

MANUFACTURING SECTOR IN A GLOBAL ECONOMY (NIGERIAN PERSPECTIVE)

Robert Akor and Idoko, C. U.

Abstract

Manufacturing sector plays a very significant role in the industrial revolution of any country. It has remained a powerful force transforming or shaping the economy of the developing and developed nations. In conventional economic theory, globalization has increased trade worldwide. This paper discusses the importance of manufacturing sector in industrial revolution of any nation. The paper also looks at globalization in the content of world economy. The paper went further to x-ray the current status of Nigerian manufacturing sector, benefits, constraints and makes recommendation that could enable Nigeria benefit from the global economy.

Introduction

Manufacturing as we know it today, has its genesis in the industrial revolution of the late eighteenth century. According to Tersine (1981), manufacturing is concerned with the creation of goods. It involves the design, planning, operations, and control of the systems that produce goods. It is any process or procedure for transforming a set of inputs into desired outputs. Manufacturing means the transformation of inputs (the resources purchased or provided to the organization) into outputs (the products the organization sells or distributes) or tangible physical product.

The analysis of manufacturing is concerned with how organizations with given "state of art" (technology) combined various inputs to produce a stipulated output in an economically efficient manner.

Manufacturing is conceptually, the inner core of the organization and has little formal structural contact with the external environment. The other major functional areas (finance and marketing) have much more contact with the external environment.

Today, nothing is more topical than the likely sweeping effects of globalization on economics of many developing countries when fully adopted. The situation is even more precarious in the case of our country Nigeria, as the country's manufacturing base has remained weak (Ajayi, 2003). Like most other developing countries, Nigeria has experienced many economic problem in recent years. For instance, while growth in national output only has been minimal in most countries, it has actually stagnated or declined in Nigeria and many African countries, thus, under-utilization of production resources (Uduebo, 2003).

Nigeria has also experienced, to varying degrees, balance of payments, problems accentuated by huge debt service obligations, increased need for foreign exchange resources to finance imports and build-up external reserves.

The economy is still characterized by low productivity arising from inefficient infrastructural support and weak industrial base. Ugwu (2002), states that, in spite of the recent improvement in power supply and telecommunication the provision of infrastructural support services remain inadequate for operation of business and industry, which require urgent and priority attention. The manufacturing sector in particular is still constrained by supply-side rigidities. The socio-economic environment suffers from distortions in such key macro-economic indicators as inflation, interest and exchange rates culminating in cost escalation.

In the world today, no one country can say that it would have nothing to do with the rest of the world. I expect the inter-dependence of counties to continue to grow as innovations bring up new products and new ways of doing things through technology.

What is Globalization in the Context of World Economy?

The term globalization is widely used worldwide today, although it may mean different things to different people. Ajayi (2003) loosely defined globalization to mean that the world is becoming compressed into a single space. When McLuhan, spoke about "the global village" in the 1960s, he was referring to how the media was becoming more globally by the day.

Today the term has become part of the global consciousness. Globalization is generally presented as something new and alien. Far from being a sweeping new force in world affairs, globalization is just a handy word for the internationalization of trade and capital. It could thus, be defined as the process of greater interdependence between nations. The other name for this process is free trade. Historically, what many people fear today was commonplace about a hundred years ago. To the proponents of the new economic order, globalization will bring about efficiency in industries, competitiveness and efficient allocation of resources and speedy growth of economy in general.

However, there is something different about this global economy that is separate from being just more trade and more investment economy. A global economy is one whose strategic core activities include innovation, finance and corporate management function on a planetary scale on real time. That means, today people can deal with the whole world 24 hours a day. You can do business in the whole world on real time. No more travel, no more space problems. The other thing about it is that knowledge is now the most valuable commodity in this global economy, and that makes it very different from previous international economies. It is knowledge, which is the key product and the key input of the global economy (Ajayi, 2003). And knowledge is extremely mobile, it can move in a second.

In Nigeria, since the term globalization was first coined it has been the preserve of a handful of intellectuals and specialist. No one in the government, the business community or among the intelligentsia has attempted to explain to ordinary citizen how globalization is going to affect him or her. One has admitted that the obligations taken on by the government (WTO) will turn the lives of ordinary people and the societies in which they lived upside down.

