

## Industrialization as Imperative for Sustainable Economic Development in Nigeria

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### Abstract

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There is very strong evidence in support of industrialization as a key determinant of economic growth/development in the developed economies. This evidence is also manifesting in many developing nations as recorded in many literatures and as we practically see some developing nations migrating from agrarian economy or mono economy to industrial led economy or diversified economy. This study is on industrialization as imperative for sustained economic development in Nigeria. It examines Nigerian's industrial policy and economic performance focusing on the analysis of the structural changes in its manufacturing sub- sector associated with some key policy options since after independence. The aim of the study is to show how the industrial sector, or the manufacturing sub-sector in particular has contributed to the growth/development of the economy. It combined descriptive/trend analysis and econometric analysis (through the use of unit root test and ordinary least square technique) for its empirical study and found that the manufacturing sub-sector though significant in its relationship with economic growth has not contributed enough towards economic development of the nation. It also found that many of the policies that Nigerian government has adopted over the years that yielded little or no result are the same policies some developed nations adopted that made them what they are today. This means that Nigeria authorities know what to do but has failed to do it right. The policy implication is that the road to Nigerian's industrialization has been discovered, but for Nigeria to join the rest of the developed world (as regards sustainable economic development) requires a change in the mind set of the people which can only be possible through a holistic and revolutionary change in governance and overhauling of the institutional framework at all levels of government.

**Keywords:** *Industrialization, Economic Development, Manufacturing, Nigerian economy, Re-orientation.*

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### **Background to the Study**

At independence in 1960, the nature of the Nigeria economy was still agrarian and underdeveloped as the colonial master (Britain) did little or nothing towards industrialization in Nigeria (Banjoko et al 2012). For instance, the contribution of manufacturing to total gross domestic product (GDP) in 1960 was 3.2% (CBN 2020,). Agricultural production dominated economic activities accounting for 63 per cent of total GDP and 80% of export earnings (Ekpo 2014). This scenario perverted because the foreign companies (mainly from Britain) concentrated in trade and commerce especially in the exportation of Nigeria's primary goods and importation and distribution of goods manufactured in Britain and some other countries. With this understanding and knowing that developing countries need more industries especially manufacturing industries to promote economic growth and development to an optimal level (Olusegun 2021), Nigeria immediately put-up measure and policies towards industrialization. This is because industries have been recognized to be an important indicator of economic growth as marginal revenue products of labour in industries are higher than that of the agricultural sector (Todoro & Smith 2020, Jelilov et al 2016). Also evidence abound, showing that many cases of high rapid and sustained economic growth in modern economies are associated with industrialization especially growth in manufacturing production (Szirmai, 2009).

The objectives of most industrial policies/industrialization strategies are to increase the rate of industrial development through innovations by radically increasing the value added at every stage of the production process and to achieve economic growth, full employment and balance of payment equilibrium. Indeed, the growth of the economy implies the expansion of all sections of the economy - high levels of production, high standard of living and overall achievement of all the macroeconomic objectives of the economy such as high levels of employment, reduction on inflation and high levels of output (Unugbon 2010). However, for these policies to be fruitful and achieve the desired goal - industrialization, the government must create enabling environments that are conducive for business activities (Diendo 2013; Jehilov, Enwerem & Isik 2016). But the enabling environment that is conclusive for business activities may be hard to be achieved without social and economic equalization, which is rooted and grounded in the promotion of the political, social and economic empowerment of the people through value re-orientation embodied on honesty, rationality, integrity and self-reliance. It is also said that the dynamic benefits of the manufacturing sector are activating economic transformation in modern economies. Industrialization, however, is also responsible for speeding up investment capital in the agricultural sector which brings about agriculture mechanization (Afolabi & Ogoh 2017).

