Appraisal of Industrialization Strategies in Nigeria

Oguru, Ayibamiebi Foster

ABSTRACT

This paper attempts to examine and evaluate industrial policies and incentives that had been put in place to stimulate the industrial sector over time. In using secondary data; the impact of government credit to the industrial sector and provision of foreign exchange for the importation of machinery and equipment on industrial output was examined. The OLS routine of econometrics methodology was employed, to run the multiple regressions. Consequently, the following findings were reached. The explanatory variables, credit to private industrial sector and provision of machinery and equipment have positive impact on industrial output.

INTRODUCTION

Less- developed countries have meandered from various policies and strategies such as import-substitution, export –promotion, trade liberalization and creating all kinds of incentives to attract foreign investment. Nigeria in particular, has experimented various industrial policies for over five decades with the objective of diversifying the economic base of the country.

The government had both at federal and state levels and different times made deliberate attempts at industrialization, particularly in the area of manufacturing. The aims as stated in plan documents and budget speeches were provision of employment opportunities, reducing the country dependence on foreign sources of manufactured goods and so on.

It is now widely accepted that the road to economic development of a country lies in the diversification of her economy, in which industrialization has crucial role to play. Industrialization is seen as the bedrock of economic growth and development of every country.

REVIEW OF LITERATURE

According to Onimode (1988), industrialization is the best index of economic progress, with respect to such attributes as the measurement of national productive capacity, manufacturing output, technological development, modern employment opportunities and overall standard of living. Bhagwati (1988), viewed industrialization in a broader way, according him, industrialization denotes the organization of production in business enterprises, characterized specially by division of labour and involving the application of technology, chemical and electrical power to supplement and replace human labour. According to Moro (1997), industrialization is seen as first of all establishing small scale industries as a nation first step whereby skill techniques and markets may be developed from large scale operations. This therefore, implies that , to start through small scale industries is the best way forward to grow large scale industries and industrialization parse.

INDUSTRIALIZATION STRATEGIES IN NIGERIA

Nigeria and other African countries have adopted some industrial policies in their development efforts. Anyanwu et al (1997), identified four industrialization strategies

adopted in Nigeria as; import-substitution, export-promotion, balanced development strategy and local resource based strategy.

IMPORT-SUBSTITUTION STRATEGY:

This refers to a process of making at home some consumer and intermediate goods that were previously imported, thereby replacing some imported goods with domestic products.

EXPORT-PROMOTION STRATEGY:

This strategy enables a country lay emphasis on providing efficiently goods for export. Realizing pitfalls from the import substitution strategy, Nigeria adopted the export promotion policy. In order to encourage this, the Nigeria export promotion board was established.

BALANCED DEVELOPMENT STRATEGY

This strategy was adopted as a result the lopsided development of the industrial sector. The aim of the balanced development strategy was to encourage balance development of all industries, so as to promote greater linkages within the sector. That is, to create intra and inter sectorial linkages, in order to increases inter industry transactions.

LOCAL RESOURCE BASED STRATEGY

This strategy was adopted due to the stochastic nature of the petroleum sector. It is the local development and sourcing of raw materials by industries in the country .In order to pursue this strategy the Nigerian government had adopted various policies and established quite a good number of institutions, Example of such institutions is the Nigerian Content Monitoring and Development Board. The main objective behind the creation of this board is to improve the local content in the petroleum and manufacturing sectors in the country.

GOVERNMENT INCENTIVES TO ENCOURAGE INDUSTRIES IN NIGERIA

The Nigerian government had over time adopted different specific policies to drive the industrialization process, with the aim to actualize the above broad strategies.

Tax holiday: Infant industries are exempted from the payment of profit tax for some years of operation, such as five years. The aim isto enable such industries build up enough funds for expansion purposes.

Tariff Protection: This is the imposition of heavy import duties on foreign goods so as to protect local industries from international competition.

Provision of loans: Government had through the bank of industry, central bank and other financial institutions provided loans to industries as a way to boost industrialization in the country.

Direct participation: Government had also participated directly in certain strategic industries either alone or through joint participation with foreigners or local entrepreneurs. Example is the Ajaokuta steel company.

