasing their productivity.

iv. **Reduction of Excise** Duty: This simply means reduction in the amount paid as taxes for goods and services produced in the country. This helps to reduce business cost of production.

2. EXPORT PROMOTION

Export incentives came on board in the 1980s with the introduction of Structural Adjustment programme (SAP) through the promulgation of the export decree No.17 of 1986. It includes:

i. **Export Development Fund**: The government set up this scheme to assist financially the private sector exporting companies to cover pat of their export promotion activities. These include training, seminars, advertising and publicity export research etc.

ii. **Export Expansion Grant**: The scheme provided inducement to exporters who have exported N500,00. Worth of processed product its 20% grant on the total annual export and on receipt of confirmation of repatriation of export proceeds. It is administered by the Nigeria Export Promotion Council. Other policy measures includes; duty

draw scheme, depreciation allowance, currency retention scheme etc.

C. IINSTITUTIONAL FRAME WORK

The institutions play advisory facilitatory roles in the industrialization process of the country. They make the business environment conducive for successful take off. The institution include individual training fund (ITF) for man power development standard organization and quality for products. National Automative Council (NAC) to execute the automotive policy of government. Others include; Central Bank of Nigeria (CBN), Industrial Data Bank (IDB), Industrial Inspectorate Department, Small and Medium Industries Development Agency (SMIDA). Raw Material Research and Development Council (RMRDC), National Agency for Food and Drug Administration and Control (NAFDAC) etc.

2.2 EMPERICAL REVIEW

Industrialization plays a significant role in economic development. It acts as a catalyst that accelerate the pace of

structures transformation and diversification of the economy, it enable a country to fully utilize its factor endowment and to depend less on foreign of finished goods or raw material for its economic growth, development and sustainability (Okafor, 2005).

Exchange rate in Nigeria will erased a radical change from the long operated fixed system between the 1960s and the first half of 1980s. It shifted dramatically from the second half of 1986 to a flexible regime when the structural adjustment programme (SAP) began. In Nigeria, it has always been realized that economic development requires growth and structural change. In considering the Nigerian economic development experience, it is instrumental to examine the growth and structural change in certain major aspect of the economy (Ajakaye, 2002).

Productivity is higher in the manufacturing sector than in other sectors. The structural change argument focuses on the dynamics of sectors. Manufacturing is assumed than other sectors. A transfer of productive resources to more dynamic sectors results to growth. When industrialization is compared to other sectors, the argument runs that the manufacturing sector offered special

opportunities for capital accumulation. Capital accumulation can be more easily realized in spatially concentrated manufacturing than in spatially disposed sectors (Agriculture, Mining). This is one of the reasons while the emergence of manufacturing has been so important in growth and development. Sectoral capital stock estimates for developing countries are still scarce but data indicates that after 1950 manufacturing is indeed far more capital intensive than other sectors (Szirmai, 2008).

The productive sector is in crisis as its average contribution to the nations Gross Domestic Product over the past few years has not gone beyond 5%. Many years of neglect and mal-administration on the part of successive military and civilian government coupled with corruption and indiscriminate policy reversal have all conspired to render the manufacturing sector comatose. Government after government have failed to pursue policies that could create a vibrant real sector with the result that the impact of the manufacturing sector has steadily declined over the years and its contributes to national growth and development has been disapprovingly low, (Banmijoko, 2001).

Some of the factors that exert profound negative influence on manufacturing sectors includes; institutional framework and management strategies, inflation rate, trends and outcomes of exchange rate management strategies, poor or inadequate infrastructured facilities especially electricity power supply and thus have significant effect on the growth and development of Nigeria which led to economic diversification to other sectors of the economy. The major objective of this study is to examine the effect of industrial sector on economic development in Nigeria.

The agricultural sector was the focus of intense development interest during the 1990s, with food self-sufficiency the goal. The programme includes price stabilization plan and schemes to revitalize the palm oil, cocoa and rubber sectors. In the manufacturing sector, the government was backing a policy of local sourcing whereby locally produced raw materials were converted into finished products. By (1999), manufacturing accounted for less than 1% of Gross Domestic Product (GDP). Iwayemi (1988) argued for the importance of energy sector in the socio-economic development of Nigeria. He submitted that strong demand and

increased supply would stimulate increased income and high living standards.

