**Abstract**

The manufacturing sector is significant to economic development. In considering the Nigeria economic development experiences, this study is an insight on how manufacturing sector can influence Nigeria’s economic growth by facilitating the transfer of technology and other associated benefits. The objectives of the study were to determine the impact of manufacturing sector on Nigeria’s economic growth; and to investigate the major constraints confronting the Nigerian manufacturing sector. Data for the study was obtained from secondary sources, and the technique used in this research was the ordinary square regression method. The endogenous growth model was adopted as the theoretical framework of analysis. The study found out that industrial output is not statistically significant in terms of its influence on economic growth. Recommendations were made that; Government must ensure political stability and also invest in the people, since high economic performance is a function of the people working in the country (Capacity Development); Government should pursue favorable policy framework and provide necessary infrastructures and create an enabling environment that will foster huge investment in research and development.

**CHAPTER ONE**

* 1. **Background of Study**

The manufacturing sector plays a significant role in economic development. Industries act as a catalyst that accelerates the pace of structural transformation and diversification of economy to enable a country to fully utilize its factor endowment and to depend less on foreign aid and supply of finished goods or raw materials for its economic growth, development and sustainability. In other words, in Nigeria, it has always been realized that economic development requires growth with structural change. In considering the Nigeria economic development experiences therefore, it is instrumental to examine the growth and structural change in certain major aspects of the economy (Ajakaye, 2002).

Productivity is more in the manufacturing sector than in the agricultural sector.

The extended economic recession occasioned by the collapse of world oil market from the early 1980s and the associated sharp fall in foreign exchange earnings have adversely affected economic growth and development in Nigeria.

Other problems of the economy include excessive dependence on imports for consumption and capital goods, dysfunctional social and economic infrastructure, unprecedented fall in capacity utilization rate in industry and neglect of the agricultural sector; among others (Ku et al, 2010 Adesina 1992). These have caused fallen incomes and devalued standards of living amongst Nigerians.

Despite the introduction of structural adjustment programme (SAP) in 19986, was to address these problems, no notable improvement took place. From a middle-income nation in the 1970s and early 1980s, Nigeria is today among the 30 poorest nations in the world. The path to economic recovery and growth may require increasing production in puts land, labour, capital and technology and or increasing their productivity (Kayode and Teriba 1997).

A knowledge of the relative efficiency of industries in relations to economic growth and programs and polices especially in deciding on which industries should be accorded priority. In the light of the foregone, there cannot be a more appropriate time to evaluate the role of Nigerian manufacturing sector in the economic growth and development of the country than now.

* 1. **Statement of problem**

The Nigerian industrial development and manufacturing in Nigeria is a classic illustration of how a nation could neglect a vital sector through policy inconsistencies and distraction attributable to the discovery of oil (Adeola 2005). That the country’s oil is not major source of employment, and its benefit to the other sector in the economy is limited since the government has not adequately developed the capacity to pursue the more valued-added activities of the petrochemical value chain. As a result, the oil industry does not allow for any agglomeration of the technological spillover effects, Ogbu (2012) stresses.

Upon several government policies on the stability of Nigeria economy through manufacturing industry, there have been a lot of challenges facing the growth of Nigerian manufacturing sector as industrial by researcher. These challenges include: corruption and ineffective policies (Anyanwu 2007); lack of integration of macroeconomic plans and the absences of harmonization coordination of fiscal policy (Onoh, 2007), gross mismanagement/misappropriate of public funds (Okemini and Uranta, 2008); and lack of economic potential for economic growth and development (Ogbele 2010). Despite the emphasis placed on fiscal policy in the management of the economy, the management of the economy, the manufacturing sector inclusive, Nigerian economy is yet to come on the path of sound growth and development because of low out output in the manufacturing sector to the economy (GDP).

The near total neglect of agriculture and industries their primary source of raw materials. The absence of locally sourced imparts has resulted in low industrialization

Some of the constraints traced in this sector include:

**High interest rate**

* Dumping of cheap products
* Infrastructural in adequate
* Lack of effective regulatory agencies
* Unpredictable government policies
* Non-implementation of existing policies
* Low patronage
* Unfair tariff regime

It is in the light of the foregoing that this study seeks to evaluate the role of the manufacturing sector in the Nigerian economy.

* 1. **Research Questions**

The study would examine the following questions:

1. To what extent has the Nigerian manufacturing sector contributed to the economic growth?
2. What the major constraints confronting the Nigerian manufacturing sector?
	1. **Objective of the study**

This study has the central objective of exploring issues relating to how manufacturing sector can influence Nigeria’s economic growth by facilitating the transfer of technology and other associated benefits, while in specific terms the study is set to.

1. To determine the impact of manufacturing sector on Nigeria’s economic growth.
2. To investigate the major constraints confronting the Nigerian manufacturing sector.
	1. **Research hypothesis**

The hypothesis tested in the course of the analysis is stated below:

1. The manufacturing sector does not contribute significantly to the Nigeria economy.
2. There exist major constraints confronting the Nigerian manufacturing sector.
	1. **Significance of the study**

The study will contribute greatly in aiding the government, policy makers, economic planners, researchers and the academia generally. This will provide an insight and understanding to the government on how to be prudent in spending public funds to boost the manufacturing sector to bring about economic growth and development.

It will influence various economic units both in the public and private sectors of the Nigerian economy. The research report will be a veritable source of information to various categories of students as well as researchers wishing to conduct further research in this area. The findings of this research will assist monetary authorities in assessing the performance of the fiscal policy in Nigeria particularly in terms of their impact on the output of manufacturing sector. This work is also immense benefit to the policy makers and economic planners in terms of using its findings in formulating and implementing appropriate policy measures towards accelerating economic growth through the manufacturing.