By 1960 the share of manufacturing to total gross domestic production (GDP) was 3.2% and grown to 5.4% and 13% in 1977 and 1992 respectively but fell to 6.2% in 19993. It recorded lower than expected in 2000 and 2013 with meager rate of 4% as 6.5 % as its contributions to GDP. In 2020, the value- added manufacturing as a percentage of GDP rose to 12.67% (World Bank 2022). The contribution of the industrial sector to economic growth is more interesting as its share to GDP in 1981 and 1991 were 51.89% and 54.895 respectively. It however recorded a decree in 2001 with a share to GDP of 44.15% and further in 2011 with a share or

42.86%. This decrease continued in 2012 and 2013 as it contributed 29.04% and 34.54% to GDP respectively (CBN 2014). In 2021 the contribution of the industrial sector to GDP stood at 31.41%. (<https://www.statista.com>>). This downfall in the contribution of the industrial sector to GDP (in 2001 through 2023) could be attributed to decline in the output of crude petroleum and material gas occasioned by insecurity in the oil producing areas. These records are striking, one might think that the increase in world oil price during 2011 through 2014 could have made a positive change in industrial sector contribution to GDP. It also suggests that the other sub-sectors of the industrial sector are relatively inactive. Also the drastic decline in the industrial sector's contribution to the GDP in 2011 is shocking. It implies that the huge amount of fund governments of different regimes had mapped out in their budgets (for such sectors like power, transport, research and development, security etc) to increase and enhance the contribution of the industrial sector to GDP and equally bring a sustainable economic development in the economy as embodied in the vision 2020 are all mere illusion. It is unfortunate that the growth of the Nigerian economy depends more on exogenous factors such as the global oil price, for instance the country experienced negative growth rate of 1.6% in 2016 and 0.8% in 2017 which is attributed to the collapse of international oil price between 2015 and 2018 (UNCTAD 2018).

Nevertheless, for decades past, Nigerian government had formulated and implemented different industrial policies/industrialization strategies in order to facilitate and expand the horizon of industrialization in the economy. Among these policies are import substitution approaches designed to reduce importation of some goods that can be produced locally, export promotion strategies and foreign private investment led industrialization as well as policy reforms such as indigenization, structural adjustment programme (SAP) and national economic empowerment and development strategies (NEEDS). The implementation of these policies or programmes sunk millions or billions of naira. Also huge public investment were made in the industrial sector with the establishment of industrial research and training institutes to provide the necessary foundation for growth of the industrial sector of the economy by providing the basic engineering infrastructures for the production of raw materials, spare parts, equipment components and machinery needed in the various industrial sites established in different parts of the nation. These include Federal Institute for industrial research (FIIR), Raw Materials Research Development Centre (RMRDC), Industrial Core Project (ICPS) and Project development Agency (PRODA) etc (Okezie, Nwosu & Matcus 2017). With all these laudable efforts put in place towards industrialization, it is expected that the industrial sector should have overcome earlier teething challenges and contribute greater proportion towards the overall economic development or put differently become the driver of the economy. This study lies on the fact of its expectations to finding out the extent to which the industrial sector has contributed towards the sustainability of economic growth/development in Nigeria.

## **Literature Review**

### **Conceptual Issues**

An industry may be referred to as a number of firms producing broadly similar commodities. And there are different kinds of industries, ranging from crafting, mining, processing and

manufacturing industries etc. some analysts believe that manufacturing industry is very importance in speeding up industrialization. As Anyanwu (1997) puts it, “Industrialization is the process of building up a nation's capacity to convert raw materials and other inputs to finished good and to manufacture goods for other production or for final consumption. Furthermore, Nwosu (2000) opined that industrialization encompasses the totality of relations involving workers and the states regulatory and interventionist authorities as they mobilize and intensify their effort at appropriate places throughout the country, on a continuing bases to entrepreneurially and managerially organize to make use of machine or technology and other material inputs; with the aim of more efficiently or productively manufacturing more qualities of industrial, agricultural and other capital and consumer goods that are of highest and newer quality. This implies that industrialization is followed by scientific and technological revolution which propels and sustains agriculture revolution (kerr et al 1972). Development is a multi-dimensional process involving positive and progressive changes in structures, attitudes, values and institutions as well as the reduction of inequality and eradication of absolute poverty (Todaro, 1980). This is possible and is mostly achieved by managing economic growth adequately.

### **Theoretical Literature**

#### **Low Equilibrium Trap Theory**

According to this theory, as per capital income remains below a critical level, a population growth rate that exceeds the income growth will always bring the economy back to a low-level equilibrium trap. To escape the low-level equilibrium trap, Nelson, in 1956 gave four steps as.