Okafor (2008) used descriptive analysis to corroborate the view of these authors by arguing that poor and inefficient electricity supply drives industrialization process. he submitted that one important indicator whether a country is industrialize or not, it is only on the megawatt of electricity consumed. He further argued that country electricity consumption per capital is kilo watt hours (KWH) is proportional to the state of industrialization of that country.

Ukpong (1976), established the existence of a positive relationship between electricity consumption and economic development. In addition, he submitted that the expansion of energy sector on the demand side is an important factor in accelerating the growth of the industrial sector. Ekpo (2009) elaborate on the folly of running a generator economy and its diverse effect on investment. He strongly argued that for Nigeria to start and accelerate the pace of economic growth and development, the country should fix power supply problem.

Aigbokan (1999) argued in this paper that fixing the energy sector is tantamount to shifting the production possibility curve of the country's economy. Adenikinju (2005) provided a strong argument to support the importance of power supply. The poor nature of electricity supply in Nigeria, his argument has imposed a significant cost on the industrial sector of the economy. This result corroborate the survey of the manufacturing association of Nigeria (MAN) 2005. In that survey, MAN indicated that the cost of generating power constitute about 36% of production.

2.3 LIMITATIONS OF THE PREVIOUS STUDIES

Firstly, the bulk of literature reviewed specifically for this study were done outside the shores of this country; the existing one in Nigeria showed a paucity of comprehensive research, the studies focused mainly on how to promote the private sectors. However, in Nigeria today, the government have worked with the public sector to promote transparency, accountability, performance development and service improvement, ensuring value for money. The government have also helped to shape government policies on

public sector modernization and well-versed in the kind of best practices that make a difference.

The possibility of the existence of the co-integration between government incentives and policy measures to the industrial sectors was not examined in the previous studies. But in this study, efforts were made to elaborate these measures so as to have a clear picture on the both measures.

Finally, the previous study focuses its attention mainly on the empirical aspect of the literature, but this study is able to cover both the theoretical part as well as the empirical part of the literature.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 METHODOLOGY

The methodology that shall be adopted in this study is the ordinary regression, applying ordinary least square (OLS). The reasons for choosing this method are as follows:

i. The parameter estimates obtained by ordinary least squares have some optimal properties which include: Linearity, unbiasness and minimum variance.

ii. The computational procedure of OLS is fairly simple as to compared with other econometric techniques and data requirement are not excessive.

iii. The mechanics of OLS are simple to understand.

iv. OLS is an essential component of most other econometric techniques.

Infact, OLS is the most appropriate method because all other techniques involves the application of least square method modified in some respect (Koutsoyians 1987).

3.1 MODEL SPECIFICATION

The specification of model involves the expression of the relationship between variables in mathematical form. That is, to specify the model with which the economic phenomenon will be explored empirically (Koutsayians 1977). It involves the determination of the following:

i. The dependent and independent variables which will be included in the model.
ii. The a prior: theoretical expectation about the signs of the parameters of the function.
iii. The mathematical form of the model.

Most economic models seems to agree that growth in industrial sector (industrial output), interest rate and foreign direct investment are important variables which lead to economic growth of any nation.

In this study, it is assumed that the impact of industrial sector on economic development is determined by industrial output, interest rate and foreign direct investment.

Hence, Gross Domestic Product (GDP) is assumed to be dependent variable, which depends on the industrial output, (INDO) Foreign Direct Investment (FDI) and Interest Rate (INT).

In functional form, the model is specified thus:

GDP = F(INDO, FDI, INT)…… (1)

In linear form equation (v) becomes

GDP = $a_O + a_1$, INDO + a_2 FDI + a_3 INT + U… (2)

The variables are defined as follows:

GDP = Gross Domestic Product

INDO = Industrial Output

FDI = Foreign Direct Investment

INT = Interest Rate

U = Error Term

Based on the above equation, we should expect the following finding, the industrial output, foreign direct investment will be positive (>0) while that of interest rate shall be negative (<0).

3.2 METHOD OF EVALUATION

To evaluate the working hypothesis, the following test statistics would be used.

i. F - RATIO

This is used to test for the overall significant of the regression model. It aims at finding out weather the explanatory variable have any significant influence on the dependent variable.

ii. T - STATISTICS

This is used to test the statistical significance of the coefficients of the model.

iii. COEFFICIENT OF MULTIPLE DETERMINATION (R^2)

This will be used to test the goodness of fit of the regression line.

DECISION RULE:

F - RATIO

If the probability at which the calculated F-ratio (Fcal) is less than the critical or chosen level of significant (0.05), the null hypothesis (Ho) is rejected which shows that the regression is significant.