* 1. **Scope of the study**

The study shows the role of Nigerian manufacturing sector in relation to the growth of the economy.

The major constraints that confronting the sector would be identified in the course of examining the overall development in the sector. The analysis of the contribution of the manufacturing sector to the economic growth of Nigeria is restricted to the period between 2013 and 2017 using only relevant performance indicators such as index of manufacturing production, manufacturing capacity utilization rate.

* 1. **Definition of terms**
1. **Productivity**: Is an economic measure of output per unit of input. Inputs include labour and capital while output is typically measured in revenues and other gross domestic product (GDP) components such as business inventories.
2. **Economic development**: The focus of federal, state and local government to improve our standard of living through the creation of jobs, the support of innovation and new ideas, the creation of higher wealth and the creation of overall better quality of life.
3. **Trade liberalization**: This is the removal or reduction of restrictions or barriers on the free exchange of goods between nations. This includes the removal or reduction of tariff obstacles, such as duties and surcharges and non-tariff obstacles such as licensing rules, quotas and other requirements.
4. **Industrial Policy:** Industrial policy of a country sometimes denoted IP, is its official strategic effort to encourage the development and growth of part or all of the manufacturing sector as well as other sectors of the economy.
5. **Economic liberalization:** This is the lessening of government regulations and restrictions in an economy in exchange for greater participation by private entities, the doctrine is associated with classical liberalism.

**CHAPTER TWO**

**LITERATURE REVIEW**

 Copious literature exists in manufacturing in Nigeria written by various authors and for various purposes. This fact underscores the essence, importance and relevance of this sector in the growth of any given economy. The experiences of developed economies in relation to the roles played by the manufacturing sector buttress the fact that the relevance of the manufacturing sector cannot be overemphasized especially among the less developed countries (LDCs) or rather developing countries.

In view of the above, this division of the study presents relevant literature by other scholars under the following sub-headings:

**2.1 Conceptual Framework**

**2.1.1 Concept of Manufacturing**: The process of converting raw materials, components, or parts into finished goods that meet a customer's expectations or specifications. Manufacturing commonly employs a man-machine setup with division of labor in a large scale production. Manufacturing commonly employs a man-machine setup with division of labor in a large scale production.

**2.1.2 Foreign Direct investment** (FDI) represents Investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor. Opaluwa et al (2012) examined the effect of Foreign Direct Investment (FDI) on the Nigerian manufacturing sector. According to Opaluwa et al (2012), most countries strive to attract Foreign Direct Investment (FDI) in the manufacturing sector because of its acknowledged advantages as a tool of economic development. For the purpose of this study, we expect FDI to be positively related to manufacturing output.

**2.2 Theoretical Literature**

Ajayi (2008) in a study of the collapse of Nigeria’s manufacturing sector on economic growth. He used cross-sectional research design and found out that the main cause of collapse in the Nigerian manufacturing sector is low implementation of Nigerian budget especially in area of infrastructure. This means that low implementation of fiscal policy affects the level of growth in Nigerian manufacturing sector. Rasheed (2010) investigated the productivity in the Nigerian manufacturing subsector using co-integration and an error correction model. The study indicates the presence of a long-run equilibrium relationship index for manufacturing production, determinants of productivity, economic growth, interest rate spread, and bank credit to the manufacturing subsector, inflation rates, foreign direct investment, exchange rate and quantity of graduate employment. This finding has research gap on the area of factors that affect manufacturing sector in Nigeria.

**2.2.1 Historical Performance of the Nigerian Manufacturing Sector**

Adenikinju and Chete (2000) conducted an empirical analysis of the performance of the Nigerian manufacturing sector over a 30-year period and observed that the sector was performing with satisfactory growth levels from 1970 to 1980. However, after that phase there was a sharp decline in the growth and profitability of the Nigerian manufacturing sector. Especially after 1983, the negative effects of the oil price collapse in the international oil market can be clearly seen on the sector’s performance. Due to that global oil crisis, the revenues of the Nigerian government sharply declined which resulted in reduction in foreign exchange earnings. This in turn forced the government to take several initiatives with the intention of strictly controlling its trade. There were several import duties enacted in the form of import licenses and tariffs, and some quantitative restrictions were also imposed on the importation of certain items. As a result, the manufacturing sector was badly affected because the manufacturers faced multiple problems when obtaining raw materials and spare parts for their products and processes. As a result of massive cutbacks in raw materials and spare parts, many of the country’s industries were shut down and the capacity utilization in the manufacturing sector declined.

**2.2.2 Structure and Performance of the Nigerian Manufacturing Sector**

The manufacturing sector is one of the most dynamic sectors in Nigeria. Manufacturing sector grew between 1970 (when the civil war ended) and 1982 using the index of manufacturing output. The average annual growth rate of manufacturing was more rapid during the later-half of the 1970s than during the first and began to accelerate at the first half of 1980s and manufacturing declines after 1982. The index of the manufacturing production showed the negative growth rate; 28.6, 12.0, 64.3 and 21.8 percent were recorded for the years 1982, 1984, 1985 and 1986 respectively (Manufacturers Association of Nigeria, 2012). Manufacturing industries in Nigeria so far has done well in production of goods to the nation.

Recently, study has shown that Nigeria goods are exported to other countries. Nigerians now patronize made in Nigeria goods. The performance of the industry sector improved slightly during the first half of 1997 where the industry production index 132.6 increased by 0.69 over its level in the first half of 1996 but declined by 0.2% below that level in the second half of the same year. The rise in output relative to the position during the corresponding period in 1996 was accounted for by 1.0 and 0.4% increase in mining and manufacturing production.

