Industrialization and Employment in a Recessed Economy: The Case of Nigeria

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Abstract

Nigeria as an emerging and recessed economy, creating job opportunities is one major macroeconomic goals through industrialization. However, industrialization in Nigeria is an ongoing process through which firms are induced through macroeconomic policies to acquire and deepen manufacturing capabilities. The imperatives of industrialization in Nigeria cannot be overemphasized, especially as a recessed economy. If Nigeria must speedily move out of the current state of high unemployment and avert its effects such as kidnapping, bunkering, cultism, street thieves, thuggery, and militancy – industrialization is the key. There is a positive multiplier of macroeconomic policies and industrialization. A decrease in the real interest rate might positively induce firms, investors, to increase planned investment. The authors argued that a privately established and managed export oriented Conventional Crude Oil Refinery of one hundred-thousand-barrel capacity (100,000 bpd) could create employment to ten thousand (10,000) workers, which could reduce unemployment in Nigeria. Therefore, this paper discussed the imperatives of industrialization and employment generation in Nigeria. Industrialization plays a key role in economic development such as diversification of the economy – making more goods and services available to households, firms and government; training and development of skilled personnel; increased modern sector employment; technological development; aids expansion in an infrastructure – roads, electricity, etc.; boost to agriculture – industry uses agricultural products as its raw materials; self-sufficiency and raising the standard of living. The government has a major role to play through appropriate policy implementation towards encouraging industrialization. The findings of this study is in agreement with the Keynesian postulation that government intervention in stimulating the economy is necessary to move out of recession and create desired job opportunities, thereby, reducing unemployment level in Nigeria. Consequent on the above, the study recommends that there should be interplay of fiscal and monetary policy instruments in achieving the desired macroeconomic goals through industrialization.

Keywords: Employment, Fiscal Policy, Industrialization, Monetary Policy, Nigeria, Unemployment.
Background to the Study

It is a common knowledge that the level of unemployment is steadily on the increase as more graduates get into the labour market, thereby constituting economic quagmire. It is imperative of government at all levels to conceptualize, formulate and implement result oriented policies geared towards job creation and macroeconomic stability, with a view to reducing the level of unemployment. One of such steps towards job creation is by industrialization through fiscal policy such as government spending and taxation. There is a nexus between government policy (fiscal) and industrialization. Fiscal policy is concerned with action of the government to spend money, or to collect money in taxes, with the purpose of influencing the condition of the national economy (Tom-Ekine, 2014).

Fiscal policy is bi-dimensional. It could be expansionary or contractionary. Fiscal policy is expansionary when government expenditures are increased and taxes reduced and contractionary when government expenditures reduced and taxes increased. Thus, expansionary fiscal policy is needed to combat the ills of unemployment and hence create employment for the populace (Onwuka, 2010, and Obayori, 2016). The persistent increase in unemployment means that estimates of more than 70 per cent of Nigerians live in poverty. This calls for the need to use the instruments of fiscal policy, particularly, government expenditure and taxation to create employment in Nigeria in order to drive the economy towards sustainable growth (Gbosi, 2015 as cited in Udeorah, Obayori and Krokeyi, 2017). Olayemi (1976) posits that the agricultural sector provides employment for about 67 per cent of the active population.

Agriculture covers crop production, livestock, fishery, forestry and wildlife. Despite the growing importance of petroleum, Nigeria is essentially an agrarian economy with agriculture accounting for a significant share of the GDP as well as providing employment for the bulk of the labour force. With very little assistance from government, Nigerian agriculture was able to provide adequate food for an increasing population, raw materials for a budding industrial sector, increasing public revenue and foreign exchange for government and employment opportunities for an expanding labour force before the decade of the 1960s. In 1960, agriculture accounted for about 70 per cent of the employed labour force (Angaye G.S 2016:99) Abayomi 1997 sitd in Tombofa S. S., 2005 Niger Delta Economic Review Vol. 1, "Agriculture comprising of crop production, livestock, forestry and fishing is a prominent activity sector in the Nigerian economy. Prominent attention is given to the agricultural sector in any discussion of the structure as well as the development of the Nigerian economy").