Besides the above mentioned incentives, others such as provision of accelerated depression allowance, approved user scheme, export incentives and concessionary allocation of foreign exchange had been directed to the industrial sector with aim to building a strong industrial base in the country.

DATA/METHODOLOGY

Secondary data were used in the study. The data were collected from Central Bank Statistical Bulletin and National Bureau of Statistics. The OLS method of econometrics methodology was employed. Multiple regressions were used for estimationof parameters of the explanatory variables.

Specification of the model

$Y = F(x_1 x_2)$

$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2$

$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2$

$Y = \beta_0 + \beta_1 x_2 + \beta_2 x_2 + u$

Where,

Y = Industrial output at current market prices in Billion Naira.

X_1 = Government credits to private investors; as incentives to industrial sector in Billion Naira.

X_2 = Imports on machinery and equipment: as proxy to industrial policy (in Naira Billion).

D. DATA PRESENTATION, ANALYSIS AND DISCUSSION

Table 1: Presentation of Data

Year	Industrial output at market prices (₦Billion) (Y)	Government credit to private investors (₦Billion) (X₁)	Value of imports on machinery & Equipment (₦Billion) (X₂)
2002	2,178.51	930.49	378.80
2003	2,902.81	1,096.54	498.80
2004	3,992.28	1,421.66	458.90
2005	5,080.16	1,838.39	613.40
2006	6,157.84	2,290.62	680.80
2007	6,800.15	3,680.09	856.70
2008	8,072.50	6,941.38	1,141.80
2009	7,518.88	9,147.42	2,359.30
2010	12,033.20	10,157.02	3,762.60
2011	15,626.42	10,660.07	3,219.30
2012	16,975.42	14,647.28	2,217.20
2013	17,614.29	15,751.84	2,166.30
2014	18,402.19	17,129.68	2,011.40
2015	15,073.78	18,675.47	1,996.20
2016	14,372.78	21,082.72	12,232.30

Source: Central Bank statistical bulletin, National bureau of statistics

Presentation of Results and Discussion

Table 2: Presentation of Results

Variable	Coefficient	Standard error	t-statistics
C	2625.4	1162.470	2.2585
X_1	0.6108	0.1232	4.9589
X_2	1.2478	0.8188	1.5241

Source: Computed from 2.view regression results

$$\hat{Y} = 2625.4 + 0.6108x_1 + 1.2478x_2$$

$$S_E (1162.470)(0.1231)(0.8188)$$

$$t_c (2.2585)(4.9589)(1.5242)$$

$$t_t 0.025 = 2.179$$

$$R_2 = 0.8558$$

$$\overline{R_2} = 0.8318$$

$$F_c = 35.6090$$

$$F_t = 3.89$$

at 5% significant level.

Where: R_2 is coefficient of determination

$\overline{R_2}$ is Adjusted coefficient of determination.

Statistical test o f the significance of the estimates.

i. Student t-test

From the results β_1 that is the parameters of variable X_1 are statistically significant:

$t_c > t_t = 4.9589 > 2.179$.

β_2 is not statistically significant; $t_c < t_{tv} = 1.5241 < 2.179$.

ii. Test of overall significance – F-Ratio test

From the results the F- Statistic 35.6090 is greater than F- table value at 5 percent level of significance, which is 3.89; it then implies that on the overall, the parameters β_1 and β_2 of the variables are statistically significant. Hence, the regessors determine the behavior of the regressand.

The adjusted coefficient of determination R is 0.8318. This implies that the regression line has a good fit. It shows that 83 percent of total variation of industrial output in Nigeria is accounted for by the regressors - credit facility (finance) and provision of Machinery & Equipment.

It is evident from the results that there is positive relationship between the regressors and the regreand. Effective and efficient policy formulation and implementation in this regard will improve industrial output in the country.

E. CONCLUSION AND RECOMMENDATIONS

Industrial policies had not yielded desired practical results.

Local value- added from industrial output seems to be too low, as industries depend largely on foreign machinery and equipment and other raw materials.

Recommendations

- Industrial policies should be properly coordinated and implemented.

- Industrial policies should be based on economic principles.

- Local resource strategy should be re-strategized and re-enforced.

- Government should promote and encourage Research & Development.

- Government should strengthen the campaign of" buy made in Nigeria products" to create market for domestic firms.

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