MANUFACTURING IN NIGERIA: HOW HAVE WE FAIRED?

Historical Background

The impact of manufacturers is vital to any economy. Manufacturing dates back to the ancient world. For many centuries, the typical manufacturer was a single skilled artisan with assistants. The artisans kept the secrets of the production and transferred the knowledge only to apprentices. Production was only for manual operations.

The Industrial Revolution was a crucial point for manufacturers as new technologies like steam engines enabled the mechanisation of production, which increased the volume of the goods produced. As a result, by the start of the 20th century, manufacturers turned to mass production to make goods.

Businesses and individuals create value from raw materials by refining or processing them into more useful finished products. This creates wealth in the form of profit, making it a profitable venture.

The nature of manufacturing processes and operations continues to change over time. The type and amount of the workforce needed varies depending on the nature of the desired finished product. Products are manufactured using more traditional processes or special purpose machines. Traditional techniques are associated with long-established arts comprising carpentry, metalwork, leatherwork, or textile production. At the same time, special purpose machines facilitate large-scale manufacturing, which does not require as many manual operations.

Regional Analysis

China continues to be the global leader in manufacturing. With the fastest growing trillion-dollar economy ($14.14T in 2019), the nation's wealth is bolstered by massive industrialisation and a robust manufacturing and trade sector. The entire world experienced an acute shortage of raw materials and intermediate inputs when China's government shut down exportation because of the Coronavirus pandemic. This had implications for import-dependent markets like Nigeria, affecting capacity utilisation, employment generation and retention and adequacy of products' supply.

Manufacturing in Nigeria

Before the oil boom of the 1970s, manufacturing contributed approximately 10% to Nigeria's economic output. After that, increased revenue from oil caused the sector's relative Gross Domestic Product (GDP) share to decline. The recession in oil prices in the 1980s forced government attention back to other industries like manufacturing. Ever since then, the nation has made numerous attempts at economic industrialisation. This triggered series of policies that enacted trade restrictions, sector incentives, and structural reworks to expand local production. From the government's abolition of the Approved User Scheme (AUS) and the General Concession Rates of Duty (GCRD) in the 70's to the more recent Vision 20:2020, manufacturing in Nigeria has come a long way.

With activity concentrated in cities like Lagos, Ibadan and Port-Harcourt, Nigeria's manufacturing sector comprises thirteen broad categories. These are,

- Oil Refining;

- Cement;
- Food, Beverages and Tobacco;
- Textile, Apparel, and Footwear;
- Wood and Wood Products;
- Pulp Paper and Paper products;
- Chemical and Pharmaceutical products;
- Non-metallic Products, Plastic and Rubber products;
- Electrical and Electronics, Basic Metal and Iron and Steel;
- Motor Vehicles and Assembly;
- and Other Manufacturing.

Sector Performance

Nigerian manufacturing has been growing consistently in recent years, barring the year 2020, in which the pandemic-induced lockdown caused the sector to contract by 2.75%. Three subsectors, namely food and beverages, cement, and textile, have been responsible for this growth, accounting for 77% of all manufacturing output. Breweries and flour mills are also significant contributors. Oil refining will become a major subsector once Dangote Refinery takes off. The integrated refinery and petrochemical project is expected to double Nigeria's refining capacity and help meet the increasing domestic fuel demand while generating foreign exchange through exports.

The nation's post-COVID-19 recovery in manufacturing activity is well underway. In Q1 2021, the **sector GDP** was ₦6.11 trillion (**+3.4%**), contributing **15.3% of total GDP**. This growth trend is expected to continue through 2021. The growth in local production was inspired by government action. Pertinent sectoral incentives spur investor interest, which leads to more output and ultimately makes it cheaper to buy local. Trade restrictions have made foreign alternatives prohibitively expensive or unavailable altogether. Other factors may include the facilitation of more affordable funding, inequitable foreign exchange policies, and so on.

Challenges

The biggest impediment to manufacturing in Nigeria remains power supply, or the lack thereof, with alternative power sources adding to overhead cost, thus reducing profitability. Another barrier is the general problem of industrialisation in Nigeria, which covers ineffective policies, poor infrastructure, and the scarcity of skilled labour. The lack of finance and access to credit is an additional problem. Industries that depend on importation for raw materials and machinery face issues with the high exchange rate. Finally, there's the public perception of local goods as substandard and cashflow problems from late payments by customers.

Future of Nigeria's Manufacturing

COVID-19 was the wake-up call Nigeria needed. The lessons learnt are redefining every sector, a chief one of which is manufacturing. The pandemic hit manufacturers in an unexpected and unprecedented way. For the first time in modern manufacturing history, demand, supply, and workforce availability were affected all at once globally. The only unaffected companies were those into vital goods such as FMCGs, personal care, pharmaceuticals, etc. Other industries faced a sharp drop in demand and were forced to cut operational costs or completely shut down.

Nigeria's future will be more local. The pandemic revealed the unsustainability of depending on imports for basic needs. In the aftermath of the crisis, governments will likely build strategic resilience using domestic manufacturing. This movement will lead to a myriad of opportunities for new ideas. Innovations that optimise production using local resources and technology will drive the next decade. Automation will be vital in driving the recovery of local manufacturing. There will be a blowup of job opportunities for low-skilled labour, as well as digitally savvy workers. There will most likely be increased government support—more incentives, import bans, and, notably, better infrastructure and distribution channels. Railway service to key cities like Lagos, Kano, Port-Harcourt, Abuja, and Ibadan will either be newly set up or resumed if already existent.

These trends will lead to a more agile and digitally-enabled workforce, differentiated supply chains by customer segment, resilient and distributed IT infrastructure/systems, more digital channels, and E-commerce platforms.