Manufacturing: The Key To Economic Growth And Shared Prosperity In Nigeria

Kingsley J. Obasi
Department of Mechanical Engineering, University of Nigeria, Nsukka

Abstract

Manufacturing is critical to driving Nigeria's economic growth and ensuring a sustainable future for its people. When backed by policies that encourage growth, manufacturing promotes shared prosperity by creating opportunities for job creation, increased productivity, and innovation. It creates an environment where economic growth benefits all members of society rather than just a select few. However, in recent years, the Nigerian economy is shifting from being primarily based on agriculture to becoming a service-led economy, but without a strong industrial base. This paper explains why such a strategy is unsustainable and advances the claim that Nigeria must prioritise the manufacturing sector to achieve its development goals. It explores the role of manufacturing in economic growth by comparing it to the agriculture and service sectors using three (3) economic metrics: Employment, GDP, and the Consumer Price Index, and argues that manufacturing remains Nigeria's most promising avenue for economic growth and shared prosperity. Furthermore, we identify the challenges of growing the manufacturing sector in Nigeria and then propose policies that can foster the development of Nigeria's industrial base.

Introduction

Agriculture is widely accepted as Nigeria's primary economic activity, but there has been rapid growth in the services sector in recent years. Although industrialisation is often cited as the primary engine of development, the growth in the manufacturing sector pales compared to the growth in the service sector (Adesoji, 2019). There has been a gradual shift towards service-oriented activities. Hence, it is argued that services sectors such as software, business processing, finance, or tourism may act as leading sectors in economic development and that the role of manufacturing will keep declining. However, several empirical studies have provided evidence that the shift from agriculture to manufacturing, and subsequently from manufacturing to services, represents the appropriate structural transformation (Su & Yao, 2017). No country has ever developed a major economy without a solid industrial base. Based on this premise, this paper argues that manufacturing is the best strategy to accelerate Nigeria's economic growth and promote shared prosperity.

THE KEY TO ECONOMIC GROWTH AND SHARED PROSPERITY

What does it mean to say, "Manufacturing is the key"? This expression implies that manufacturing is vital to Nigeria's economic prosperity. Although other sectors contribute to economic growth, manufacturing is critical to either opening the economy or kickstarting the development engine. An excellent illustration is a situation where you want to unlock the front door of your home. If you needed to get in, you could try smashing the door in, but say you had the key; using that key is the best course of action. This paper seeks to show that if the government were to stick to any other model, like placing more emphasis on the agricultural economy or service sectors, Nigeria would not be nearly as successful in its development goals as in a manufacturing-led economy. The true significance of the manufacturing sector will be illustrated in the ensuing paragraphs as manufacturing will be compared to the agriculture and service economies based on three metrics of prosperity.

(a) Employment

Agriculture accounts for 34.66 percent of total employment in Nigeria, providing a means of livelihood for many Nigerians (World Bank, 2021). While the statistics make agriculture seems like a good bet for job creation, agriculture in Nigeria has mostly been limited to subsistence farming. How land is owned—in small, scattered parcels—has kept the intensity of farming low and slowed the rate at which capital can be brought together to improve productivity and increase farmers' income. Manufacturing jobs, however, require specialised skills and generally pay higher wages than many agriculture jobs. Moreover, manufacturing holds significant untapped potential for generating employment across various sectors. We can employ manufacturing to transform the agricultural sector through value addition. This strategy would enable Nigeria to exploit its agricultural potential while creating additional jobs. For example, an agri-processor in Abuja that buys milk from farmers to make yoghurt will create additional jobs for food scientists, technologists, machine operators, and packaging personnel.

The increase in employment in the service sector often corresponds to the decline in manufacturing jobs. However, the loss of manufacturing jobs causes concern. As factories close, many middle-skilled people are forced to take low-wage employment in the service sector, which hollows out the income distribution and increases existing inequalities. Manufacturing creates more direct jobs than service sectors, requiring a larger production, assembly, and quality control workforce. These jobs often provide stable employment and higher wages, which benefits a broader range of workers. As a result of the increased demand for raw materials, apparatus, and support services, the manufacturing sector also has robust backward and forward linkages, which then multiplies employment opportunities. Moreover, with the service industry typically concentrated in cities, if the Nigerian workforce transition from agriculture to services, this will worsen the existing rural-urban divide by leaving rural residents with fewer job options and lower incomes.