Nevertheless, little attention has been given to the agricultural sector in Nigeria since the early 1970s as a result of the emergence of the oil sector as a major revenue earner for the federal government and a leading source of Nigeria’s foreign exchange earnings. Yet the agricultural sector, among others, feeds the teeming population and provides some of the necessary raw materials for the industrial sector (Krokeyi, 2016). Africa continues to be the only continent yet to experience both agricultural and industrial revolutions. Between 1965 and 2005, the sub-Saharan Africa (SSA) manufacturing value added stagnated, and
was around 15 per cent of Gross Domestic Product (GDP), which is half what the value of manufactured products has been in East Asia and the Pacific countries since the 1970s (UNCTAD, 2008).

It is important to state that Africa's primary productive sector is generally characterized by low labour productivity, low capital intensity, low output productivity, and low growth which is a clear condition of the “vicious” circle phenomenon that has posed a challenge to rapid socio-economic growth, poverty alleviation, and industrialization. Most African countries failed to develop manufacturing industries because governments employed state-owned enterprises and import substitution policies to expand manufacturing. Some countries that have pursued import substitution strategies have done so at the expense of technical innovation, and competitiveness, given the fast development in global production. In extreme cases, conditions for progression towards higher production frontiers have been hindered as a result of this and stalled competitiveness (Chandra, Lin and Wang, 2012).

The lack of an industrial sector in a region or a country is widely seen as a major handicap in improving that region's or country's economy, and pushes many governments to encourage or enforce industrialization. Therefore, if Africa is to achieve a rapid and high growth rate of about 10 per cent or more, and be able to significantly address its pressing development challenges and priorities of ensuring food security, increasing gainful employment, reducing poverty, increasing trade, improving living standards among others, then it must urgently expand, diversify and transform its productive base beyond its largely traditional primary sector. This, according to the standard economic growth and development process, can only be attained if the continent pays greater attention to and places emphasis on industrial policy and industrialization (with manufacturing at the core) as an engine of economic growth and development. Industrialization means improving economic activities in a particular place or country through the use of modern technologies in such industries such as construction, mining, transport and manufacturing sectors. Some industrial cities in Nigeria are: Ikeja, Kano, Kaduna, Onitsha, Aba, and Port Harcourt (Kemgbara and Tombofa, 2007: 133).

The imperatives of industrialization in Nigeria cannot be overemphasized, especially as a recessed economy. Unemployment in Nigeria has become a hydra headed monster that is affecting the economy and its society. According to the Bureau of Statistics, 38 per cent of the employable age is unemployed and 65 per cent of Nigerian youths face unemployment as at September 2016. If Nigeria must speedily move out of the current state of high unemployment and avert its effects (criminality such as kidnapping, bunkering, cultism, street thieves, thuggery, and militancy), industrialization is the key. Therefore, this paper addresses the imperatives of industrialization and employment generation in Nigeria and makes relevant policy recommendations. The paper is further subdivided into literature review, methodology, conclusion and recommendations.


**Literature Review**

**Role of Industrialization in Economic Development**

Industrialization is somewhat synonymous with economic development due to its influence on economic activities, thereby creating job opportunities for the unemployed that would eventually bring about economic development in the long-run. That is why the role of industrialization in economic development cannot be neglected. According to Kemgbara and Tombofa (2007: 134), industrialization plays a key role in economic development such as diversification of the economy – making more goods and services available to households, firms and government; training and development of skilled personnel; increased modern sector employment; technological development; aids expansion in infrastructure – roads, electricity, etc.; boost to agriculture – industrial uses agricultural products as its raw materials; self-sufficiency and raising the standard of living.

**Challenges of Industrialization in Nigeria**

Nigeria, like any other developing economy is not without challenges in her quest for industrialization. Again, Kemgbara and Tombofa (2007, 135-136) identified some obstacles to the establishment of industries, these include inadequate infrastructural facilities – electricity, roads, communications, etc.; inadequate technology due to illiteracy and ignorance; inadequate capital; limited entrepreneurial/managerial ability; lack of co-operative spirit among entrepreneurs; market limitation due to low incomes; external competition; inadequate government support; poor infrastructural facilities like electricity, good roads, communications, etc.; high taxes discourage investment; inadequate raw materials. If Kemgbara and Tombofa's argument is anything to go by, then, the government has a major role to play through appropriate policy implementation towards encouraging industrialization.

