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The imperative for energizing the industrial transformation in Nigeria.

D. Olu Ajakaiye

A. Sesan Ayodele

THE IMPERATIVE FOR ENERGIZING THE INDUSTRIAL TRANSFORMATION IN NIGERIA

BY

PROF. D. OLU AJAKAIYE
&
PROF. A. 'SESAN AYODELE

Background Information

The primary focus of economic management either through economic regulation or deregulation, particularly, in a developing country, is effective economic development /transformation. Such an effective economic transformation is expected to reflect in the improvement of the quality and standard of living of the populace. Improving people's quality of life involves, according to Tadaro (1977):

i. "raising people's living levels so much so that their in come consumption level of food, medical services, education, utilities and social services expand through relevant economic growth processes; and,

ii. Creating conditions conducive to the growth of peoples self-esteem through the establishment of social, political and economic systems and institutions which promote human dignity and respect."

In order to expedite and reinforce the pace of the process of attaining the perceived level of improved quality and high standard of living, Boeninger (1991), proposed the need for government to provide for the prevalence of some socio-economic transformation conditions which involve:

> "increasing people's freedom to choose by enlarging the range of their choice variables, for example, increasing the varieties of consumer goods and services at reasonable costs".

Perhaps, against the background of these desirable conceptions and goals of economic transformation/development, industrialization is widely accepted by policy makers, economic planners, researchers and professionals, irrespective of their ideological disposition, to be one of the most reliable means of raising the standard of living of the populace. In this regard, successive governments in the country have usually accepted and pursued industrialization as a way of transforming the entire Nigeria economy. Thus, the country aspired in the 1960s industrially, hoping to use the proceeds from the commodity boom to energize the industrial transformation process. This aspiration became reinforced in the 1970s with the wind fall gains from the crude oil price explosions of 1972/73 and 1979/80.

The regulatory approach under which industrialization strategies were adopted in Nigeria up to the mid 1980s did not result in any desirable results. The near total collapse of the global crude oil prices and the subsequent economic crisis that followed it resulted in the accumulation of huge external and internal debts, chronic budget deficit with the attending inflationary pressures and serious economic decline in ~~all its ramifications~~ with the accompanying high unemployment rates. These created some transformation challenges which prompted Nigeria to adopt the World Bank/IMF endorsed Structural Adjustment Programme (SAP) in July, 1986, in order to among several objectives:

i. restru cture and diversify the productive base of the economy;

ii. achieve fiscal and balance of payments viability; and

iii. lessen the dominance of unproductive investments.

Towards these ends, there was a reversal of Nigeria's development approach to economic deregulation and liberalization, relying on market forces to allocate available resources. Within this new parading are such policies that relate to:

i. trade and payments liberation;

ii. tariff reform and rationalization to promote industrial diversification;

iii. deregulation and greater reliance on market forces;

iv. adoption of appropriate pricing for all commodities;

v. rationalization and privatization of public Enter-Prise (PEs):

vi. strengthening existing demand management policies; and

vii. adoption of measures to stimulate production and broaden the supply base of the economy.

In spite of these elaborate which incidentally would have favoured effective industrialization process in an economically conducive environment, most of the results were socio-economically undesirable due to some SAP associated development problems.

Against the background of this disappointment, Nigeria's Vision 2010 Report (1998) aims at creating a stable macroeconomic environment that will provide a conducive atmosphere for a dynamic, long term self-sustaining growth and development with the sustainable economic development paradigm. Towards this end, economic planning and policy instruments seem to be currently directed at the development of the key productive sectors of the economy such as agriculture, industry, particularly, manufacturing and commerce for the promotion of the pace of industrialization in Nigeria. In this regard, there is the urgent need for policy instruments to be properly focused on the emphasis on the imperative for energizing the past poorly executed industrial transformation process in the country. To this end, this paper attempts to draw the attention of government, policy makers, economic planners, researchers and industrialists to some areas of the imperative for energizing Nigeria's industrial transformation.

Industrial Development in Nigeria: An Overview:

Prior to the discovery of crude oil in commercial quantum in Nigeria, the country depended largely on agricultural primary products for the generation of foreign exchange. The country therefore constituted one major agrarian country in Africa. However, immediately after independence (1960), the need arose to adopt an import substitution industrialization to reduce the heavy dependence on the external sector for the supply of manufactures products, capital goods and equipment. Government subsequently created some industrial incentives to encourage foreign investors. Foreign entrepreneurs were invited to champion Nigeria's industrialization because of the scarcity of investible funds in the country.