T - STATISTICS

If the probability at which the calculated T-value (Tcal) is significant in the regression for any independent variable is less or equal to the chosen level of significant, the null hypothesis (Ho) is rejected, which shows that the independent variable is significant in the model.

COEFFICIENT OF MULTIPLE DETERMINATION (R^2)

The value of R^2 lies between O and 1. Thus, the higher the percentage variation of the dependent variable that is explained by the regression plane. That is, the closer the value 1, the better the fit, and the closer to zero, the worse the fit.

3.3 MODEL JUSTIFICATION

The preference of the model (OLS) is motivated by its appealing statistical and economic properties. The OLS model is simple and easier to interpret and above all, it is more reliable because of its efficiency, consistency and un-biasness properties. This means that error term has a minimum and equal variance (Gujarati 2004).

3.4 DATA SOURCES AND THE ECONOMISTRIC SOFTWARE

The behavioural relationship of the model will be estimated by OLS technique. The data for this study were mainly of secondary nature and were gathered through the following sources;

i. Statistical bulletin of the CBN
ii. CBN annual reports and statements of account (various issues)
iii. Economic and financial review of the CBN (various issues)

ECONOMETRIC SOFTWARE

This study adopted the use of PC-give version 8.0 among other softwares for the analysis . The choice of this software is informed from its ability to represent a better result of all assumptions OLS.

CHAPTER FOUR

4.0 PRESENTATION AND ANALYSIS OF RESULT.

4.1 REGRESSION RESULT:

Dependent variable: exchange rate.

Method: Ordinary Least Square.

Period of study: 1985 – 2010

Included Observations: 26

Variable	Coefficient	Standard error	t-statistics	t-prob.	PartyRỳ
Constant	**-3.6077**	4.0261	-0.896	0.3799	0.0352
FDI	53.456	20.323	2.630	0.0153	0.2392
INT	96162	1.9581	0.491	0.6282	0.0108
INDO	-0.19603	0.95520	-0.205	0.8393	0.0019

R^2 = 0.769942 F{3, 22} = 24.543 {0.0000}

DW = 1.98

4.2 RESULT INTERPRETATION

The value of the intercept which is -3.6077 shows that the Nigerian economy will experience a -3.6077 decrease when all other variables are held constant.

The estimate coefficients which are 53.456 {FDI} shows that a unit change in FOREIGN DIRECT INVESTMENT will cause a 53.456% increase in GDP, 96162 {INT} shows that a unit change in INTEREST RATE will cause a 96162% increase in GDP, -0.19603 {INDO} shows that a unit change in INDUSTRIAL OUTPUT will cause a -0.19603% decrease in GDP.

4.2.1 Economic Apriori Criteria:

The test is aimed at determining whether the signs and sizes of the results are in line with what economic theory postulates.

Therefore, the variable under consideration and their parameter exhibition of a priori signs have been summarized in the table below.

Variables	Expected signs	Estimate	Remark
FDI	+	$\beta > 0$	Conform
INT	-	$\beta > 0$	Not Conform
INDO	+	$\beta < 0$	Not Conform

From the above table, it is observed that FDI conforms while INT and INDO do not conform to the economic theories.

A positive relationship which exists between FDI, and GROSS DOMESTIC PRODUCT indicates that an increase in FDI, will result in a positive change in the Growth Rate of GROSS DOMESTIC PRODUCT.

4.2.2 Statistical Criteria {First order test}

a. Coefficient of Multiple Determinants {R^2}:

The R^2 {R-Squared} which measures the overall goodness of fit of the entire regression, shows a value of 0.769942 (76.9942% approximately 77%). This indicates that the

independent variables account for about 77% of the variations in the dependent variable.

b. The Student's T-test:

The test is carried out, to check for the individual significance of the variables which Statistically, the t-statistics of the variable under consideration is interpreted based on the following statement of hypothesis.

H_0: The estimated parameters are not significant.

H_1: The estimated parameters are significant.

Decision Rule:

If t-calculated > t-tabulated, we reject the null hypothesis {H_0} and accept the alternative hypothesis {H_1}, and if otherwise, we select the null hypothesis {H_0} and reject the alternative hypothesis {H_1}.

Level of significance = α at 5% =

= 0.05

Degree of freedom: n-k

Where n: sample size.

K: Number of parameter.