The structure of industrial growth was heavily based in favor of consumer-goods industries because food, beverage, tobacco, beer, spirit and textile industries dominated the structure of manufacturing activities. The overwhelming dominance of the consumer-goods sector both in value added and employment is evident. Durable consumer-goods industries which began to expand rapidly in the middle of the 1970s were yet to make significant impact by 1985. Similarly, the contribution of machinery and transport, equipment, mental fabrication, chemicals, energy and engineering industries to manufacture value added were insignificant. In 1981, due to the slump in international oil market, there was a sharp decline in the performance of the manufacturing sector.

This weak performance exposes the inherent weakness of the sector that had largely been sheltered by competition by the Import Substitution Industrialization (ISI) policy that the country adopted after independence in 1960. The ISI process was thus marked by the pyramid tariff structure with relative low duties on intermediate and capital goods import and progressively increasing duties on consumer goods imports. Under SAP (Structure Adjustment Programme), there was a modest increase in import substitution in durable consumer goods production while there was a significant decline of import substitution in nondurable consumer production. This showed that the manufacturing sector received the lion share of foreign exchange at the auction market. Industrial growth, especially raw material, machineries and spare parts typically absorbed 70-80% of auction funds with the remainder going to finished consumer goods.

The poor performance of the manufacturing sector can be attributed to many factors. These include the existence of trade barriers in industrial countries, the general poor macroeconomic performance of the economy which means weak aggregate demand, weaker demand for local manufacturers because of poor quality product and the influx of relatively cheaper imports. The high price of domestic manufacturers is partly due to the increased cost, inefficient and old equipment, inadequate infrastructure and the depreciating naira.

The failure of infrastructural service extends to the area of water supply and telecommunication. They have implications on the cost of producing manufactured goods and any extension, and on the competitiveness of domestic industries. Per Central Bank of Nigeria (CBN), as manufacturers are required to invest huge capital funds to provide alternative infrastructure facilities for their operation, domestic industries carry high cost/price structure which results in loss of competitiveness for their product in both domestic and foreign market. Since 1992-1993, industrial GDP has been tracked closely by crude petroleum and natural gas implying that crude oil exploration accounts largely for it. This leads to a paradox in definition, as the crude component as the name implies is “crude” with no real value added with a mining component defined as coal, metal ores and quarrying all primary products.

Industrial GDP fails to capture the term “industrial” in the popular sense of the word. It does not refer to the sum of productive processes involved in value adding to primary/raw materials to create a final good that can be consumed (Olapade and Olapade, 2010). More clarity can be obtained by painting a picture that takes into cognizance the nature of output and value addition. A bit of theory here, the Lewis 2- sector theory named after Arthur Lewis the first and only Blackman ever to win a Nobel Prize in Economics, proposes that every economy is made of two sectors initially. The first sector is a primary often agrarian labour intensive sector with the other being a capital intensive industrial one. Lewis left out the services sector as he felt that distributive activities take prominence after a country attains a high economic growth. More clearly, after countries have attained high growth rates, their citizens became less interested in efficiency and more agitated about equitable distribution of growth.

**2.2.3 Constraints of Manufacturing Sector of Nigeria**

 Nigeria’s manufacturing sub-sector consists of wide range industrial activities which include large to medium and small scale manufacturing enterprises as well as cottage and hand-craft units in the informal sector, using simple technology. The ownership of Nigeria’s manufacturing sub-sector is shared between the public and private sectors of the economy (Adegbie and Adeniji, 2012). Employment figures in the first half of 2010 dropped from 998,086 (January – June 2009) to 996,395 in the later-half of 2010 (Peter, 2012). However, there are many jobs that workers can do in the manufacturing industry. These include: upholsterer; machine operator; plant operator; textiles designer; instrument fitter; lock smith, etc. The most common hazards in the manufacturing workplace or any other workplace have been classified by Evans, Head and Speller (1994) under the following categories:

1. Mechanical hazards: determined by type of agent are; Impact force, collisions, fall from height, struck by objects. confined space slips and trips, falling on a pointed object compressed air/high pressure fluids (such as cutting fluid), entanglement, equipment related injury.

2. Types of Injuries: Crushing, cutting, friction and abrasion, shearing, stabbing and puncture

3. Physical hazards: Noise, vibration, lighting, barotrauma (hypobaric/hyperbaric pressure), ionizing radiation, electricity, asphyxiation, cold stress (hypothermia), heat stress (hyperthermia), dehydration (due to sweating).

4. Biological hazards include: Bacteria, virus, fungi, mould, blood-borne pathogens, and tuberculosis.

5. Chemical hazards include: Acids, bases, heavy metals, lead, solvents, petroleum, particulates, and asbestos and other fine dust/fibrous materials, silica, fumes (noxious gases/vapours), highly-reactive chemicals.

6. Fire, conflagration and explosion hazards: Explosion, deflagration, detonation, conflagration.

7. Psychosocial issues include: Work-related stress whose causal factors include excessive working time and overwork, Violence from outside the organisation, bullying which may include emotional and verbal abuse, sexual harassment, mobbing, burnout, exposure to unhealthy elements during meetings with business associates, e.g. tobacco, uncontrolled alcohol.

8. Musculoskeletal disorders: Injuries to bones and muscles and deformities are avoided by the employment of good ergonomic design. The chance that these hazards will result in an injury for workers is higher when they are combined with risk factors such as: lack of supervision; inexperience; lack of training; being uninformed about their rights; and feeling invulnerable that nothing can hurt you. When hazards are combined with risk factors (these are called dangerous combinations), the chance of injury, and the possible seriousness of the injury, increases. In Nigeria, a lot of workers have sustained work-related injuries and diseases which vary from minor irritations to injuries due to high exposure to hazardous and exploitative working conditions (Kalejaiye, 2013). The number of workers affected by work-related hazards and diseases continues to increase as more workers are employed to work in factory of obsolete machines with safety guards removed and companies simply cut corners on safety (Afolabi et al, 1993). Accordingly, Kalejaiye (2013) submitted that there has been annual mortality rate of 1, 249 per 100, 000 workers in Nigeria in past decades. Corroborating this, National Institute for Occupational Safety and Health (2002) reported that over 200 deaths occur in Nigerian work place while about 50 million workers are exposed to workplace fatalities (i.e. high enough to disable them) annually.