1. There should be a favourable socio-economic environment in the country.
2. Measure should be adopted to change the distribution of income.
3. There should be an all-perverting government investment programme.
4. Income and capitals should be used to utilize existing resources fully so that income is increased.

#### **The Unbalanced Growth Theory**

This theory is propounded by Hirschman (1957). He said that a deliberate unbalancing of the economy according to a pre-designed strategy is the best way to activate growth in an underdeveloped nation. This theory assumes that, when a strategic sector is fully developed, it causes the growth of other sectors and the economy will lead to new investment opportunities and so pave way for further economic development, as such growth is being communication from leading sectors of the economy to the followers, (Jhingan, 2011). This theory was adopted by Nigeria in the 1970s – the selective credit policies.

### **Theoretical Framework**

One of the four steps of the low equilibrium trap theory is that 'income and capital should be used to utilize existing resources fully so that economic growth should be enhanced. Following this theory, this study adopted the Solow model of production function:

$Y = f(K,L)$ , where,  $Y =$  Output,  $K =$  Input of capital and  $L =$  Labour, (Chamberlin & Yuem, 2006). However. The model was modified to fit in the present study by using the function,  $Y =$

$f(X_i)$ , where  $Y = \text{GDP}$  (proxy of economic growth) and  $X_i =$  the products of capital and labour in various sectors.

### **Industrial Policy in Nigeria**

The quest for industrialization and the reasoning that it is the engine of economic growth and development especially for the underdeveloped and developing countries stimulated the need to formulate policies and programmes that will boost industrialization and bring self reliance of the Nigerian economy. According to Anyanwu et al (1997), there are two main strategies of early industrialization which are: import substitution industrialization and export-led industrialization strategy. These were the immediate post-colonial policies, meant initially to reduce over-dependence on foreign goods and save foreign exchange. The import substitutes policy was a deliberate industrialization strategy of government aimed at encouraging the production of goods and services hitherto imported. To achieve this, aim the government created tariff walls through the prescription of policies that prohibits the importation of some goods and services intend to be substituted, this is followed by acquiring the technology required to produce such goods and granting export duty incentives and firms and industries to encourage their growth. Unfortunately, this policy failed as it turns out to be a mere assemblage of those items rather than manufacturing them which negated the original aim. Nigeria must have copied this from other countries like Latin American countries who, following the disruption of the flow of imports by the Second World War and depression in the international economy; considered this policy credible: the success recorded by these countries were laudable Wilson, (2002).

On the realization of the pitfalls of the import substitution strategy the government adopted the export promotion strategy which is government industrial policy to stimulate and encourage the production of goods and services mainly for export. This is to be achieved by encouraging domestic industries to increase production of goods and services through tax incentives, reduction of export duties, liberalization of credit etc. There is no much difference between these two policies (import and export-led strategies) because both aimed towards one objective: increasing home production- the former for home consumption and the later for export. However, the policy statements may sound different, but their success anchored on one thing – technological transformation which Nigerian was unable to meet up with. It was observed that the 18<sup>th</sup> century industrial revolutions of many European countries were periods of scientific and technological development that transformed large rural agrarian societies into industrial urban areas, and this has been the dream of Nigeria.

Indigenization in Nigeria is another policy that geared towards promoting the industrial sector as contained in the enterprise promotion decree 1972. It involves government intervention to acquire and control on behalf of the Nigerian people the greater proportion of the production assets of the country. The main objective was to raise the level of intermediate capital goods production in the domestic economy so as to increase the rate of manufacturing and reduce dependency on foreign made goods (Anyanwu 1993). Unfortunately, the Nigerian Enterprises promotion Decree of 1972 (as amend in 1977 and 1989) was replaced by the Nigerian investment promotion commission in 1996. According to the government, the

reason was to attract foreign investment inflow and enhance capacity utilization in production sectors of the economy (CBN 1995). This essentially threw open foreign participation in Nigeria enterprise and therefore a manifestation that the indignation policy failed to achieve the objection of prompting the manufacturing sector.