In spite of the incentives created, the little investment that came were not focused on manufacturing but into commerce to make quick money. The import substitution industrialization later yielded place to export promotion industrialization, particularly after the 1972/73 windfall gains from the crude oil price explosion at the global crude oil market. It may be recalled that by 1970 or thereabout, crude oil sold for less than \$2 per barrel (pb) with Nigeria producing less than 0.5 million barrels per day (mbd). However, by 1972/73 the price rose from \$2pb to about \$40 pb with crude oil production equally rising to reach about 2.5mbd in 1980. This development resulted in the erosion of the graet reliance on agriculture so much so that its contribution to the Gross Domestic Product (GDP) substantially declined from about 65% in the 1960's to about 20% in the late 1970s yielding place to mining.

By this time (1970s), the manufacturing sector had depended mainly on the external sector for foreign exchange to purchase both equipment, spare parts and intermediate inputs. There was phenomenal increase in the performance of the sector within the mid-1970s and 1980s period fuelled principally from the massive inflow of foreign exchange. However, the near collapse of the economy's driving force which started in 1981 reverse the phenomenal increase in the performance of the manufacturing sector in Nigeria. Between 1981 and 1983, the sector witnessed stagnation and thereafter its performance decline and this can be attributed to two major factors viz:

i. a weak demand due to the sharp fall in real income arising from the economy recession and high product prices;

ii. low export market penetration due to poor quality control and the high cost of production due to the high cost of imported inputs (Iwayemi, 1994)

Perhaps, against the background of this development, low productivity growth became one major constraining features of the Nigerian manufacturing sector. Infact, the analysis in Chete and Adenikinju (1995) indicate that the sector recorded a negative growth rate of -0.57% in total factor productivity growth within the 1962/85 period. The analysis also indicate that the positive growth in manufacturing value added within that period was ascribed to the growth in factor accumulation in the boom period rather than an enhanced efficiency.

It is important to recognise that by the mid-1980s Nigeria had completely been transformed into a monolithic, inefficient and import-dependent economy. Thus, the need was created to evolve, from that structure, a diversified, dynamic and export oriented economy which constituted one of Nigerian's objectives of adopting the Structural Adjustment Programme (SAP)in July, 1986. The manufacturing sector was expected to play a central role in this process of evolution, hence, SAP proposed the enhancement of the productive of the manufacturing sector, particularly, against the backdrop of the declining oil revenue to reinforce factor accumulation and imports within the process of economic deregulation.

SAP initiated some comprehensive reform programmes which advocated minimal government influence in trade and other spheres of industrialization. These programme embodied several policies aimed at the enhancement of the pace of industrialization in the country. Whereas some of these policies were targeted at the macro-economy, others were primarily aimed at influencing the manufacturing sector. Such policies included:

i. Technical devaluation of the naira to alter domestic prices in favour of manufactured exports through the floating exchange rate system;

ii. The increase of capital allowances for plant and machinery;

iii. The introduction of the tax free dividends for foreign personal and corporate equity holders within the 1987/92 period;

iv. Special tax incentives of about 140% relief in respect of R&D expenses on raw materials development;

v. Tax holidays for entrepreneurs willing to invest in economically disadvantaged areas;

vi. The establishment of domiciliary accounts for exports to maintain export earnings in foreign denominated currency;

vii. The adoption of the privatization and commercialization policy for the enhancement of industrial productivity and efficiency;

viii. The promulgation of the Export Incentives Decree of 1986;

ix. The establishment of an Export Guarantee and Insurance Scheme to assist Nigerian firms to compete at the International market effectively;

In the area of cash inducements, an export expansion fund was created for the provision of cash inducements for exporters who would have provided a minimum of N50,000.00 worth of semi-manufactured or manufactured products. Recognising the need to facilitate and ease the processes of the incorporation, registration and supervision of industrial enterprises, the 1990 Companies and Allied Matters Decree was promulgated. On a final note on the incentives to put industrialization on its proper course in Nigeria, government provided some institutional supports via the establishment of:

i. The Industrial Development Coordination Committee (DCC);

ii. The Industrial Data Bank (IDB) and Industrial Training Fund (ITF);

iii. The Raw Materials Research and Development Council (RMRDC);

iv. The Project Development Agency (PODA);

v. The Federal Institute of Industrial Research, Oshodi (FIIRO);

vi. The Standard Organisation of Nigeria (SON); and

vii. The Investment Information and Promotion Centre (IIPC).

Relevant laws were made in most of these industrial policy areas to energize the processes of effective industrialization in Nigeria. Most of these policies and the laws protecting their implementation are documented in what constitute the on-going Industrial Policy of Nigeria (FRN. 1998).

It is evident from the foregoing that in the attempt to transform a depleting resources base economy to an industrialized self-sustaining economy some strategic instruments had been put in place in Nigeria, particularly, since independence (1960). Under these policy instruments, regional governments made efforts to create critical industrial bases to accommodate agro-allied industries. In course of this attempt came the political crisis of the mid-1960's which culminated in a protracted military rule in Nigeria with its grave consequences on the pace of Nigeria's industrialization process.