(b) Gross Domestic Product

As societies evolve from an agrarian to a modern economy, the agricultural sector's contribution to Gross Domestic Product (GDP) declines while the manufacturing and service sectors grow. Firstly, manufacturing creates job opportunities for people of varying skill sets, increasing the workforce and consumer spending power. This promotes economic activities by increasing demand for goods and services across various industries. By stimulating further action along the value chains—from raw materials to finished goods—manufacturing expands Nigeria's export base and boosts our GDP. Manufacturing also strengthens economies by cascading growth in other sectors.

China recognised the need to strengthen its manufacturing base and invested in the necessary infrastructure, increasing its GDP from US$1,333.67 billion in 2001 to US$17,734.06 billion in 2021, with manufacturing accounting for nearly 32.6 percent of China's total GDP (McKay & Song, 2010; Statista, 2022). This strategy enabled the country to stabilise its economy and establish one of the greatest middle-class societies in the world. These points are also valid in favour of the service sector, which has significantly contributed to value-added growth and new jobs. However, some key manufacturing advantages, such as the enormous potential to scale economies, the generally inverse relationship between prices and demand for manufactured goods, and the prospect of exporting more to developed nations, place manufacturing as the best force for stimulating economic growth in emerging economies.

Moreover, the traditional services offered in Nigeria, such as teaching, barbing, driving, plumbing, and bartending, impede the service sector's ability to export or attain significant economies of scale. In earnest, manufacturing helps strike a fair balance between domestic competition for imported goods and the production of commodities for export. Ultimately, to get more value from our resources, we must turn them into finished goods, reducing our dependency on a single industry and minimising our vulnerability to external shocks.

(c) Consumers Price Index

The Consumers Price Index (CPI) measures the general well-being of a nation when adjusted for current living expenses. This index tracks the average monthly change in the cost of a standard basket of goods and services purchased by consumers over a certain period (Lake, 2022). As GDP focuses on the soundness of the economy as a whole, the CPI represents how well the typical person is faring. It reflects the effectiveness of current economic policies. Although agriculture and services also influence CPI, for example, in how agricultural output affects food prices, manufacturing has peculiar advantages that make this sector exert a more significant influence on price stability.

Manufacturing involves multiple production and distribution stages, enabling companies to streamline the supply chain to reduce unit costs and consumer prices. It also benefits from economies of scale that allow for mass production, which lowers unit costs and drive down the prices of goods. For instance, in 2021, the purchase of Tokunbo automobiles in Nigeria represented 3.7 percent of total imports (Oyekanmi, 2022), suggesting that many Nigerians cannot afford a new vehicle. However, the entry of Innoson Vehicle Manufacturing Company is changing that dynamic by making tear-rubber cars more affordable (Ugwueze et al., 2020). Innoson makes hundreds of cars daily to drive down the unit price of new vehicles in Nigeria; this advantage can only be feasible in the agriculture and service sectors through a robust industrial input.

CHALLENGES OF GROWING THE MANUFACTURING SECTOR IN NIGERIA

Manufacturing is vital to the prosperity of developing economies. However, developing Nigeria's manufacturing industry presents serious difficulties. This section explores the obstacles to manufacturing growth in Nigeria and their implications on Nigeria's economic growth.

a) Infrastructure Deficiencies: Manufacturers in Nigeria encounter severe infrastructure deficiencies, with power supply as the major challenge. They rely heavily on emergency power generators to ensure uninterrupted operations, inevitably increasing operating costs. This approach undermines competitiveness since production costs in Nigeria are comparatively higher than in other parts of the world. Similarly, with the transportation system, goods primarily rely on roads instead of more efficient rail networks. This lack of adequate rail lines leads to elevated operating costs. It is crucial to develop the transportation sector to a level that adequately supports the manufacturing sector and the overall economy. These infrastructure deficiencies inflate production costs, impede efficient distribution, and discourage potential investors from establishing manufacturing facilities.