The early 1980s depicted the true picture of the Nigerian economy which had been emerging in the 1970s – that the Nigerian economy was becoming increasingly unstable. The economic scene of Nigeria, the oil boom (1973-74) affected (negatively) nearly all areas of the economy, ranging from investment, production and consumption patterns to social-cultural value, political aspirations, policy options and most regrettable programme implementations. Capital assets hitherto planned to be nurtured and used for massive production in the industrial sector were neglected and maintenance culture virtually eroded and has continued till date as various industrial centers equipped with machines have been abandoned in many states of the nation. All these coupled with financial misappropriation in the public sector resulted to severe fiscal crisis, foreign exchange strategies high unemployment rate and negative economic growth (Olaniyi 1996).

In response to these economic deteriorations the government first step was to introduce some stabilization, austerity and counter-trade measures between 1982 and 1984. And in 1986 adopted the widely debated programme – the structural adjustment programme (SAP). According to Adeyemi (1996), the theoretical structure of the SSP was predicted on demand management as a measure of curtaining fiscal and external imbalance with a restrictive monetary policy – the ultimate objective was to achieve non-inflationary growth and to stimulate domestic production of tradable goods. As part of the effort to achieve this, the government in its 1986 budget speech regretted the performance and condition of the public enterprises in the country and revealed the desire to privatize or otherwise commercialize them.

The condition of the Nigerian economy since the SAP programme as regards inflation growth gives credence to both the Chicago and Cambridge schools of economics who maintained that exchange rate flexibility is generally not suitable method for structural change as it has a major consequence of generating inflation (Soludo 1993); also Obadan and Ekuere (1993) argued that devaluation has strong precondition which cannot be met by many third World countries but may even worsen their problems. These two policy instruments (exchange rate flexibility and devaluation) were the major policy instruments under SAP even when it was clear that Nigeria has no strong manufacturing base.

It is observed that these programmes were more of huge conduits through which many highly placed people in government and their numerous hangers-on, many well-to-do people in the amorphous business sector and others who were dubbed consultants had a field day, and became strikingly rich. And no one cares to get feedback about the success of these policies/programmes because most of the policies or programmes died off as soon as the government that established them stepped out of office.

## Empirical Review

Vast empirical works on industrialization and economic growth/development have been documented in literature. Below are some selected works in tabular form.

**Table 1.**

Author(s)	Topic and country of interest	Technique applied	Finding (s)
Khan & Majeed (2022)	The effect of urbanization and industrialization in achieving economic growth without emission (1980-2018) – Pokistan	Impulse response further technique	Industrialization and urbanization are two factors that affect economic growth.
Attiah (2019)	Impact of manufacturing and services sector on the economic growth of developing countries (1980 – 2015) – 50 countries.	Descriptive Analysis	Total manufacturing as a ratio to GDP was significant and has a direct relation with economic growth.
Ibitoye, Ogunoye & Kleynhans (2022)	Impact of Industrialization on economic growth in Nigeria.	Johanson co-integration and Granger causality Test.	Industrial output has a significant direct effect on gross domestic product (GDP).
Sahar (2020)	The effect of Industrialization on economic growth, 1996-2005: Pakistan.	Auto regressive distributed lag (ARDL)	There is a long-term relationship between industrial output and economic growth or GDP.
Afolabi & Laseinde (2019)	Impact of manufacturing sector output on economic growth (1981-2016): Nigeria.	ARDL and Granger causality technique.	There is positive effect of manufacturing capital utilization on real gross domestic product.
Jelilor, Enwerem & Isik (2016)	Impact of industrialization on economic growth in Nigeria (2000 – 2013).	Econometric Analysis using Ordinary least Square (OLS) and F. test.	Industrialization has a negative impact on economic growth in Nigeria.
Parreen , Khen & Faroeq (2019)	The causal relationship that exist between industrialization, economic growth .... and urbanization (1975 – 2001): Pakistan.	Granger causality test.	No causality between economic growth and industrialization.
Effiom & Enang (2014)	Industrialization and economic development in a multicultural milieu: Lessons for Nigeria.	Descriptive analysis	Multicultural milieu provides the credentials and seeds needed to drive industrialization.
Iheoma and Jehilor (2017)	The impact of industrialization on economic growth: 10 ECOWASD states.	Panel least sequel technique	Industrialization inhibits economic growth.
Kida & Angehar (2016)	Effect of industrialization on economic growth in Nigeria: 1981-2013.	Ordinary least square (OLS) and error correctional method (ECM).	Industrialization was significant and directly contributes to economic growth

