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Impact of Domestic Industrial Output on Economic Growth in Nigeria

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Abstract: The Anchor Borrowers' Programme (ABP) was initiated to create an ecosystem that connects small farm owners to big processors within the economy with a view to improving capacity utilization and promoting exports by exhibiting potential in the promotion of locally produced goods. Thus, with this feat, one can say that the local manufacturers are, without doubt, on the verge of meeting up with international standard towards enhancing patronage from both local and foreign consumers. It is on this note that this paper examined the potential of domestic industrial output on economic growth in Nigeria. An Autoregressive Distributed Lag (ARDL) model procedure was employed and the results revealed that the contribution of the domestic industrial output to economic growth was appalling which was necessitated by the worrisome image of "Made-in-Nigeria" goods. The study concluded that domestic production in Nigeria has been lagged behind in terms of output performance in the economy.

1. INTRODUCTION

Nigeria is becoming a dumping ground for all categories of goods from all over the world. This is therefore inimical to nation's quest for sustainable development. This largest economy in African nation is worth a target in this respect despite several efforts by successive governments over the years to redress and reverse the unwholesome preference for foreign goods (Adeoye, 2015).It is worthy of note that the nation's foreign reserves are being spent on importing finished consumer products that could be sourced locally if efforts were made to patronise Nigerian products (Ibrahim, 2017). As the pressure on the naira begins to mount over the country's excessive import bills and low foreign exchange from exports, the Federal Government has intensified efforts to encourage Nigerians to buy locally

made goods (Iloani, 2016). Relevant data from the National Bureau of Statistics show that consumer confidence; business confidence, competitiveness and corruption ratings remain worrisome and affect the image of goods made in Nigeria. As at the fourth quarter of 2015, consumer confidence in Nigeria dropped to -3 from -1.9 per cent, while business confidence stood at 8.3% at the end of 2016 (NBS, 2016).

Similarly, locally produced goods in Nigeria attracted significant negative attention especially on competitiveness and corruption rankings (Iloani, 2016). Also, Obadian (2014) stated that one of the most cost-effective ways to boost demand of locally manufactured goods is moral suasion, appealing to peoples' conscience to patronise local goods rather than foreign goods. Though, local products have been portrayed as inferior in the past but at the moment, they have higher chances of competing with international market players as their quality is being improved upon (Kehinde, Adegbuyi, Akinbodeand Borishade, 2016).

The Federal Government of Nigeria established Anchor Borrowers' Programme (ABP) in 2016 to boost local production of grains (such as rice, wheat and other agricultural products). The ABP was initiated as a policy option to create an ecosystem that connects small farm owners to big processors within the economy with a view to improving capacity utilization and promoting exports. To further enhance this trending development, an Aba-Made exhibition was initiated to showcase an array of domestic consumer goods made locally in Aba, the largest trading hub in Eastern Nigeria. The fair was an avenue of exhibiting potential in the promotion of locally-produced goods. Thus, with this feat, local manufacturers are, without doubt, on the verge of meeting up with international standard towards enhancing patronage from both local and foreign consumers.

Nigerian economy at the moment faces myriads of enormous economic challenges and a bleak future if fundamentally proactive steps are not taken to address the ugly situation (Ibrahim, 2017). The requirements, among others, for revamping this moribund economy are rapid and broad-based growth in the nation's domestic production. Creating the enabling environment for such growth requires a renewed motivation from the government, not minding what the failed efforts of past administrations (Obioma, Anyanwu and Kalu, 2015). Thus, the urgency to heighten the production of Nigerian made goods was brought to bear recently when the economy slid into recession following two consecutive quarters of negative economic growth commencing from January, 2016. The economy only began to recover in June, 2017 as announced by National Bureau of Statistics (Fasoye, 2018). This is characterised by reduced commodity prices

owing to low productivity precipitated by the contraction of the economy.This study was motivated by the concerted effort of the Federal government to encourage not only the local production but also the patronage of Made-in-Nigeria products with the utmost aim of improving the nation's gross domestic product.

The findings in recent literature revealed that the benefits of local production in terms of revenue generation at the local, state and federal levels are yet to be fully explored (Ibrahim, 2017 and Oburotaand Ifere, 2017).Also, encouraging locally manufactured goods by government has noticeable impacton the nation's sustainable development as domestic consumers with disdain for some local goods tend to discourage the preference for foreign goods in the long-run. Against this background, this study provides fresh empirical evidence on the subject matter.