 More findings revealed that no fewer than 400 workers have lost their lives in the powder sector in the last two years while over 100 cases of work-related accidents occurred in the maritime sector with over ten deaths, numerous incapacitations and innumerable serious body injuries (Bello, 2010). This is an astronomical figure that remains completely below the radar and the real gravity of the situation often goes unrecorded. Another is the fire incident that razed a plastic factory in Ikorodu, Lagos in 2002 where many workers were roasted to death at night when the owners of the company locked the workers in the factory and went to sleep. Furthermore, Bello (2010) revealed that mill operators suffers high rate (83%) of upper limb, back and lower injuries while moving planks of wood into the machines. Also, Adebiyi et al (2006) estimated the cost of accidents in agro-allied industries in South-western Nigeria at 87.89 million dollars annually. In addition, per Oludele and Mayowa (2014), the Nigerian Institute of Safety Professionals reported in 2000 that overall 11,000 people were injured due to on-the–job accidents each year in chemical industry alone in Nigeria. In many workplaces hazard-victims and their families receive little or no compensation which put them in a more vulnerable position in the society (Kalejaiye, 2013)

**2.2.4 Problems of Manufacturers in Nigeria**

Dipak and Ata (2003), argue that the main problems facing the Nigerian manufacturing sector are the ongoing advancements in technology, as these are taking the international manufacturing market towards higher levels of consumption. When there is less protection for companies, these unprotected companies have to focus more and more towards the quality of their products and do so by increasing their expenditure on research and development. In Nigeria however, the research and development work is not being done at a good level required for the constituents to even see a steady growth in the performance of manufacturing organizations. It becomes necessary then, for the Nigerian government and the private partners to intervene in order for the situation to improve.

Enebong (2003) predicts that the level of the Nigerian manufacturing organizations‟ performance will continue to see a decline because as it is now, the manufacturers will have even more problems in accessing raw materials due to stiff competition from foreign firms. He theorizes that many of the policies implemented by the government in the late 1990s are still acting as barriers to manufacturing sector growth. Some of these policies include backward integration and the inward orientation strategies towards import substitution. The private sector also failed to play a significant role in the manufacturing industry; and there are certain reasons behind this such as import barriers, tariffs, licenses and other policies that resulted in raw materials unavailability. Adenikinju (2002) blamed the government for the current inefficient performance of the Nigerian manufacturing sector. The researcher claimed that the increased interference of the government in different issues related to the manufacturing industry minimized the role of the private sector and as such, the contribution of the private manufacturers seems to be very low in terms of manufacturing output.

**2.3 Empirical Review**

Adenikinju and Alaba (2000) conducted an empirical study which evaluated the Nigerian manufacturing sector’s performance with regards to the relationship between productivity, performance and energy consumption within the manufacturing organizations. Utilizing an aggregate model, the researchers measured the changes in the total factor productivity of the sector relative to the change in energy consumption. The research concluded that efficiency and productivity of the Nigerian manufacturing organizations are indeed related to the energy supply and energy price. While the energy resources were found to play a critical role in the manufacturing sector though, it was also discovered that the energy source alone cannot effectively improve the performance of the manufacturing sector in Nigeria. An important point identified in the research was that the manufacturing sector is too wedded to using old technology and as such, there is a great need for the adoption of more advanced energy-efficient technological devices and techniques. For this reason, reforms concerning the prices of energy options alone do not significantly affect the performance of the sector because it is hindered by the need for improved technology and energy supplies. Thus, the reforms in the energy sector need to happen alongside technological reforms, otherwise the manufacturing organizations cannot entirely enjoy the advantages of the energy resources.

Sangosanya (2011) used panel regression analysis model and Gibrat’s law of proportionate effect in investigating firm’s growth dynamics in Nigerian manufacturing industry. The study observed that the manufacturing firms finance mix, utilization of assets to generate more sales, abundance of funds reserve and government policies are significant determinants of manufacturing industry growth in Nigeria. The gap in this study is that the authors did not identify those environmental factors that affect the manufacturing sector and the implementation of fiscal policy.

Ojowu (2003), with his analysis of the situation of the Nigerian manufacturing sector, came to the point that capacity utilization is an important issue that must be properly addressed in all discussions and all measures to be taken in the future. The researcher argues that the sector is progressing very slowly due to low capacity utilization. Issues associated with capacity utilization such as capacity decline, capacity expansion and capacity mortality are essential discussion points in the issue of bringing quality into the performance of the Nigerian manufacturing sector. On top of these issues, the burden of external debt is also affecting the sector’s performance. The researcher also argues that the government is not giving enough attention towards the policies related to the manufacturing sector as compared to those of other sectors. To contend with Ojowu’s last point though, reforms must also be applied to different sectors that are associated with the manufacturing sector and not just the manufacturing sector itself; as the high or low performance of one sector can affect the progress of the others. For example, if the government works to improve infrastructure then the manufacturing of products will also be improved.

Alli (2010) however, points out that the government plays a very important role in the entire scenario of bringing improvements into the Nigerian manufacturing sector. The researcher observed some positive signs from the present Nigerian government and identified some of the major strategies that are being adopted with the intention of improving manufacturing sector performance.