The t-test is summarized in the table below:

Variables {t-value}	t-tab	Remark
FDI {2.630}	± 2.074	Significant
INT {0.491}	± 2.074	Insignificant
INDO {-0.205}	± 2.074	Insignificant

The t-statistics is used to test for individual significance of the estimated parameters {β_1, β_2, and β_3}.

From the table above, we can deduce that FDI {2.630} is greater than 2.074 which represents the t-tabulated implying that FDI is statistically significant.

On the other hand, the intercept {-0.896}, INT {0.491} and INDO {-0.205} are less than the t-tabulated {±2.074} signifying that the intercept, INT and INDO are statistically insignificant.

C. F-Statistics:

The F-statistics is used to test for simultaneous significance of all the estimated parameters.

Decision Rule:

If the f-calculated is greater than the f-tabulated {f-cal > f-tab} reject the null hypothesis {H_0} that the overall estimate is not significant and conclude that the overall estimate is statistically significant.

From the result, f-calculated {24.543} is greater that the f-tabulated that is, f-cal > f-tab. Hence, we reject the null hypothesis {H_0} that the overall estimate has a good fit which implies that our independent variables are simultaneously signify cant.

4.2.3 Econometric Criteria.

a. Test for Autocorrelation:

One of the underlying assumptions of the ordinary least square is that the succession values of the random variables are temporarily independent. In the context of the series analysis, this means that an error {Ut} is not correlated with one or more of previous errors $\{U_{t-1}\}$. The problem is usually dictated with Durbin-Watson {DW} statistics.

The Durbin-Watson's test compares the empirical d*, dLa and du in d-u tables to their transforms $\{4-d_L\}$ and $\{4-d_U\}$.

Decision Rule:

- If $d^* < d_L$, then we reject the null hypothesis of no and correlation and accept that there is positive autocorrelation of first order.
- If $d^* > \{4-d_L\}$, we reject the null hypothesis and accept that there is negative autocorrelation of the first order.

- If $d_U < d^* < \{4-d_U\}$, we accept the null hypothesis of no autocorrelation.
- If $d_L < d^* < d_U$ or if $\{4-d_U\} < d^* < \{4-d_L\}$, the test is inconclusive.

Where: d_L = Lower limit

D_U = Upper limit

D* = Durbin Watson.

From our regression result, we have;

$d^* = 1.98$

$d_L = 1.143$

$d_U = 1.652$

$4-d_L = 2.857$

$4-d_U = 2.348$

Conclusion:

Since If d_U {1.652} < d* {1.98} < {4-d_U} {2.348}, we accept the null hypothesis of no autocorrelation.

b. Normality Test for Residual:

The Jarque-Bera test for normality is an asymptotic, or large-sample, test. It is also based on the ordinary least square residuals. This test first computes the skewness and kurtosis measures of the ordinary least square residuals and uses the chi-square distribution {Gujarati, 2004}.

The hypothesis is:

H_0: $X_1 = 0$ normally distributed.

H_1: $X_1 \neq 0$ not normally distributed.

At 5% significance level with 2 degree of freedom.

JB = 16.077

While critical JB > {$X^2_{\{2\}}$df} = 5.99147

Conclusion:

Since 16.077 > 5.99147 at 5% level of significance, we reject the null hypothesis and conclude that the error term do not follow a normal distribution.

c Test for Heteroscedasticity:

Heteroscedasticity has never been a reason to throw out an otherwise good model, but it should not be ignored either {Mankiw Na, 1990}.

This test is carried out using White's general heteroscedasticity test {with cross terms}. The test asymptotically follows a chi-square distribution with degree of freedom equal to the number of regressors {excluding the constant term}. The auxiliary model can be stated thus:

$$Ut = \beta_0 + \beta_1 FDI + \beta_2 INT + \beta_3 INDO + \beta_4 FDI^2 + \beta_5 INT^2 + \beta_6 INDO^2 + Vi.$$

Where Vi = error term.

This model is run and an auxiliary R^2 from it is obtained.

The hypothesis test is stated thus;

H_0: $\beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = 0$ {Homoscedasticity}

H_1: $\beta_1 \neq \beta_2 \neq \beta_3 \neq \beta_4 = \beta_5 \neq \beta_6 = 0$ {Heteroscedasticity}.

Note: the sample size {n} multiplies by the R^2 obtained from the auxiliary regression asymptotically follows the chi-square distribution with degree of freedom equal to the number of regressors {excluding constant term} in the auxiliary regression.