This paper contains five sections. Section one introduces the study, clarifies the objective of the study. Section two reviews the theoretical and empirical literature whilesection three provides methodology adopted. Section four carefully presents the empirical analysis and result interpretation in accordance with the stated broad objective of the study and section chapter five contains the summary, conclusion and recommendations arising from the study.

2. LITERATURE REVIEW

A highly consumingnationis premised on real sector of the economy and an important real sector that promotes local production in Nigeria is Agricultural sector. The impact of Agricultural output on economic growth in Nigeriacannot be over-emphasised as it revealed a positive and significant relationship between gross domestic product (GDP) and agricultural output in Nigeria Ogunsanya, Jelilov and Ozden (2017). Agricultural sector was estimated to have contributed 2.247 percent variation in gross domestic product (GDP) from 1981 to 2014 in Nigeria. The findings of the studyimply that agricultural sector has contributed significantly to the variation or changes in economic activities in Nigeria.

In the same vein,Chete, Adeoti, Adeyinka and Ogundele (2015) in their study explored the evolution of the industrial sector in Nigeria (as an important real sector in the economy) over the last 50 years and submitted that over half of thegross domestic product (GDP) was accounted for by the primary sector with agriculture playing an important role. Though, oil and gas sector was also a major driver of the economy but manufacturing and industrial sectors in Nigeria accounted for a tiny proportion of economic activity. Contrary to the findings above,manufacturingoutput,

capital and technology were portrayed as the major determinants of economic growth as industrial output was found to have contributed significantly to the economic growth in Nigeria (Oburota and Ifere, 2017).

Emphasis on the growth of industrial output in both developed and developing economies is not adequate unless production is diversified. Therefore, the production diversity and per-capita income in North-Eastern states of India has attracted much attention in literature. The trends of the food production and consumption diversity across the states was empirically examined by Venkatesh, Sangeetha and Singh (2016) and the results of the study revealed that per capita consumption has decreased in cereals and is stagnant in pulses, and has doubled in edible oils, vegetables, eggs, fish and meat during the study period. The study has highlighted a significant impact of local production diversity on consumption pattern and by implication, policies should targeting the diversification of agricultural production, particularly in the north-eastern states to bring out dietary diversity and desired nutritional outcome has been significantly abandoned.

The motive of diversification of local production in the economy is not only to attain the desired level of output but also to ensure healthy competition among the local industries. An investigation of market factors which influence the performance of the locally manufactured sugar from the manufacturing firms in Kenya reveal that consumption of sugar inKenya varies from an average rate of about 2.2% whereas sales of sugarregistered an average of 2.1%. From thefindings of the study,Obange, Onyangoand Siringi (2011) unveiled a market deficit of locally produced sugar that falls below market demand. The study concludes that price related factors significantly contribute to poor performance of local sugar manufacturing firms under the prevailing imperfect market conditions in Kenya.

Studies have also revealed that it is not only price-related factors but also investment, human capital, income levels, manufacturing export and industrial output have not reached the desired threshold to achieve economic growth (Dan and Wanjuu, 2016; Joseph, Olayiwola and Yinusa, 2019) but the empirical study of Aiyedogbon andAnyanwu, (2015) which examined the macroeconomic determinants of industrial development showed that industrial productivity itself has failed to yield the required positive result. Also, the effect of industrial development on economic performance was appalling which was necessitated by the intermittent electricity supply in Nigeria (Udah, 2010). The implication here is that domestic production in Nigeria has been lagged behind in terms of output performance in the economy.

The studies conclude that an improved domestic production in both developed and emerging economies will, in no small measure, enhance sustainable economic growth. The economies can only achieve a healthy competitive manufacturing hub if the emphasis is placed on local content and diverse domestic production.

3. METHODOLOGY AND MODEL SPECIFICATION

The study is anchored on Kaldor growth theory which was published in 1957 in line with the Harrodian dynamic approach and the Keynesian techniques of analysis. The model establishes the relationship between industrial output and economic growth, which is a triangulation of Kaldor first law and the endogenous growth theory as

$$Y = f(IND) \quad 1$$

Where, Y is the real gross domestic product (proxy for economic growth) and IND is the industrial output.