According to Alli (12010), the government has realized that the manufacturing sector can act as the backbone of the economy and as it progresses in a positive direction, the country will consequently grow and prosper also. In this regard, the government has decided to make sure that the manufacturing sector will receive access to the domestic, regional and international markets. This is of course after adding value to the companies’ products; and for this, the sector will need to take advantage of the country’s oil and gas sector. The Nigerian government also seeks to apply the Public Private Partnership (PPP), wherein the government will invest in the development of infrastructure and will become a facilitator to the manufacturing sector. In effect, the manufacturing industry will gain great advantages from the improved infrastructure and the private sector will also be encouraged to invest in different productive manufacturing industries. Moreover, the government is also considering the cluster concept suitable for the economic condition of the country, keeping in view the geographical proximity and other ground realities.

Loto (2012) examined the relationship between global economic meltdown and the manufacturing sector performance in the Nigerian economy using descriptive analysis and pooled data. The result indicates that the global economic meltdown has insignificant effect on the manufacturing sector of the Nigerian economy. These empirical findings support previous literature on economic growth but it failed to use t-test or statistics in testing pre and post global economic meltdown which is research gap.

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However, according to Mazumdar and Mazaheri (2003), despite this uncertainty in the business environment some Nigeria companies are successfully operating in the country and getting high returns on their investments through superior competitive performance. The researchers analyzed the strategies and management planning of two Nigerian firms that have achieved a high level of performance in the business sector. They then highlighted the main factors that contributed towards the success of these organizations. Some of these factors were the introduction of transparent management policies, proactiveness in competitive strategies, among others

**2.4 Theoretical Framework**

There are a range of competing theories to the study of economic growth, development and diversification. Each approach has its strength and weaknesses with different ideological, theoretical and empirical conclusions. Consequently, alternative theories or models or hypotheses seeking to explain the growth of firms have been developed. These theories include;

 (i) the neo-classical theory

 (ii) the endogenous growth models

 (iii) managerial theory

 (iv) models with Penrose effects

 (v) theory of optimum firm size.

This study is anchored on the endogenous growth model. The motivation for the endogenous growth model stems from the failure of the neoclassical theories to explain the sources of long-run economic growth. The neoclassical theory does not explain the intrinsic characteristic of economies that causes them to grow over an extended period of time. The neoclassical theory focuses on the dynamic process through which capital-labour ratios approach long-run equilibrium. In the absence of external technological change, which is not clearly explained in the neoclassical model, all economies will converge to zero growth.

**Neoclassical Theory**

The neoclassical theory sees rising GDP as a temporary phenomenon resulting from technological change or a short-term equilibrating process in which an economy approaches its long run equilibrium. The neoclassical theory credits the bulk of economic growth to a completely independent process of technological progress.

According to neoclassical theory, the low capital-labour ratios of developing countries promise exceptionally high rates of return on investment. Based on this premise, it was expected that the free market reforms imposed on highly indebted countries by the World Bank and the International Monetary Fund should have prompted higher investment, rising productivity, and improved standards of living. Yet even after the prescribed liberalization of trade and domestic markets, many LDCs experienced little or no growth and failed to attract new foreign investment or to halt the flight of domestic capital.

The anomalous behaviour of developing world capital flows (from poor to rich nations) helped provide the impetus for the development of the concept of endogenous growth or, more simply, the new growth theory. The new growth theory represents a key component of the emerging development theory. The new growth theory provides a theoretical framework for analyzing endogenous growth, persistent GNP growth that is determined by the system governing the production process rather than by forces outside that system. In contrast to the traditional neoclassical theory, these models hold GNP growth to be a natural consequence of long-run equilibrium.

**Endogenous Growth Model**

The principal motivations of the new growth theory are to explain both growth rate differentials across countries and a greater proportion of the growth observed. In particular, endogenous growth theorists seek to explain the factors that determine the rate of growth of GDP that is left unexplained and exogenously determined in the Solow neoclassical growth equation (that is, the Solow residual). Models of endogenous growth bear some structural resemblance to their neoclassical counterparts, but they differ considerably in their underlying assumptions and the conclusions drawn. The most significant theoretical differences stem from discarding the neoclassical assumption of diminishing marginal returns to capital investments, permitting increased returns to scale in aggregate production, and frequently focusing on the role of externalities in determining the rate of return on capital investments.

By assuming that public and private investments in human capital generate external economies and productivity improvements that offset the natural tendency for diminishing returns, endogenous growth theory seeks to explain the existence of increasing returns to scale and the divergent long term growth patterns among countries. And whereas technology still plays an important role in these models, it is no longer necessary to explain long-term growth. A useful way to contrast the new (endogenous) growth with traditional neoclassical theory is to recognize that many endogenous growth theories can be expressed by the simple equation Y = AK, as in the Harrod-Domar model. In this formulation, A is intended to represent any factor that affects technology, and K again includes both physical and human capital. And there are no diminishing returns to capital in this formula, so the possibility exists that investments in physical and human capital can generate external economies and productivity improvements that exceed private gains by an amount sufficient to offset diminishing returns. The net result is sustained long-term growth an outcome prohibited by traditional neoclassical growth theory.

Thus, even though the new growth theory reemphasizes the importance of savings and human capital investments for achieving rapid growth, it also leads to several implications for growth that are in direct conflict with traditional theory. First, there is no force leading to the equilibration of growth rates across closed economies; national growth rates remain constant and differ across countries depending on national savings rates and technology levels. Furthermore, there is no tendency for per capita income levels in capital-poor countries to catch up with those in rich countries with similar savings and population growth rates. A serious consequence of these facts is that a temporary or prolonged recession in one country can lead to a permanent increase in the income gap between itself and wealthier countries. Perhaps the most interesting aspect of endogenous growth models is that they help explain anomalous international flows of capital that exacerbate wealth disparities between developed and developing countries.