**Multiplier of Macroeconomic Policies and Industrialization**

There is a positive multiplier of macroeconomic policies and industrialization. Investment and exports can be enhanced for several reasons. A decrease in the real interest rate might positively induce firms, investors, to increase planned investment. The authors argued that a private established and managed export oriented Conventional Crude Oil Refinery of one hundred thousand barrel capacity (100,000 bpd) could create employment for ten thousand (10,000) workers, which could reduce unemployment in Nigeria. They further argued that such capacity refinery could employ about one thousand, six hundred (1,600) workers during construction phase, depending on the technique – labour intensive or machine. Labour intensive technique could employ three thousand, two hundred (3,200) workers, while machine could employ one thousand, two hundred and sixty (1,260) workers, spin-offs not inclusive. Then, one can imagine the number of workers to be employed during production stage.

In a business cycle turning points, the economy moves from expansion to recession or from recession to expansion. The forces that bring business cycle turning points are the swings in autonomous expenditure, such as investment and exports. It, therefore,
behoves government to incite especially those in the oil and gas who have operational crude oil licenses and firms in other sectors of the economy to achieve a positive multiplier.

**The Keynesian View and Employment**
The popular Keynesian theory of employment or income posits that increase in government expenditure and the reduction in tax rate would in the long run bring about reduction in the level of unemployment and create substantial employment opportunities in an economy. The Keynesian theory of employment indicates the functional relationship as:

\[ Q = f(K) \]

Where; \( Q \) = the rate of employment,
\( K \) represents the government expenditure.

Keynesian macroeconomists believe that left alone, the economy would rarely operate at full employment and that to achieve and maintain full employment, active help from fiscal policy and monetary policy is required. They based their views on the forces that determine aggregate demand and short-run aggregate supply. Therefore, they call for fiscal and monetary policy to actively offset changes in aggregate demand that bring recession, stimulating aggregate demand in a recession, full employment can be restored.

From the above functional equation, government can reduce unemployment through it expenditure. The role of government in bringing about massive industrialization cannot be overemphasized as industrialization leads to positive economic growth, full employment, price stability, etc, which is what the economy needs to move out of recession.

**Empirical Literature**
Yeung, Liu and Dickson (2004) investigated the impact of trade on labour demand and found that there is a positive but small impact. They also averred that trade had little impact on wages and the distribution of income, but that foreign owned and export-oriented firms paid higher wages.

Kletzer (2004) reviewed some studies that provide a rich description of trade-displaced workers in the United States for the period 1979 to 1999, and observed that manufacturing industries were high import-competing and were characterized by an increased import share exceeding 13% points. He concluded that the dramatic increase of U.S. imports has led to trade-related job losses.

Chakraborty and Nunnenkamp (2008) used Co-integration and Granger causality approach to examine the relationship between foreign direct investment (FDI) and economic growth in India. They found that FDI and output are co-integrated in the long-run in, but output growth has a higher Granger Causality impact on FDI.
Spieza (2004) formulated and estimated a model in which employment was a function of exports, import and non-tradable to examine the effect of trade on employment. He found that there is no significant relationship between FDI and employment. Olayinka (2006) investigated and found that there is a positive relationship between openness of the economy and employment level in Nigeria.

In the same manner, Tavera (2007) tested the role of FDI in the creation of employment, using panel data of ten subsectors of the manufacturing sector for the years 1980-2003, divided into three sub-periods of 1980-1989; 1990-2000 and 2001-2003. The result of the study revealed that FDI had a positive though very small effect on the creation of employment.

Aryeetey (2006) observed that the slow growth of formal employment was one of the features that have characterized Ghana's reform efforts of the last two decades. He further noted that employment increased from 208,000 in 1981 to 464,000 in 1985 and thereafter declined steadily up to 186,300 in 1991. However, the empirical result analysis showed a positive relationship between globalization proxied by the degree of the economy and employment.

In the same vein, Elhiraika (2008), using data from 36 African countries examined the key determinants of manufacturing share in aggregate output and its relationship with real GDP growth and growth volatility and found that an increased share of manufacturing in total output has the potential to raise GDP growth and reduce growth volatility and thus recommended that African countries should design and implement effective industrial policies to promote manufacturing and other innovative activities as a means to boost economic transformation and achieve economic and social development goals, including employment creation and poverty reduction.
Table 1: SWOT Analysis of Nigeria in The 21st Century.