3.1 Model Specification

For an economy to achieve sustained economic growth, the theory above assumes that there are only two factors of production i.e., capital and labour, thus, the entire industrial sector must be willing to invest in both human and material capital development. Labour force must be trained in the field of research and development to improve the nation's manpower. The model above is further transformed as

$$RGDP = f(DIN, K, L) \quad 2$$

Also, the part of income that is not consumed is saving, then, in consonance with Accelerator Theory of Investment, accumulated savings (in form of capital stock) leads to increase in output; to this end,domestic savings (DS) will be incorporated as an explanatory variable. Then, equation (2) above becomes

$$RGDP = f(DIN, K, L, DS) \quad 3$$

The equation (3) above can be expressed explicitly in an estimable form as

$$RGDP_t = \alpha + \beta_1 DIN_t + \beta_2 K_t + \beta_3 L_t + \beta_4 DS_t + \mu_t \quad 4$$

where, RGDP is Real Gross Domestic Product,DIN is Domestic industrial output, K islevel of Capital (proxied by Gross fixed capital formation), L is the total Labour force and DS is the level of Domestic savings in the economy.

All the variables in equation (4) above are expressed in natural logarithmic form not only to linearise the relationship but also to remove

that systematic change in spread, achieving approximate "homoscedasticity." in the model (Asteriou and Hall, 2007).Then, equation (4) becomes

$$\ln RGDP_t = \alpha + \beta_1 \ln DIN_t + \beta_2 \ln K_t + \beta_3 \ln L_t + \beta_4 \ln DS_t + \mu_t \quad 5$$

In order to examine both the short-run and long-run effects of the explanatory variables on the explained variable in the equation (5) above, the Autoregressive Distributed Lag (ARDL) model procedure developed by Pesaran, Shin and Smith (2001) attempts to capture the relationship in f (DIN, K, L, DS).. The advantage of ARDL over other estimation techniques is that it yields consistent estimates of the parameters when the variables are all integrated at levels i.e. I(0) or integrated at first difference i.e. I(1) or an admixture of both, then, long run relationship exists (Pesaran, Shin and Smith, 2001).

Therefore, the Autoregressive Distributed Lags (ARDL) model is written as:

$$\Delta \ln RGDP_t = \alpha_o + \sum_{i=1}^{p} \delta_i \Delta \ln RGDP_{t-1} + \sum_{i=1}^{p} \gamma_i \Delta \ln DIN_{t-1} + \sum_{i=1}^{p} \theta_i \Delta \ln K_{t-1} + \sum_{i=1}^{p} \sigma_i \Delta \ln L_{t-1}$$

$$+ \sum_{i=1}^{p} \phi_i \Delta \ln DS_{t-1} + \omega_1 \ln RGDP_{t-1} + \omega_2 \ln DIN_{t-1} + \omega_3 \ln K_{t-1} + \omega_4 \ln L_{t-1}$$

$$+ \omega_5 \ln DS_{t-1} + \mu_t \quad 6$$

Where α_o is the drift component of the model; μ_t is the stochastic error term; the terms with summation $\Sigma_{i=1}^{p}$ represents the error correction dynamics while the second part of the equation with ω_i is the long run relationship of the model. In order to estimate the short-run relationship between the variables, the corresponding error correction equation was estimated as:

$$\Delta \ln RGDP_t = \alpha_o + \sum_{i=1}^{p} \delta_i \Delta \ln RGDP_{t-1} + \sum_{i=1}^{p} \gamma_i \Delta \ln DIN_{t-1} + \sum_{i-1}^{p} \theta_i \Delta \ln K_{t-1} + \sum_{i=1}^{p} \sigma_i \Delta \ln L_{t-1}$$

$$+ \sum_{i=1}^{p} \phi_i \Delta \ln DS_{t-1} + \omega_i ECM_{1t-1} + \mu_t \quad 7$$

The ECM_{1t-1} is the Error Correction Model for the equation (7) above.

Thus, the ECM version of ARDL was applied to determine the speed of adjustment to equilibrium. The purpose here is to estimate the coefficients

of the long run relationship, followed by the estimation of the short run elasticity of the variables.

4. ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Tests for Stationarity

To confirm the stationarity or otherwise of the variables, the following hypotheses were tested:

$H_0 : \alpha = 0$ {variables are non-stationary}

$H_1 : \alpha < 0$ {variables are stationary}

Therefore, for the series to be stationary, the following conditions must hold: $\alpha < 0$ and $\rho < 0$, if otherwise, the variables are non-stationary because the test may be biased which may call for further test of biased *Rho* - 1(*i.e.* $\rho^* - 1$).