The potentially high rates of return on investment offered by developing economies with low capital-labor ratios are greatly eroded by lower levels of complementary investments in human capital (education), infrastructure, research and development (R&D). In turn, poor countries benefit less from the broader social gains associated with each of these alternative forms of capital expenditure. Because individuals receive no personal gain from the positive externalities created by their own investments, the free market leads to the accumulation of less than the optimal level of complementary capital. Where complementary investments produce social as well as private benefits, governments may improve the efficiency of resource allocation. They can do this by providing public goods (infrastructure) or encouraging private investment in knowledge-intensive industries where human capital can be accumulated and subsequent increasing returns to scale generated. Unlike the Solow model, new growth theory models explain technological change as an endogenous outcome of public and private investments in human capital and knowledge-intensive industries. Thus in contrast to the neoclassical counterrevolution theories, models of endogenous growth suggest an active role for public policy in promoting economic growth and development through direct and indirect investments in human capital formation and the encouragement of foreign private investment in knowledge intensive industries such as computer software and telecommunications.

**Managerial Theory**

Managerial theories of the firm place emphasis on various incentive mechanisms in explaining the behaviour of managers and the implications of this conduct for their companies and the wider economy.  According to traditional theories, the firm is controlled by its owners and thus wishes to maximize short run profits. The more contemporary managerial theories of the firm examine the possibility that the firm is controlled not by its owners, but by its managers, and therefore does not aim to maximize profits. Although profit plays an important role in these theories as well, it is no longer seen as the sole or dominating goal of the firm. The other possible aims might be sales revenue maximization or growth (Davies 2005).

**Penrose Effect**

Penrose (1959) theoretically developed the research proposition that the finite capacities of a firm’s internally experienced managers limit the rate at which the firm can grow in a given period of time. One empirical implication that follows logically from this line of reasoning is that a fast-growing firm will eventually slow down its growth in the subsequent time period because its firm-specific management team, which is posited to be inelastic at least in the short run, is unable to handle effectively the increased demands that are placed on these internally experienced managers due to increased complexity as well as the time and attention that the new managers require from these internally experienced managers. Consequently, inefficiency in the firm’s current operations will follow if the firm maintains its high rate of growth. The research proposition that a firm cannot remain operationally effective if it maintains high rates of growth in successive time periods, and that consequently those firms with foresight typically will slow down their growth in the subsequent time period is known as the “Penrose effect” in the research literature, and this effect of dynamic adjustment costs has been examined and corroborated in a few empirical research studies.

How a firm evolves over time has been an important issue in the fields of strategic management and industrial organization economics (Kor and Mahoney, 2000; Nelson and Winter, 1982). Looking at the historical business record from an organizational capabilities and technology trajectories perspective, Chandler (1990) suggests that modern business enterprises arise from the economies of scale and scope that are made possible by the development of new technologies. Furthermore, a number of researchers who approach these business issues more deductively in economic science come to a similar conclusion to Chandler’s (1990) more inductive business history methodology by maintaining that a firm’s behavior is best understood as a path-dependent process, and that organizational capabilities develop dynamically.

Gander (1991) examines empirically the managerial limitations on firm growth by investigating whether there are decreasing (growth) returns to managerial resources (i.e., managerial diseconomies). Gander (1991) suggests that as the firm doubles its size, the firm has to utilize more than double its managerial resources to maintain effective coordination. Hence, Gander (1991) expects that managerial intensity in an industry (proxied by the ratio of managerial employment to industry asset size) should increase with the size of firms in the industry.

According to Penrose (1959), planning and executing expansion projects require the services of internally experienced managers. The reason being that the process of decision-making and coordination is too complex to be codified as a management “blueprint” that newly-hired managers could implement, and consequently the firm must, to some extent, rely on managers’ experience internal to the firm and on their experience working with other people within the firm as a team (Penrose, 1959). Since internally experienced managers could not be hired from managerial labor markets and could only be developed within the firm over time, there are limits to the rate at which a firm can grow at any time.

A firm that expands faster than it can increase its internal managerial capacities is likely to incur managerial problems and reduced effectiveness in its current operations (Ingham, 1992; Slater, 1980). These managerial problems then may hamper the firm’s growth and the development and deployment of dynamic capabilities in the subsequent time period. International expansion via direct investments is a corporate-level strategy that allows a firm to deploy and develop its organizational capabilities (Chang, 1995), but it also requires the services of a firm’s experienced managers.

**Theory of Optimum Firm Size**

Optimum firm is that firm which fully utilizes its scale of operation and produces optimum output with the minimum cost per unit production (Emerson 1983). In the short-run, a firm would build the scale of plant and operate it at a point where the average cost is at its minimum. This is regarded as the optimum level of production for the firm concerned, if the demand for the product increases from this least cost output; it cannot change the amount of land, buildings, machinery and other input in short period of time. It has to move along the same scale or type of plant. The average total cost, therefore, begins to rise due to the diseconomies of the scale.

In the long run**,** all inputs are variable. The firm can build larger plant sizes or revert to smaller plants to deal with the changed demand for the product. If the size of plant increases to cope with the increased demand, the average cost per unit begins to fall due to the economies of scale such as increased specialization of labor, better and greater specialization of management, efficient utilization of productive equipment, etc., etc. So long as the resources are successfully utilized, the average cost of production continues declining.

According to Emerson (1989), a stage comes when the firm is not able to use the least cost combination of inputs. The building of a still larger plant cause the average cost of production to go up. The point at which the per unit cost is the lowest is the optimum level of production for the firm

**CHAPTER THREE**

**Methodology**

**3.1 Research Design**

The period of analysis extends from 2005 to 2016. The econometric approach is multiple regression of time series data. The theory employed to examine the relationship between manufacturing output and economic growth, is the triangulation of Kaldor first law and the endogenous growth theory.