Using p.c give 8.0 software package saves us the above rigour by calculating the chi-square value.

Decision Rule:

Reject the null hypothesis if $X^2_{cal} > X^2$ at 5% level of significance, if otherwise, accept the null hypothesis. From the obtained results, $X^2_{cal} = 20.138 > X^2\ 0.05\ \{6\} = 12.6$ we

therefore accept the alternative hypothesis of heteroscedasticity showing that the error terms do not have a constant variance.

d Test for Multicollinearity:

Originally it meant the existence of a "perfect" or exact, linear relationship among some or all explanatory variables of a regression model. The tests were carried out using correlation matrix. According to Barry and Feldman {1985} criteria; "Multicollinearity is not a problem if no correlation exceeds 0.80".

	GDP	FDI	INT	INDO	REMARK
GDP	1.000				-
FDI	0.8756	1.000			M
INT	-**0.08024**	-0.1519	1.000		Nm,Nm
INDO	0.8321	0.9593	0.1815	1.000	M, M, Nm

Where M = Presence of multicollinearity

Nm = No multicollinearity.

From the above table, we can conclude that multicollinearity does not exists in INT and GDP, INT and FDI, INDO and INT variables.

4.3 POLICY IMPLICATION

So far, we have critically analyzed the research findings. However, it is important at this point to state the implication of our findings.

An examination of model indicated that changes in industrial output exerted a significant influence on the country's Gross Domestic Product in the study period (1985-2010). And also interest rate influences insignificantly on the GDP. The negative impact is due to misuse of public funding by public office holders, high rate of interest and lack of deregulation of interest rate in the economy.

Foreign direct investment was found to be significant during the study period.

CHAPTER FIVE

SUMMARY, POLICY RECOMMENDATIONS AND CONCLUSION

5.0 SUMMARY

This research work is an econometric study of the impact of industrialization to economic development of Nigeria (1985-2011). The research employed the ordinary least square regression method.

The explanatory data employed to analyze the impact of industrialization to economic development include: Industrial output, foreign investment and interest rate.

The regression result shows that, the estimate coefficient of foreign direct investment have a positive relationship with economic development in Nigeria.

The regression result shows that the estimate coefficient of interest rate and industrial output are inversely related to economic development in Nigeria. The coefficient of interest rate and industrial output was not statistically significant at 5% level of significance. Industrial output which is the measure of output of

the industrial sector of the economy are not usually significant to economic growth because high levels of industrial production leads to uncontrolled levels of consumption and rapid inflation. While interest rate which is the cost of borrowing are not usually significant to economic growth because it is widely known that high interest rate discourages investment.

The T-test result shows that only foreign direct investment is statistically significant at 5% level of significance while that of interest rate and industrial output are not statistically significance at 5% level of significance.

On the first order statistic test of significance, the multiple determination R^2 reveals that 77% variation of economic development is determined by variations in the dependent variable which include industrial output, foreign direct investment and interest rate while 23% remained unexplained. The F-test shows that the model is statistically significant at 5% level of significance.

5.1 POLICY RECOMMENDATIONS

Industrial sector is continues to be the backbone of economic growth and development based on this fact, and revelation from the empirical analysis conducted on this sector in Nigeria, we make the following policy pronouncement.

1. Creating a conducive environment to achieve strong performance of the industrial sector.
2. Sustaining efforts at generating local materials for infant industries and support the campaign of local contempt initiative.
3. Appropriate package of incentive to induce entrepreneurs to undertake profitable investment particularly for export oriented industries.
4. The deregulation of interest rate should be pursued to a local conclusion. This is because the problem of high interest rate has actually frustrates the efforts of prospective investors from acquiring loan for investment which has in turn affected and has negative implications for the economy.

5. The interest rate market must be closely monitored. However, the monetary authorities must intervene in this market from time to time in order to prevent any possible wild savings of the interest rate.
6. Development of strong institutional structures to support the growth and development of a sustainable small and medium enterprises (SMES) sub-sectors.

5.2 CONCLUSION

Based on the above revelation in this study, we conclude that the industrial output has a significant impact on economic growth and development in Nigeria. Furthermore, the analysis reveals that interest rate has a negative impact on economic development in Nigeria though not significant.

To achieve the level of economic growth and development that is desired, the government have to strive to regulate the interest rate through liberalization or deregulation of interest rate in Nigeria. With decrease, rate of interest, investment would increase to encourage economic growth and development.

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