b) Limited Access to Finance: Manufacturing companies have not been appealing for bank credit despite policy measures to attract credit to the sector. There is a consistent deviation from the required minimum in the commercial banks' provision of loans and advances to the manufacturing sector. Credits to manufacturing as a share of total banking credits have remained the same despite enhanced financial intermediation in the economy following the financial reforms of the 1990s. Consequently, manufacturing firms rely on internally generated revenue, which restricts their scope of operation and reduces their competitiveness in regional and international markets.

c) Chaotic Business Environment: Recognising the potential of manufacturing to foster shared prosperity, successive governments have consistently pursued policies to promote industrial growth. However, frequent policy changes and inconsistent regulations create uncertainty for manufacturers and deter long-term planning and investment. An unstable policy environment undermines investor confidence, making attracting domestic and foreign direct investment difficult. Moreover, Nigeria also faces security issues. The uncertainty caused by insecurity leads to a postponement of investment decisions by firms, which ultimately affects economic output.

d) Limited Market Integration: Manufacturers need an integrated market to expand their operations and optimise production processes. Otherwise, they face difficulty achieving economies of scale. Limited market integration also creates difficulty in sourcing primary materials from other countries, which then increases costs and causes production delays.

POLICY RECOMMENDATIONS

While manufacturing has significantly impacted advanced nations, the same cannot be said for Nigeria. Nigeria still lacks sufficient numbers of factories to realise such prospects. This is not because Nigeria does not have the talent, as it has a fast-growing young population that can drive the manufacturing industry, but rather because of the lack of political will. Nonetheless, Nigeria, like China, can alter itself and impact the global economy by manufacturing and exporting products, and to do so successfully, this paper proposes the following policies:

a) Removal of Red Tape: Leaders must create an environment that encourages long-term investments, and this involves addressing bureaucratic barriers and streamlining administrative processes. Otherwise, entrepreneurs will move their factories to places with more stable leadership, economic agendas, and market growth. By cutting through red tape, manufacturers can benefit from improved efficiency, reduced costs, and faster turnaround times, allowing them to focus on innovation, expansion, and job creation. This policy will stimulate economic growth by attracting investors to unleash Nigeria's industrial capabilities.

b) Infrastructure Development: The diversification of a country's manufacturing sector lies in its current productive structures. However, the restricted productive capacities that are a natural part of African economies limit the scope for manufacturing-led development (Steenkamp & Rooney, 2017). Nigeria must support local efforts to transform raw materials into finished products. The government should prioritise investment in infrastructure such as power generation, transportation networks, and port facilities. Public-private partnerships can be encouraged to attract private investment and expertise in infrastructure development.

c) Enhanced Access to Finance: The government should collaborate with financial institutions to create specialised financing schemes for the manufacturing sector, like low-interest loans, grants, and venture capital. One approach is to establish dedicated financial institutions or programs that cater specifically to the needs of manufacturers. For instance, the Small Business Administration (SBA) in the United States offers loans and guarantees to small manufacturers, allowing them to access capital that might otherwise be unavailable. Similarly, the Export-Import Bank of China provides credit facilities to manufacturers involved in exporting goods. The government can encourage banks to offer specialised lending products for manufacturers in Nigeria.

CONCLUSION

Despite Nigeria's effort to transition into a service economy, China has proven that establishing a robust manufacturing sector is the ideal model for developing economies, a category to which Nigeria belongs. A thriving manufacturing sector can unleash a cascade of positive economic effects. However, unless the government addresses the challenges plaguing manufacturing in Nigeria, it will be unable to contribute substantially to the economy. The sector requires adequate and functioning infrastructure to work efficiently. By investing in infrastructure, increasing access to finance, and implementing favourable policies, the government can leverage manufacturing to transform the economy, create jobs, reduce poverty, and improve living standards. With a concerted effort, Nigeria can position itself as a regional manufacturing hub and chart a sustainable path towards long-term economic prosperity.

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