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<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
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<tr>
<td>• Rich minerals, oil and gas deposits</td>
<td>• Weak local (domestic) market</td>
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<td>• Varieties of flora and fauna</td>
<td>• Dearth of highly skilled labour</td>
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<td>• Natural habitat (rain forests)</td>
<td>• Weak and unproductive States</td>
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<td>• Unutilized productive spaces</td>
<td>• Lack of strategic planning</td>
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<td>• Rich cultures and creative communities</td>
<td>• Step-child attention towards policy implementation</td>
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<td>• Cheap labour and raw materials</td>
<td>• Market instability</td>
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<td>• Blessed agricultural resources</td>
<td>• Lack of improved information and communications technology</td>
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<td>• Available market (domestic and international) market</td>
<td>• Negative terms of trade</td>
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<th>OPPORTUNITIES</th>
<th>THREATS</th>
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<tr>
<td>• Value chain in manufacturing and services sector</td>
<td>• Competition with Newly Industrializing Countries (NICs)</td>
</tr>
<tr>
<td>• Acquisition of modern knowledge and skills</td>
<td>• Dependence on external agencies and markets</td>
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<tr>
<td>• Mass employments which would reduce Youth Restiveness and vices such as: Kidnappings, illegal Bunkering, Militancy, Cultism, Thuggery, Burglary, etc.</td>
<td>• Activities of syndicates of Oil products importers.</td>
</tr>
<tr>
<td>• Industrialisation of the region.</td>
<td>• Personnel and equipment security.</td>
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<tr>
<td>• Empowerment programmes through skill acquisition/ training.</td>
<td>• Political instability</td>
</tr>
<tr>
<td>• Power (Electricity) generation.</td>
<td>• Government policies</td>
</tr>
<tr>
<td>• Agricultural Development Programmes.</td>
<td>• Foreign exchange</td>
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<td>• Inflow of foreign capital.</td>
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neglected African knowledge assets and rural people into urban areas. The literacy, life expectancy and infant economic have from 1985 to 1990, those needs approach, participatory growth (Prebisch-Singer Thesis) There was a secular decline in the terms of trade between agricultural and industrial commodities, and the desire to reduce economic dependence led to a development strategy that favoured import-substitution or an inward-looking development policy. A number of African countries experienced an inward-looking industrialization strategy experienced huge balance of payments deficits. In addition, incentives favouring capital, high effective protection of assembly type industries, and direct controls over prices and foreign exchange have tended to introduce distortions and to support inefficient industries while discouraging agricultural and export production. Growth-with-Equity, basic needs-approach, participatory development (1970s) Satisfaction of basic needs and growth with equity (for example, GDP per capita was replaced by Physical Quality of Life Index - literacy, life expectancy and infant mortality). The proponents of this development approach focused on agriculture-first development and a new international economic order, and viewed grass-roots participation as a means of poverty reduction and self-actualization. Though favoured by some progressive leaders of Africa, it could not be implemented because of the oil crisis of the 1970s and the subsequent world recessions. This hurt mainly the non-oil-producing countries of Africa, because although prices of some products (for example, cocoa and coffee) increased, it was offset by the high oil prices. However, the deep recession in the first half of the 1980s was due to rising oil prices, the Sahelian drought, and the high cost of external borrowing. Neoclassical (market-friendly) paradigm led by the World Bank (1980s), and the New Growth (endogenous) Theory of Paul Romer and Robert Lucas (1990s) Neoclassical theorists argued that the lack of economic growth in the Third World was due to poor resource allocation and state intervention. The central tenets of development policy in the 1980s therefore shifted to the adoption of the following strategies: (a) implementation of competitive free markets; (b) privatization of state-owned enterprises; (c) promotion of non-traditional agricultural products for exports; and (d) creation of conducive environments for foreign direct investments. Thus, in order to borrow funds for internal and external macroeconomic balance from the IMF and the World Bank, sub-Saharan African countries were required to undergo structural adjustment programmes (SAPs). After following the prescribed stabilization and structural adjustment programmes, many African countries experienced little or no growth. Thus, the poor performance of neoclassical theories in explaining the sources of long-term economic growth led to the concept of endogenous growth or the new growth theory. "Models of endogenous growth suggest an active role for public policy (unlike the neoclassical theory, it advocates for government intervention) in promoting economic development through direct and indirect investments in human capital formation and the encouragement of foreign private investments in knowledge intensive industries. For example, Finland and Ireland achieved tremendous growth because they focused on high-tech industries and intellectual development, such as computer software and telecommunications."