## Empirical Model

Annual time series data sourced from central Bank of Nigeria (CBN) statistical bulletin (various years) were used for the analyses. The study covered the period 1970 – 2021. It employed descriptive/trend analysis in one part and econometric analysis in the other part using ordinary least square (OLS) technique in the two models specified.

### Model I

The functional form is stated as:  $Y = f(X_i)$  .....eq 1.

Where Y = Gross Domestic Product (GDP) - prox of economic growth,  $X_i$  = explanatory variables drawn from the industrial sector (such as: Manufacturing Output(MOUTPUT), Non Oil Export (NOILEXP) and Oil Export (OILEXP)).

Equation 1 is thus expanded as:

$$GDP = F (MOUTPUT, NOILEXP, OILEXP.) \dots\dots\dots 2$$

To show how important MOUTPUT is in contributing to economic development through economic growth (GDP) equation 3.2 is transformed econometrically as:

$$\text{LOG (GDP)}_t = X_0 + X_1 \text{ LOG (MOUTPUT)}_t + X_2 \text{ LOG (NOILEXP)}_t + X_3 \text{ LOG (OILEXP)}_t + U_t \dots\dots\dots 3$$

Where GDP = Gross domestic product  
 NOILEXP = Non-oil Export  
 OILEXP = Oil Export  
 MOUTPUT = Manufacturing Output.  
 $\beta_0$  = the intercept,  $X_1 - X_3$  are parameters to be estimated and  
 U = Stochastic Error Term.

**Model 2.**

The functional form is states as:  $Y = f(\beta_i) \dots\dots\dots 4$

Where Y = Per-Capita Income (PCAPINC),  $\beta_i$  = explanatory variables drawn from the industrial sector as explained under  $X_i$  in Model 1

Equation 4 is expanded thus as:

$$PCAPINC = f ( MOUNPUT, NOILEXP, OILEXP) \dots\dots\dots 5$$

To verify the relationship between PCAPINC and the explanatory variables, equation Eq. 5 is econometrically transformed as:

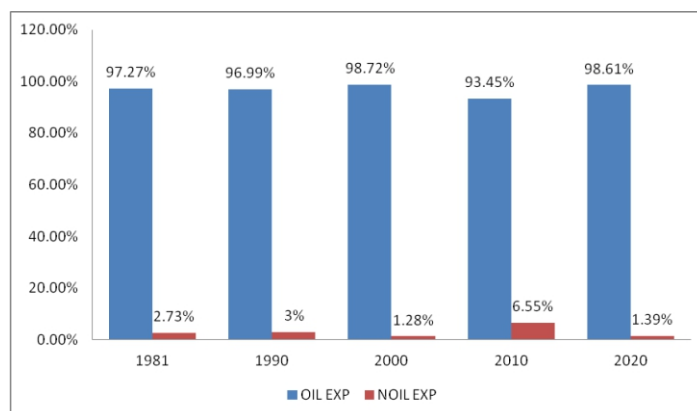
$$PCAPINC = \beta_0 + \beta_1 \text{Log (MOUTPUT)}_t + \beta_2 \text{Log (NOILEXP)}_t + \beta_3 \text{Log (OILEXP)}_t + U_t$$

**Analysis of Data and Interpretation of Result**

This section presents the trend analysis and the econometric analysis.