Most proponents of globalization generally see globalization as a process of freeing economics particularly so that trade between countries can take place more easily. Globalization to them, is about the spread of the capitalist system, modern technology to every economic growth (an increase in production of goods and services) will occur. To them freeing up means providing more opportunities for business to make profits and reducing the state's role as a producer or delivery of services. The World Bank in its 1995, development report stated that, "increasing globalization helps to expand opportunities for nations and, on average helps workers in rich and poor countries alike". Camdessus (2003), in his comment on globalization also said inter-alia "Globalization is a positive development for the world economy. To being with globalization is the continuation of the trend of growing openness and integration among economies that has brought the world half century of unparalleled prosperity. Ruggiero (2003) opines that "anyone who believes that globalization can be stopped has to tell us how he would envisage stopping economic and technological progress; this is tantamount to trying to stop the rotation of the earth". In summary globalization; is natural and inevitable part of historical change; will increase wealth and prosperity for all countries and people including workers, this is the only possible path for the world economy.

Benefits of Globalization

Ugwu (2002) expressed that greater integration with the world economy through trade and capital flows has afforded some developing countries the avenue to partake in the opportunities and benefits of globalization. Furthermore, it has also helped them develop their comparative advantages and gain access to new, more appropriate technology, while financial liberalization has increased their access to international private capital, permitting them to realize much higher rate of economic growth.

In conventional economic theory, the advantages of globalization lead to increase trade worldwide. The importer is importing goods that are more efficiently produced elsewhere at the less cost/price possible and in the best possible quality and form. The exporter drive the most gain, as their industries will be running at full capacity thereby, reaping economies of scale. More jobs will also be created and hence their economies will be experiencing increasing prosperity.

Under globalization, it is expected that the role of government will become more de-fused and borders more porous or might even disappear. Technological change is already reducing the power and capacity of government to control its domestic economy free from external influence.

Current Status of the Nigerian Manufacturing Sector

Some defenders of globalization often argue that it will engender a new kind of competition, will lead to increase prosperity for all. But if we look at what is going on around us there is little evidence for the emergence of competition.

A lot of big business are busy acquiring and merging with others to become even bigger. The merger mania, which goes on and on, is the sign of the disappearance, and not emergence of competition. As we deregulate, the mergers increase which means there is less and less competition at the national regional and also the international levels. A recent international report indicates that today only five firms control 50 percent of the global market in aeroplane, electronic components, automobiles, airlines and steel. Five companies control 70 percent in consumer durables, while just 5 companies control 40 percent in oil, personal computers and the media. This evidently is a sign of loss of competition. Unfortunately, none of these firms is in Nigeria. Where, then, is the opportunity for Nigerian manufacturing firms to exploit in the global market?

For many years the manufacturing landscape has been dominated by subsidiaries of large international firms, packaging for sale in Nigeria, manufactured products that were hitherto imported. The structure had remained over the years with little or no linkage with other sectors of the domestic economy. For these firms, raw materials, spare parts and machine components are naturally imported with little or no value added. Most of the agro-allied manufacturing firms that were established could not survive for too long due to myriad of problems resulting from lack of basic infrastructure and raw materials to low patronage by large firms. The export market is a no go area to many of these firms as most of their products are usually not in the best quality and with cost very uncompetitive. As the economy is increasingly being opened up "many of these firms face competition from products of advanced countries that are of better quality and cheaper at the expense of the survival of Nigerian firms. Any wonder then why many manufacturing firms have been dying because they cannot continue to produce what they will not be able to sell.

Given these scenarios, it is very difficult to understand why many well-educated Nigerians consider the fact of turning the country into a dumping ground for foreign goods. It is highly unfortunate, that the same set of people complains about the mobility of naira exchange.

The Pace of Nigeria's Integration into the World Economy

Obadan (2003) opines that though developing countries as whole has not become more integrated with the world economy, Nigeria has not kept pace with the whole. In other words, Nigeria is least integrated into the world economy. While developing countries as a whole have increased their share of world trade from 19 percent in 1991 to 29 percent in 1999, Africa as a whole performed poorly with its share of world trade being less than 2 percent in 1999. Specifically, the share of sub-Saharan Africa (SSA) in global trade fell from 3 percent in 1960 to 1.6 percent in 1997. Besides, Africa was the only major region in the world to experience an absolute decline in export earnings per person between 1980 and 1996 (Sachs and Sievers, 1999). This is in spite of the fact that since the mid 1980, most African countries have trade regimes, invariably in the context of world bank-IMF supported adjusted programme or regional arrangements.

What is dear then is that poor countries in Africa and elsewhere are not only the least integrated internationally they have the underdog of the global economy heavily burdened by debt and poverty, and highly disadvantaged in participating in the global economy. They have not been able to take advantage of the opportunities offered in the spheres of wider markets for trade, an expanding array of tradable, large private capital and to improve access to technology.

Why has the Manufacturing Sector Lagged Behind in Global Economy?