**3.2 Model Specification**

Kaldor first law states that there exists a close relationship between the growth of the manufacturing output and economic growth.

 The linear specification is;

RGDP = F MANU 1

 Where; RGDP and MANU are the growth of total output which (represents economic growth) and manufacturing output.

 The endogenous growth model reveals the essence of technological usage or technical efficiency in kick-starting economic growth with an economy. Technical or technical progress has been argued to depend on the strength of institutions which are the formal and informal constraints on political, economic and social interactions.

 The Endogenous growth model is of the form

 Y = AK L 2

 Where:

 Y = Real Gross Domestic Product (RGDP) used as proxy for economic growth A = total factor productivity or the efficiency parameter also called technological progress.

K = capital stock

L = labour.

 Assuming symmetry across industries, the same level of capital and labour is utilized by each productive unit or industry. The production function is expressed as;

 Where α&βare elasticity coefficient.

 Y = AK L 3

 It is assumed that A which is the efficiency parameter will depend on both the level of technology and quality of institution in the economy. The quality of institutions can be proxied by contract intensive money (CIM).

A = F TECH, CIM 4

 Where:

Tech = technology (time variable, one year represents one data point).

CIM = contract intensive money, calculated as broad money supply minus currency in circulation divided by broad money supply used as an indicator of institutional quality.

Substituting equation 4 into 3

Y = F TECH, CIM, K, L 5

For Nigeria to achieve sustained economic growth, the manufacturing 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 with emphasis on the technology. The model is further transformed, by substituting equation 4 into equation one which is the model of the kaldor’s law;

RGDP = F MANU, TECH, CIM, K, L 6

Where:

RGDP = Real gross domestic product (RGDP)

CIM = Contract Intensive Money

MANU = Manufacturing output

K = capital proxied by Gross fixed capital formation

 L = Labour force.

A parsimous specification of equation (5) in log form will be estimated for Nigeria; the time series properties of all variables will be tested to avoid spurious regression results.

**3.3 Nature and Sources of Data**

Data refers to facts, information, ideas which can be represented in figures, charts and graphs (Ozo, Odo, Ani and Ugwu, 2007). The nature and sources of data for this research is secondary data sources. The secondary data source is through the Annual Reports and Accounts of the Central Bank of Nigeria (CBN) under consideration in the research. Data will be collected from the Annual statements and accounts of the Central Bank of Nigeria (CBN).

**3.4 Technique of Data Analysis**

The technique used in this research is the ordinary least square regression method. It is a method for estimating the unknown parameters in a linear regression model, with the goal of minimizing the differences between the observed responses in some arbitrary dataset and the responses predicted by the linear approximation of the data.

**CHAPTER FOUR**

**Data Presentation and Analysis**

**CHAPTER FOUR**

**4.0 DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULT**

**4.1 DATA PRESENTATION**

**Table 4.1:** Data on Year, Real GDP(Gdp), Manufacturing output (Manu), Contract Intensive Money (CIM) and Technology Output (TECH) in Billion

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Gdp | Manu | CIM | Tech |
| 2005 | 22,269.98 | 1,778.73 | 414.76 | 6,032.33 |
| 2006 | 28,662.47 | 2,082.49 | 551.63 | 7,513.30 |
| 2007 | 32,995.38 | 2,401.19 | 733.67 | 8,551.98 |
| 2008 | 39,157.88 | 2,761.55 | 975.78 | 10,100.33 |
| 2009 | 44,285.56 | 3,170.82 | 1,297.79 | 11,625.44 |
| 2010 | 54,612.26 | 3,578.64 | 1,570.97 | 13,048.89 |
| 2011 | 62,980.40 | 4,527.45 | 1,905.57 | 14,037.83 |
| 2012 | 71,713.94 | 5,588.82 | 2,188.72 | 15,816.00 |
| 2013 | 80,092.56 | 7,233.32 | 2,676.28 | 16,816.55 |
| 2014 | 89,043.62 | 8,685.43 | 3,188.82 | 18,018.61 |
| 2015 | 94,144.96 | 8,973.77 | 3,472.26 | 19,636.97 |
| 2016 | 101,489.49 | 8,903.24 | 3,606.56 | 21,523.51 |

Source: Central Bank of Nigeria Statistical Bulletin, 2016.

**4.2 DATA ANALYSIS**

**Table 4.2.1: Test of Normality**

|  |  |
| --- | --- |
|  | Shapiro-Wilk |
| Statistic | df | Sig. |
| Gross Domestic Product | .944 | 12 | .552 |
| Manufacturing Output | .867 | 12 | .060 |
| Contract Intensive Money | .926 | 12 | .344 |
| Technology Output | .972 | 12 | .935 |

**Hypothesis:**

H­0: The data follows normal distribution.

H­­1: The data does not follow normal distribution.

**Decision Rule**

Accept the null hypothesis if p – value is greater than α = 0.05, otherwise reject.

**Interpretation**

According to the decision rule all the p – values is greater than α = 0.05, concluding that the data follows the normal distribution.

**Regression**

**Variables Entered/Removed**

|  |  |  |  |
| --- | --- | --- | --- |
| Model | Variables Entered | Variables Removed | Method |
| 1 | Technology Output, Manufacturing Output, Contract Intensive Moneyb | . | Enter |

**Model Summary**

**Table 4.2.2: Model Summary**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .999a | .997 | .996 | 1630.05572 |

**Interpretation**

The multiple regression coefficient R, coefficient of determination and the Adjusted R Square explain 99.6% of the variability in the dependent variable. The Manufacturing output, Contract Intensive money and Technology output explains 99.6% of the variability in the Real Gross Domestic product.