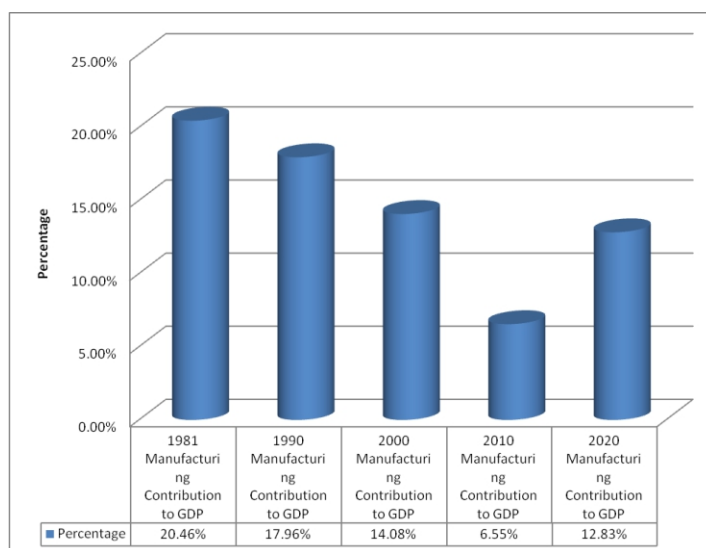
**Figure 1:** Percentage Contribution of Oil and Non-Oil to Total Export.



**Source:** CBN Statistical Bulletin and Authors' Computation and Graphing

Figure 1 accounts for the contribution of oil and non-oil to total export between 1981 – 2020. It is clear that on average, the oil sector contributes about 97.0% of total export in Nigeria, while the non-oil sector (manufacturing inclusive) contributes less than 3% on average.

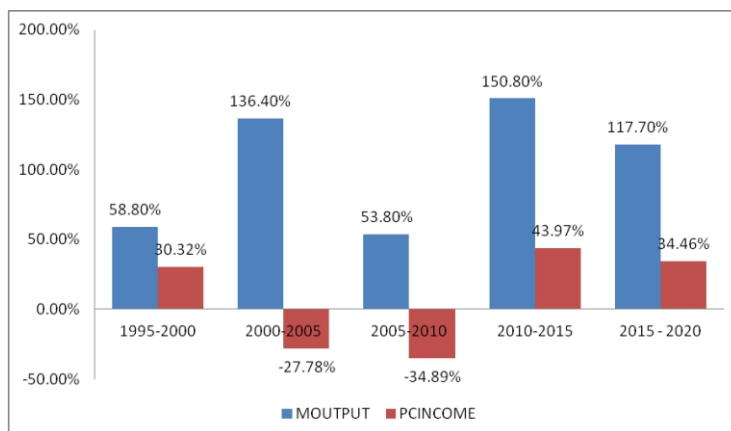
**Figure 2:** Percentage Contribution of Manufacturing to GDP in Nigeria



**Source:** CBN Statistical Bulletin and Authors' Computation and Graphing

The contribution of manufacturing to GDP is clear evidence that the industrial sector through the manufacturing sub-sector is still not equipped to lead the economy into growth and development.

**Figure 3:** Percentage increase/decrease in manufacturing output and per capital income.



**Source:** CBN Statistical Bulletin and Author's Computation and Graphing

From figure 3, the trend of manufacturing output and per-capita income do not skew in the same direction implying that the industrial sector through the manufacturing sub-sector has not contributed enough to sustain the growth of per-capita income which is one of the indices of economic development.

### Econometric Analysis

**Table 1:** Unit root test result

Variable	Level Form		First Different		Order of Integration
	ADF	5% Critical Value	ADF	5% Critical Value	
(GDP)	- 3.8587	- 2.9399	-	-	1 (0)
(NOUEXP)	-1.1114	- 2.9399	- 6.3059	- 2.9422	1(1)
OILEXP)	0.9728	- 2.9398	- 4.2096	- 2.9422	1(1)
(MOUTPUT)	1.5239	- 3.5312	- 3.7299	- 2.9422	1(1)
PCAPINC	- 1.2502	2.9399	- 3.7299	- 2.9422	1(1)

**Source:** Author's Computation from E-views

It is observed that all the variables are integrates of order one 1(I) except GDP. We therefore run the regression following the order of intergreation.

### Regression Result

The main aim of this study is to investigate how industrialization aid economic growth and by extension economic development. Mode 1, used manufacturing output which is a major part of industrial output to achieve this.