Sustainable Economic Development (United Nations) Since the Rio Earth Summit in 1992, numerous environmental plans (such as National Environmental Action Plans—13 in the 1990s) The sustainable economic development paradigm acknowledges that if development is to be sustainable, the environment needs to be protected. Thus, sustainable development leads to sustainable activity that meets the needs of the current generation (intragenerational equity) without depleting the supply of resources for future generations (intergenerational equity). Since the Rio Earth Summit in 1992, numerous environmental plans (such as the National Environmental Action Plans—NEAPs) have been undertaken by various African countries, and a number of studies have been conducted by the African Development Bank. Nonetheless, because of lack of adequate financial resources and major economic distress, exacerbated by SAPs, so far environmental needs have not been systematically incorporated into Africa’s economic development paradigms.

Source: Adjei and Akrofi (2009)
**Table 3: Experiences of Some Industrialized Economies**

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<tr>
<th>Period</th>
<th>Policy activities</th>
<th>Priority activities</th>
<th>Main instruments</th>
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<tr>
<td>1960 – 1975</td>
<td>Exports in general - key sectors - labour-intensive manufactures.</td>
<td>Focus on replacing imports with domestic goods.</td>
<td>Import protection; Export subsidies including duty drawbacks; Subsidized credit allocations; Export targeting.</td>
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<td>1968 – 1972</td>
<td>Export promotion/substitution key sectors - labour-intensive manufactures particularly garments, consumer electronics.</td>
<td>High technology industries and exports. Strategic sectors - information technology, machinery, precision instruments, biotechnology, electronics, environmental technology.</td>
<td>Public investment in state enterprises; Tax credits; Policy loans; Import tariffs; Rebates.</td>
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<td>1971</td>
<td>Phase import liberalization; ending of policy loans; Government influence over allocation of credit; Investment incentives for research and development; Easing of restrictions on FDI.</td>
<td>Financial sector liberalization; open capital account.</td>
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<tr>
<td>Period 2, China, Taiwan</td>
<td></td>
<td>Private sector-led development.</td>
<td>Financial liberalization; Interest rate deregulation; Ending of policy loans; Public sector for science and technology; Encouragement to FDI in education.</td>
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<tr>
<td>Period 3, Thailand</td>
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<tr>
<td>1980 – 1971</td>
<td>Focus on replacing imports with domestic goods.</td>
<td></td>
<td>Import Substitution; Industrialization. Law for tariff protection and domestic industrial investment promotion enacted; Preferential treatment given to imports of capital goods, intermediate and raw materials; Preferential conditions for priority industries. For example: 5 year tax holiday; duty relief on machinery; imports and raw materials.</td>
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<tr>
<td>1986 – 1983</td>
<td>Promotion of heavy industries producing intermediate and capital goods; Agro-industry and SMEs.</td>
<td>Export Promotion through FDI; 100% foreign ownership supported Industrial estates developed and designated EPZ status Investment encouraged in specific areas – in line with division of country into 3 regions.</td>
<td>Export promotion; Law of tax credits for tariff payments; Duty drawbacks for export production; Export financing.</td>
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<tr>
<td>1983</td>
<td>Reversal of the 2nd Phase of import substitution revisited.</td>
<td></td>
<td>Import substitution; Set selectively low import tariffs.</td>
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<td>Period 4, Malaysia</td>
<td></td>
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<tr>
<td>Period 5, China</td>
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<tr>
<td>1979 – 1985</td>
<td>Shift economy from dependence on rubber and tin to palm oil and crude oil Investment shift to steel, cement, automobiles, and chemicals.</td>
<td>Industrial policy used for the first time in 1988 Structural adjustment - to balance demand and supply by reducing high supply capacity in industry. Market economy.</td>
<td>Planned economy. Government controlled all production, distribution and consumption. Focus mainly on resolving insufficient supply. Industrial structures adjusted – switch from heavy industries to light industries. Production allocation coupons issued to influence supply capacity. Government intervened to encourage technical innovation. Limited effects/results due to government's inability to provide financial support.</td>
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<td>1985 – 1992</td>
<td>Development of basic sectors - infrastructure Establishment of Industrial Policy Department in the National Planning Committee.</td>
<td>Industrial policy focused on fostering market competitiveness – no discrimination between foreign and local companies. Reform of state enterprises; Introduction of foreign capital; Social progress also targeted. In 1997, 5 major changes to industrial policy were effected: (a) Development of housing (b) Market competition emphasized (c) De- emphasis of state ownership (d) More labour mobility (e) Preferential treatment for SMEs, including creation of a financing department.</td>
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<tr>
<td>1992 – 2003</td>
<td>Create industries that could serve as a foundation for economic growth. Designated 4 lead industries - automobiles, machinery, construction and petrochemicals; later, service industries such as information technology were added - Industry policy focused on agriculture, infrastructure, pillar industries.</td>
<td></td>
<td>Industrial policy focused on fostering market competitiveness – no discrimination between foreign and local companies. Reform of state enterprises; Introduction of foreign capital; Social progress also targeted. In 1997, 5 major changes to industrial policy were effected: (a) Development of housing (b) Market competition emphasized (c) De- emphasis of state ownership (d) More labour mobility (e) Preferential treatment for SMEs, including creation of a financing department.</td>
</tr>
</tbody>
</table>
Financing facilities through state-owned commercial banks encouraged the following sectors: infrastructure, research and development, roads and railways through a "Specific Project Financing" facility. Policies became more pro-FDI - targeted Economic Development Zones Principle of respecting market competition had emphasis at the expense of government intervention. Government mainly a guiding instrument. Key features of industry policy at this stage. Provision of financing measures (4 state-owned commercial banks supported industry). Projects guaranteed by Government had easier access to finance. Tax measures.