Table 1: Stationarity Test results

Variables: DIN DS K L RGDP
Method: Phillips-Ouliaris Test Equation

	Value(α)	*Prob.*	*Rho -1* (ρ-1)
Phillips-Ouliaris tau-statistic	-4.497569	0.00098	-1.937523
Phillips-Ouliaris z-statistic	-19.54769	0.0290	-1.937523

Source: Authors' computation from the data extracted from CBN statistical bulletin and World Development Indicators (1990 - 2018)

From the Table 1 above, since $\alpha < 0$(i.e. $\alpha = -4.497569$ and -19.54769) and $\rho - 1 = -1.937523$ (which implies that $\rho < 0$). Thus, the conditions for stationarity are met and the results indicate that the variables are stationary around deterministic linear trend and they are all statistically significant at 5%.

Based on Phillips-Ouliarisstationarity test results in Table 1, the null hypothesis that variables are non-stationary at 5% level of significance for the model specifications is thus rejected.

4.2 Johansen Cointegration Test

Following the results in the Table 1 which revealed that all the variables are stationary either at levels or at first difference and at different levels of significance, there is the need to determine the long-run relationship among the variables. To achieve this, Johansen cointegration test was employed to determine the existence of long-run relationship among real gross domestic

product, domestic industrial output, level of capital, total labour force and level of domestic savings in Nigeria between 1990 and 2018. It was evidenced from the Johansen cointegration test results in the Tables 2a and 2b that the null hypothesis of no cointegration among the variables at 5% level of significance for the model specification was rejected.

The truce statistics revealed that there are cointegrating relationships among the variables as five cointegrating equations were found to exist at the 5% level of significance. Similarly, the unrestricted cointegrationMax-Eigenvalue statistic reports that there exists one cointegration equation at 5% level of significance. This implies that the variables have long-run relationship.

Table 2a : Johansen Cointegration Test Results: Unrestricted Cointegration Rank Test (Trace)

Hypothesised No of CE(s)	*Eigenvalue*	*Trace statistic*	*5% critical value*	*Prob***
None *	0.827272	108.5348	69.81889	0.0000
At most 1 *	0.588580	61.12189	47.85613	0.0018
At most 2 *	0.536737	37.14207	29.79707	0.0060
At most 3 *	0.332421	16.36664	15.49471	0.0369
At most 4 *	0.182966	5.456010	3.841466	0.0195

Source: Authors' computation from the data extracted from CBN statistical bulletin and World Development Indicators (1990 - 2018)

Note: Trace test indicates 5 cointegratingeqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Table 2b: Johansen Cointegration Test Results: Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesised No of CE(s)	*Eigenvalue*	*Max-Eigenstatistic*	*5% critical value*	*Prob***
None *	0.827272	47.41296	33.87687	0.0007
At most 1	0.588580	23.97982	27.58434	0.1354
At most 2	0.536737	20.77543	21.13162	0.0560
At most 3	0.332421	10.91063	14.26460	0.1587
At most 4 *	0.182966	5.456010	3.841466	0.0195

Source: Authors' computation from the data extracted from CBN statistical bulletin and World Development Indicators (1990 - 2018)

Note: Max-eigenvalue test indicates 1 cointegratingeqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

4.3 Bounds Test

Since the basic tests of the model passed all the required diagnostics tests, then the next level of analysis which is Bounds test for cointegration following Pesaran, Shin and Smith (2001)was conducted. Here, the author developed the critical values of the F-statistic for the asymptotic distribution.

Table 3: Bounds Test for Cointegration Results

F- Statistics	17.728138	
Number of independent variables - k	4	
Critical values	Lower bound	Upper bound
1%	3.74	5.06
2.5%	3.25	4.49
5%	2.86	4.01
10%	2.45	3.52

Source: Authors' computation from the data extracted from CBN statistical bulletin and World Development Indicators (1990 - 2018)

The results of ARDL bounds test revealed that F-test is 17.728138. The value of the estimated F-statistic of the model has exceeded the upper bound at the 1% level of significance. It is apparent from the results that there exists long-run relationship among the variables. This implies that the series are related and can be combined in a linear fashion, even if there are shocks in the short-run, which may affect the movement in the individual series, they would converge with time (in the long-run). Therefore, both the long-run and short-run models were estimated.

4.4 Long Run Dynamics

The long-run equilibrium relationship between the variables using the ARDL model (1, 0, 1, 0, 1, 0,0) was estimated. The results of the long run estimation are summarized in the Table 4 below.