**Table 2. Model 1: Dependent Variable Log (GDP)**

Variable	Coefficient	Standard error	t-statistic	p. values
C	0.899828	0.267847	3.359489	0.0019
Log (DIF_MOUTPUT)	0.312723	0.059593	13.63793	0.0000
Log (DIF_NOILEXP)	0.043793	0.041677	1.050756	0.3006
Log (DIF_OILEXP)	0.169956	0.048735	3.487339	0.0013

R<sup>2</sup> Adjusted = 0.776276, Prob (F-statistic) = 0.00000, Durbin -Watson stat. = 1.967870

**Source:** Authors' computation from E-view package.

From table 2, the estimate model is:

$$\text{Log (GDP)} = 0.900 + 0.313 \text{ Log (DIF_MOUTPUT)} + 0.044 \text{ Log (DIF_NOILEXP)} + 0.170 \text{ Log (DIF_OILEXP)}.$$

**Table 3. Model 2: Dependent variable: PCAPINC.**

Variable	Coefficient	Standard error	T – statistic	P. Value
C	744.7031	892.8208	0.834101	0.4097
Log (DIF_MOUTPUT)	460.4190	253.5334	1.816009	0.077
Log (DIF_NOILEXP)	376.173	167.6650	2.243744	0.03111
Log (DIF_OILEXP)	-564.7440	195.8274	-2.883886	0.0066

R<sup>2</sup> Adjusted = 0.457707, Prob (f. Stat) = 0.000014, Durbin Watson Stat = 1.60759

**Source:** Authors' computation from E-view package.

### **Interpretation of Result:**

From table 2, it is observed that manufacturing output has significant positive effect on GDP (it suggests that I percent increase in MOUTPUT will increase GDP by 31.27 percentage). This supports many of the reviewed works such as, Nwogu & Orji (2019), Ibiyoye, Ogunoye & Kleyaban (2022), Attiah (2019) etc. The coefficient of determination (R<sup>2</sup> Adjusted) and the F-statistic were also significant. The Durbin- Wastor static (1.898) suggest that there is no presence of serial autocorrelation in the model.

From table 3, we observed that MOUTPUT has no significant effect on PCAPINC at 5% level of significant and the variables failed to explain up to 50 percent changes in PCAPINC as depicted by the R<sup>2</sup> Adjusted value. The Durbin- watson statistics (1.608) also suggest no presence of serial autocorrelation.

### **Discussion of Finding, Conclusion and Recommendation**

The trend analysis of the study showed that the contribution of non-oil export to total export is minimal between 1981 to 2020 (Figure 1). This confirms that the Nigeria economy still depend on oil for its survival. Also, percentage contribution of manufacturing to GDP has been declining since 1981, (as revealed in figure 2) from 20.46 percent in 1981 to 12.83 percent in 2020. From econometric result, 1 percent increase in MOUTPUT will increase GDP by 31.27 percent but hence its contribution has been declining though not negative, it shows that the

manufacturing base is weak and unable to enhance economic growth and development. It was observed that the proceeds of MOUOUTPUT has no significant effect on PCAPINC, (both econometric and trend analyses confirm this) suggesting weak industrial base. This might be attributed to the fact that proceeds of economic growth have not been really utilized more in the real (or productive) sector of the economy as appropriate to significantly affect people's lives positively. More of it is utilized for excessive salaries and allowances to political leaders and also the little for capital and industrial infrastructure is not properly channeled.

In conclusion, from literature reviewed and analyses conducted, industrialization promote growth and economic growth appropriately utilized leads to economic development, but the Nigeria industrial base is still weak and could not generate enough to support the nation and the little generate is being misused. However, the problem associated with industrial sector development have continued to linger not for want of ideas (policies or programme) or what to do or how to do it, but rather for want of sincerity or honesty to nurture such ideas to fruition. Given the finding and conclusion above, our recommendation differs little from many authors who holds that the government should create enable environment that will attract investment, or that the government should implement policies that will enhance industrial development. All these facts are known by the government, and it has been making policies to solve them. We therefore recommend that there should be re-orientation of the Nigeria leaders to understand the benefits of public growth against that of individual growth in a nation. And there is the need to change the pattern of leadership and institutions beginning from local, state to federal governments and make them accountable to the people to enhance economic growth and development.

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