Bello (2004), expressed that in spite of the abundant human and natural resources the country has been blessed with; the industrial sector is yet to attain the desired growth. Tallen (2003), felt that a nation's abundance in these resources should normally translate into the wealth of the nation. This explains why Nigeria is rated among the 25 international debt laden countries in spite of all these abundant resources, Nigeria is lagging behind.

The Nigeria manufacturing sector is still constrained by numerous problems, which has retarded our integration into the world economy. The manufacturing sector has remained beset with the absence of long-term funds with the implication of continuing predominance of short-term investment in the economy. The manufacturing sector is still weak, tepid and remained distressed. This is evident in the trend in the key performance indicators such as capacity utilization, local sourcing of raw materials, distress in aggregate demand, weak infrastructure and deteriorating energy supply in particular, supply from NEPA and inadequate supply of petroleum.

There is a negative impact of globalization on manufacturing sector because of Nigeria's disadvantage. This resulted from the massive and indiscriminate importation of finished goods from other countries with more congenial operating conditions. Furthermore, there is persistent dependence on imported raw materials and other inputs which of course, has serious implications for the pressure on the external sector, the naira exchange rate and the competitiveness of the industrial sector (Young, 2002).

There is adverse interest rate situation, which has become a very critical factor in the opening cost of many manufacturing firms in recent times.

Manufacturing sector have to pay corporate tax, excise duty, withholding tax, value added tax and education tax as well as other numerous taxes/levies imposed by state and federal government.

Solutions to Overcoming Constraints in Manufacturing Sector

In order to reposition the manufacturing sector so as to enable her participate in the global economy (Odevemi, 2003) advocate the following:

1. The economy could be reflected by: stabilizing and keeping fiscal deficits, interest, inflation and exchange rates at acceptable low levels.
2. That we should reduce the cost of doing business through strengthening of the nation's infrastructural facilities and making the regime industrial relations and bureaucratic processes business friendly.
3. The manufacturing sector should try to accelerate and sustain the momentum of the anti-corruption crusade of government in order to ensure probity and transparency.
4. Government should minimize existing leakages and unproductive transfer payments in the economy of life and property of the citizenry and promoting and sustaining policies on guided deregulation, privatization and trade liberalization in order to further boost local and foreign investments in the country ensuring adequate security.
5. Government should also enhance greater capacity utilization in industries, through operation and a fair and affordable tariff regime.
6. Government should equally reduce tax burden and tackling of the menace of dumping of smuggled goods, under-invoicing and importation of all sub-standard goods into the country.
7. Government should put in place necessary financial facility and a comparative research and development programme that would encourage the use of local material in domestic industries.
8. Appropriate reform should be put in place to ensure the availability of long-term funds in the financial system in order to provide adequate financial support to enhance growth in the manufacturing sector.
9. The energy sector should receive urgent priority towards the rehabilitation and revitalization of all electricity power generating plants and oil refineries to eliminate the perennial power supply failure and shortage of petroleum products.
10. Maduako (2003) also feels that government should firmly enforce the directive to all its ministries and agencies on patronage of made-in-Nigeria goods. A public awareness campaign

to sensitize on the developmental significance of patronage of home made goods should be mounted.

Conclusion

So far, the paper has highlighted the obvious that there have been problems in the manufacturing sector. It is the believe of this author that the manufacturing sector should be given the desired attention which will not only enhance manpower development but also would lead to sustainable growth and development of the entire economy, thereby allowing us benefit from the global market.

References

- Tersine, C. (1981). Production / operation management: Concepts, structure and analysis. North Holland.
- Ajayi, A. (2003). Globalization and manufacturing sector. *The Nigerian Tribune*, pg 40.
- Uduebo, M.A. (2003). Africa experience with policies for export growth and Economic development. *Nigerian Tribune*, pg. 6 & 32.
- Ugwu (2003). How government policies, operating environment retard our Growth. *The Vanguard*, 'Pg-21.
- Reggero, R. (2003). Globalization and manufacturing sector. *The Nigerian Tribune*, pg. 40.
- Bello, S. (2004). Decline in agro-raw materials stifles industries growth. *Vanguard*, pg. 17.
- Tallen, P. (2003). Science and technology: achieving productivity through knowledge, application and production. *This Day*, pg. 31.
- Young, M. (2002). High interstates, multiple taxes inimical tp economic growth, Laments LCCI. *Vanguard*, pg. 76.
- Obadan, M.I. (2003). Globalization and economic management in Africa. *The Nigerian Tribune* pg 25.
- Odeyemi, J. (2003). Manufacturing sectors in democracy: New beginning, fresh challenges *Vanguard* pg. 22.
- Maduako, C. (2003). Our expectation from Obasanjo this time, by NACCIMA. *Vanguard*, pg. 22.