Table 4: Estimated long-run coefficients in ARDL

Dependent Variable: RGDP

Method: Autoregressive Distributed Lags (ARDL)

Variables	*Coefficient*	*Std. Error*	*t-Statistics*	*Prob.*
lnDIN	0.137456	0.172778	0.795563	0.4344
lnDS	0.350857	0.327023	1.072883	0.2945
lnK	-0.307294	0.484266	-0.634556	0.5320
lnL	0.457929	0.196339	2.332337	0.0288

Source: Authors' computation from the data extracted from CBN statistical bulletin and World Development Indicators (1990 - 2018)

The results revealed that the coefficient of the total labour force (L) onlyappeared to be statistically significant while domestic industrial output (DIN), level of capital (K) and level of domestic savings (DS) in the economy have insignificant relationship with Real Gross Domestic Product (RGDP).

It was also showed from the results that domestic industrial output and domestic savings have positive relationships with real gross domestic product (RGDP) in the long run. This implies that a rise in the level of each of domestic output and domestic savings necessitated an increase in real gross domestic product (RGDP). The resulted supported the findings ofOgunsanya, Jelilov and Ozden (2017) which showed that positive relationship was found to exist between gross domestic product (GDP) and agricultural output in Nigeria.

Similarly, total labour force in the economy maintained both positive and significant relationship with real gross domestic product in the long run. This implies that Nigerian economic growth was accounted for by significant growth rate of work force. This is against the findings of Dan and Wanjuu (2016) thatnot only price related factors but also human capital, income levels and industrial output have not reached the desired threshold to achieve economic growth. Level of capital in the economy was found to have negative relationship with economic growth. By implication, it means that available capital stock has not been judiciously utilised to achieve the desired economic growth. This was in line with the findings of Oburota and Ifere, (2017) which revealed that manufacturing output, capital and technology were the major determinants of economic growth in Nigeria.

4.5 Short Run Analysis

After explaining the long run relationship of the variables, the short-run causality in the ARDL model (1, 0, 1, 0, 1, 0, 0) was estimated in the Table 5 below.

Table 5: Short-Run estimation from ECM

Dependent Variable: RGDP

Method: Autoregressive Distributed Lags (ARDL)

Variables	*Coefficient*	*Std. Error*	*t-Statistics*	*Prob.*
D(lnDIN)	0.027005	0.026840	1.006157	0.3248
D(lnDS)	0.068932	0.051276	1.344321	0.1920
D(lnK)	-0.060373	0.110521	-0.546257	0.5901
D(lnL)	0.089968	0.081144	1.108751	0.0279
CointEq(-1)	-0.196467	0.111866	-1.756272	0.0924

Source: Authors' computation from the data extracted from CBN statistical bulletin and World Development Indicators (1990 - 2018)

Similar to the long-run analysis, results in Table 4.5 also revealed that the coefficient of the total labour force (L) onlyappeared to be statistically significant while domestic industrial output (DIN), level of capital (K) and level of domestic savings (DS) in the economy have insignificant relationship with Real Gross Domestic Product (RGDP).

It was also indicated from the results that all the variables (with the exception of capital) have positive impacts on Real Gross Domestic Product (RGDP) in the short run which were confirmed by the signs and statistical significance of their coefficients. On the contrary, level of capital was found to have negative impacts on the Real Gross Domestic Product (RGDP) in the short run. The results of the short-run analysis revealed similar behaviour of the variables with that long-run dynamics during the study period. The sign of lagged error correction term {CointEq (-1)} was negative and statistically significant at 10% level. Also, the value of ECM coefficient is -0.196467which signifies the extent to which any disequilibrium in the lagged error correction term affects any resulting adjustment in domestic industrial output. It is the feedback or adjustment effect which shows that 19.6% of the disequilibrium converges back to the long-term equilibrium. This implies that there is long run stability in the domestic output growth after the initial shock due to short run fluctuation. Thus, confirming the adequacy and statistically efficiency of the model.

5. CONCLUSION

The results revealed that domestic industrial output did not have significant impact on economic growth in Nigeria both in the long run and the short run. It was concluded that the contribution of the domestic industrial outputto economic growth was appalling which was necessitated by the worrisome image of goods made in Nigeria. The implication here is that domestic production in Nigeria has been lagged behind in terms of output performance in the economy. It is therefore recommended that emphasis should be placed on local content and diverse domestic production in order to achieve a healthy competition in the industrial sector.

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