However, the commodities and crude oil booms with their windfall gains in the 1970s tended to bring some financial relief in Nigeria's process industrial transformation. In this regard and given the afore highlighted industrial policies, it was assumed that Nigeria would use the crude oil revenue for effective industrial transformation. Thus, relying on the windfall gains from crude oil, the country embarked on the establishment of major industrial ventures such as: the Peugeot and Volkswagen Assembly plants; and, the Petro-chemical plants, among several others.

By the mid-1980s, the crude oil prices had actually collapsed having declined from about $40pd in 1980 to about $8pd, within the first quarter of 1986. In fact, before the mid-1980s the commodity prices at the global market had also actually collapsed. This suggests that if mining activities had not eroded agricultural activities in Nigeria, the economic crisis which accompanied the collapse of the crude oil would have come earlier than the time it came because of the earlier collapse of the commodity prices. The intention to ward off the implication of the economic crises resulted in the adoption of SAP in Nigeria.

SAP and Industrialization in Nigeria:

It is important to recognise that the imperative for energizing the industrial transformation in a country, particularly since over a decades ago may not be regarded as a peculiarity of Nigeria alone. In fact, the on-going globalization trend has reinforced the growing debate on common markets, free trade areas and the need for a new international economic order. As a consequence of this globalization trend, a new World Trade Organization (WTO) was established in 1995 to superseded the earlier General Agreement on Tariffs and Trade (GATT). There is also the formation of the world American Free Trade Agreement (NAFTA) zone.

These developments raise the suspicion that there could be the possibility of transforming the trade blocs into couldrons of hostility that could culminate in socio-economic and industrial war, particularly against Third World Countries (Nigeria included). The economic development message from the foregoing under score the predominance of keen industrial competition globally. In fact, the craze for economic liberalization, reinforced by economic deregulation underline most of the economic development policy decisions in many countries to create incentives to save and move resources around on the basis of efficient resources allocation. The important question at this stage relates to wither Nigeria in its process of industrialization to create incentives to save and allow for the inflow of investible funds on the basis of efficient resource allocation within the on-going processes of globalization coupled with economic liberalization and deregulation paradigms.

Certain facts on the Nigerian manufacturing sector are apparent from the implications of the implementation of SAP policies in Nigeria as an externally dependent monolithic economy. These are:

i. The unstable political economy, particularly, during the protracted military rule did not allow for the inflow of large scale foreign investments;

ii. The weak base for competition at the international market for Nigeria's manufactured products had been further eroded by excessive cost of production and poor quality of its products

iii. Arising from the gross erosion of the naira value to the depreciating exchange rate is the decline in the demand for goods which has culminated in large inventory in the manufacturing sector.

These development in spite of the impressive market size of the economy coupled with its high industrial potentials, do not augur well for a conducive environment for industrialization. Thus, the imperative for energizing the industrial transformation in Nigeria lies in detecting the causes of the afore-mentioned anormalies and subsequently eliminating them in order to create a conducive industrial environment for effective industrialization.

In this regard, the issue is to find out the causes of the erosion of the naira value, the decline in peoples purchasing power and high production cost in Nigeria. Table 1 therefore presents statistical information on the inflation, exchange, savings deposit and lending rates respectively in Nigeria within the 1980/98 period. It is apparent from this table that:

Table 1 Exchange, Savings and Lending Rates in Nigeria: 1980-98

Year	Inflation Rate	Exchange Rate (N:$)	Savings Deposit Rate	Lending Rate	Capacity Utilization
1980	9.9	0.5464	6.0	9.9	70.1
1981	20.9	0.6100	6.0	10.0	73.3
1982	7.7	0.6729	7.5	11.75	63.6
1983	23.2	0.7241	9.5	11.50	49.7
1984	39.6	0.7649	9.5	13.0	43.0
1985	5.5	0.8938	9.5	11.75	38.3
1986	5.4	2.0206	9.5	12.0	38.8
1987	10.2	4.0179	14.0	19.20	40.4
1988	38.3	4.5367	14.5	17.60	42.4
1989	40.9	7.3916	16.4	24.6	43.8
1990	7.5	8.0378	18.8	27.7	40.3
1991	13.0	9.9095	14.29	20.80	42.0
1992	44.5	17.2984	16.1	31.20	38.1
1993	54.2	22.3268	16.66	38.1	37.2
1994	57.0	21.8861	12.61	21.0	30.4
1995	72.8	21.8861	12.61	21.0	29.3
1996	29.3	21.8861	10.11	21.0	32.5
1997	8.5	21.8861	6.10	20.25	37.2
1998	10.0	21.8861	5.2	21.40	32.4