**Table 4.2.2: ANOVA Table**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | Sum of Squares | Df | Mean Square | F | Sig. |
| 1 | Regression | 8104376609.027 | 3 | 2701458869.676 | 1016.701 | .000 |
| Residual | 21256653.317 | 8 | 2657081.665 |  |  |
| Total | 8125633262.344 | 11 |  |  |  |

**Interpretation**

**F - Test**

**Hypothesis**





**Decision Rule**

Reject the null hypothesis if, otherwise do not reject the null hypothesis**,** Where 

**Conclusion**

Since the , I do not accept the null hypothesis and I conclude that the model is significant.

**Table 4.2.3: Coefficients Table­­­­ (T - Test)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | -5522.118 | 7250.639 |  | -.762 | .0014 |
| Manufacturing Output | 2.915 | 2.255 | .300 | 1.293 | .017 |
| Contract Intensive Money | 1.087 | 9.960 | .046 | .109 | .014 |
| Technology Output | 3.621 | 1.161 | .661 | 3.119 | .012 |

**INTERPRETATION**

**Regression Model**



**For Manufacturing Output**

For every 1 unit increase in Manufacturing Output the model predicts that Real GDP will decrease by 2.915 units.

**For Contract Intensive Money**

For every 1 unit increase in contract intensive money the model predicts that RealGDP will increase by 1.087 units.

**For Technology**

For every 1 unit increase in technology the model predicts that RealGDP will increase by 3.621 units.

**T - Test**

**Hypothesis**





**Decision Rule**

Reject the null hypothesis if, otherwise do not reject the null hypothesis

Where 

**Conclusion**

Since the, I do not accept the null hypothesis and I conclude all the Independent variables contribute to the dependent variable. I conclude that manufacturing, contract intensive money and technology.

**Chapter Five**

**Summary conclusion and recommendations**

5.1 **Summary**

In an attempt to explore the impact of industrial output on the economy with the inclusion of other variables affecting the economy (GDP) in Nigeria such as savings, inflation, and net foreign Direct Investment using the Ordinary Least Square (OLS) estimator, the findings were made.

1. Manufacturing sector was statistically significant in terms of its influence on the economic growth.
2. The sign observed is positive but not strong to be significant. It is deserved that industrial output is not significant to improving the level of economic growth, although it has a positive relationship with GDP but was not significant to improve the level of economic growth.
3. Inflation had a negative relationship with GDP. Manufacturing sector had a positive relationship with GDP while savings had a positive relationship and also a significant impact on economic growth.
4. The above findings call for strategic policy recommendation so as to restructure industrial output on the right track so as to impact significantly on economic growth (GDP).

5.2 **Conclusion**

The result of the analysis however, shows that manufacturing sector positively and significantly impact on economic growth in Nigeria for the period under review. This contradicts the conclusion of some existing studies reported in our literature. The work of Borenztein et al. (1998), Oyaide (1977), Eke et al. (2003), and Egbo (2010), however, shows a positive and significant relationship between manufacturing sector and economic growth. The reason for the non-conformity with some study could be as a result of unfavoraurable macroeconomic environment in Nigeria, like the general price level, interest rate, exchange rate etc. It may also be as a result of the data employed. The previous works reported in our study did not adjust the figures of GDP to take care of inflationary influence, but our study did. From the result of the Granger causality test, it was discovered that there is a unidirectional causality between FDI and GDP such that causality runs from GDP to FDI. Looking at this result, we conclude that it is the growth in the domestic economy that attracted the inflow of FDI into the Nigeria economy for the period under consideration. This is based on the understanding that an economy with a potential for providing higher return on investment will attract more foreign investors as they (foreign investors) prefer to invest in an area that promises higher returns on investment.

**5.3 Recommendations**

Government should ensure political stability and also invest in the people since high economic performance is a function of the people working in the country (Capacity Development).

Government should pursue a favorable policy framework and provide necessary infrastructures and create an enabling environment will foster huge investment in research and development.

 Government industrialization policies should be one that creates fair playing grounds for foreign investors as this will go a long way in increasing our Foreign Direct Investment which in turn leads to enhanced economic growth. Some of Nigeria’s key medium term challenges to attracting investment in the manufacturing sector are its challenging business environment, widespread corruption, and high levels of poverty. These issues could see companies looking to enter the West African market choosing Ghana rather than Nigeria, especially since Ghana has a significantly more investor-friendly business climate.

The Bank of Industry (BOI) should be ready to aid Nigerian industrialization along Nigeria’s line of development and not a total shift to accepting models which worked elsewhere given their environment and circumstance which differs from place to place. There is also the need for proper allocation and management of existing industries so as to ensure proper and positive linkage effects on the economy. Awareness also needs to be made for people or investors and industrialization to be aware of opportunities available whereby they can obtain credit form the World Bank. The general and common problem faced by a developing economy like ours – inadequate infrastructure should be tackled by the government efficient production and distribution need reliable supply of electricity, water a good transportation network. The presence of these lessens the burden of industrialists and thus enhances their ability to service their debt obligations.

The Nigeria industrialist could as well assist in many wastes to achieving the nation’s long goal of industrialization – through better organization of their businesses and by preparing good feasibility studies and keeping proper books of accounts. This applies more specifically to the small-scale industries that seem more favored by the Bank of Industry who see based on experience government’s king size industrial dreams as wastepipes through which scarce resources are lavished. Productivity is the most desirable form of economic growth. Hence, there is need to encourage and accelerate the factors that affect productivity in the country especially manpower and skills for as long as productivity is low, there cannot be a meaningful growth. Effort should be made to increase agricultural productivity through the supply of necessary inputs to farmers.

Since the issue of electricity is one of the biggest obstacles for the development of the industrial sector, and therefore improving electricity generating capacity will be an important driver of industrial growth and development.

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