Period 6. Mauritius

1960 – 1969
Promotion of domestic industries. Main sugar related industries. Attempt to develop domestic manufacturing capacity to reduce dependence on imports.

1970 – 1979
Massive expansion of export industries; Textiles and clothing sector; Strong backward and forward linkages with the rest of the economy; Tourism sector; Diversification from sugar.

1980 – 1990s
Strong manufacturing sector with diversity developed EPZ textiles sector; strong momentum Tourism.


Conclusion and Recommendations
Nigeria as an emerging and recessed economy, creating job opportunities is one major macroeconomic goals through industrialization. However, industrialization in Nigeria is an ongoing process through which firms are induced through macroeconomic policies to acquire and deepen manufacturing capabilities. The imperatives of industrialization in Nigeria cannot be overemphasized, especially as a recessed economy. Unemployment in Nigeria has become a hydra headed monster that is affecting the economy and its society. If Nigeria must speedily move out of the current state of high unemployment and avert its effects (criminality such as kidnapping, bunkering, cultism, street thieves, thuggery, and militancy), industrialization is the key. Industrialization plays a key role in economic development such as diversification of the economy – making more goods and services available to households, firms and government; training and development of skilled personnel; increased modern sector employment; technological development; aids expansion in infrastructure – roads, electricity, etc.; boost to agriculture – industrial uses agricultural products as its raw materials; self-sufficiency and raising the standard of living. The need to adopt a well-articulated policy is required in stemming the problem of low employment.

Thus, the findings from the study corroborate Keynes assumptions that increase in government expenditure would be a stimulant to industrialization. This paper recommends that:

1) Government should as a matter of priority formulate and implement industrial policies that encourages the private sector/investors;
2) Funds realized through tariff protection measures should be religiously utilized for export growth;
3) Industrial policy should be designed to respond to the specific developmental challenges Nigeria is experiencing;
4) Tackle insecurity, thereby creating conducive conditions for increased FDI inflows, removing anti-investment biases and encourage FDI flows to firms with export potentials;
5) Addressing the infrastructural bottlenecks, increasing competitiveness, and improving the business climate by adopting sound infrastructure investment frameworks;
6) Enhancing credit availability by strengthening efficiency of financial intermediation; and
7) States owned enterprises should be encouraged to improve on the quality of economic institutions.

References