Source: CBN. Annual Report and Statement of Accounts (Many Series).

i. Inflation rate rose from 9.9% in 1980 to 40.9% in 1989; 72.8% in 1995 before declining to abou 10% in 1998.

ii. Saving deposit was 6% in 1980 relative to the lending rate of 9.9%. That is the savings - cum - lending rates gap was about 3.9% in 1980. This gap in favour of the lending rate rose persistently to 8.9% in 1990; 21.44% in 1993 before slightly declining to about 16.2% in 1998.

iii. The exchange rate started from a very low base of N0.546 : $1 in 1980 and depreciated persistently to about N7.4 : $1 in 1989; N17.3 :$1 in 1992; N21.9 : $1 in 1996 and about N100 : $1 in 1999.

iv. Capacity under - utilization worsened from 70.1% in 1980 to 42.0% in 1990 and 32.4% in 1998.

It is therefore apparent from these statistics that level of interest rates remains unattractive and the spread between deposit and lending rates remain high, possibly, reflecting inflationary expectations, high risk premiums and/or poor risk assessment on the financial sector. These negative financial developments within an efficient banking system under deregulatory device constitute one major source of high cost of production in Nigeria.

In addition to the inefficiency of the banking system in Nigeria, is negative implications of government indecision on what to do with the respect of Public Utilities in Nigeria coupled with the impacts of the deregulation of the tariffs of utilities. For example, there is the persistent utilities supply gaps which are partly exacerbated by production inefficiencies. This has elicited expensive demand responses as industrial substitute inefficient and costly alternative for the supply of these utilities. This applies as much to electricity as to telephone, postal, water and transport services, particularly, railways. Thus, the significant constraints imposed on the process of industrialization is the deficiencies in the continued public sector provision of these services. In spite of their deficiencies, the tariff indices of electricity, postal services and telecommunication reached 883; 2500; and 5000 by 1997 with 1985 = 100 (Obadan & Ayodele, 1998). Certainly, these are not good enough to allow for an effective industrialization process in a developing country particularly within the globalization process.

The Way Out

Given the foreign uncompetitive and high cost economic environment, the imperative for energizing the industrial transformation in Nigeria, is to create a conducive environment under which there would be free inflow of foreign investible funds. This may not be possible unless the current industrial environment changes to one whose enabling environment encourages industrial policy instruments that make Nigeria a least cost industrial producer. This suggests something drastic must be done policy-wise to modify the existing high bank-lending rate to make it supportive to the industrialization process. Besides, the depreciation of the exchange rate would have to yield place to appreciation by not allowing the commercial banks to remain a foreign exchange allocator rather than foreign exchange intermediary.

This suggests that in the process of energizing the industrial transformation of the Nigerian economy the CBN has a major role to play in sanitizing the banking system to make for efficiency and low cost industrial production. In his regard, the CBN would need to introduce some policy instrument aimed at:

i. The reduction of the spread between savings and lending rates via the significant reduction of the lending rate;

ii. The reduction of the excess profits of commercial banks, particularly form their operations in the foreign exchange market. All of the commercial banks must be seen as intermediaries between the user foreign exchange and the CBN rater than the allocators of foreign exchange to the users.

On the entire market, government owes it a duty to make the industrial environment attractive and perfect for operation. These could be attained through;

i. Adequate guaranteed supply of utilities to all users;

ii. Establishment wage structure to raise effective demand for goods and services.

iii. Creating a condition for sustain- able democratic government to user in a stable eco-political situation in the country.

In these regards the country's continuous dependence on a narrow range of primary exports make it very vulnerable to external shocks. Government should therefore put up prudent strategies to diversify Nigeria's export base. Policy efforts must emphasis the need to minimize the large currency depreciation which could lead to a further decline in term of trade.

Against this background, policy efforts must focus on accelerating the implementation of export diversification initiatives. In fact, such diversification strategies must be comprehensive. That is, such policy instruments must emphasise both the supply and demand sides of the production process. The supply side must focus for success on research and development, human capital development and effective marketing strategies that facilitate an expanded range and improved quality of exportable commodities. On the demand side, policy strategies must be directed at expanding domestic, regional and Western markets and thereby increasing market share. For, example the exploitation of the existing preferential access to European marketers and markets provided by the Lome Convention. This technically suggests that Nigeria must be greatly involved in the initial phases of the formulation of the aforementioned WTO agreements if it is to enjoy continued access to foreign markets.

All of these are reinforcement to the issue of the need to minimize the effect of the negative influence in the context of unfavourable macroeconomic environment. This relates to competitive production cost and quality of products, fiscal restraint, money supply growth that is consistent with the real GDP, increased productivity ad improvement in the supply of infrastructural services in the country.

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