The future of Nigeria’s manufacturing

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As the colonial era in Nigeria was winding down in the late 1950s, there was a very measurable level of optimism within the country. The oil industry – the country’s present mainstay – was in its infancy and the Nigerian economy was mainly industrial and agrarian. There were demonstrable hopes of a major African industrial hub emerging out of Nigeria; which everyone believed was inches away from becoming an industrialised nation. Many of the reasons for positivity were rooted in a small town in South-East Nigeria known as Nnewi.

In Nnewi, young entrepreneurs and artisans with limited formal education, through shared wit, creativity and innovation, had started an amazing story of manufacturing and industrialisation in Nigeria. It was hoped that Nnewi could become akin to a present-day South-East Asian powerhouse.

In the 1950s and then the 1960s, Nnewi made huge strides in manufacturing, especially metallurgy. It was a trade that was to support the Biafran war that erupted in 1967, seven years after Nigeria achieved independence.

Sophisticated firearms and ammunition were locally made in the towns of Nnewi and Awka, to the chagrin of many observers. Fast-forward to 2016, and Nnewi has survived. The town now houses Nigeria’s first indigenous automobile manufacturing plant, owned by the Innoson Group. It has the largest automobile spare parts market in West Africa and the largest motorbike assembly hub in Nigeria, among numerous other notable manufacturing concerns.

The story of Nnewi – like other manufacturing hubs in Nigeria, such as the Lagos-Ogun manufacturing corridor and Aba – is an inspirational tale of survival in the face of huge odds.

The problem

Nigeria’s new government, led by President Muhammadu Buhari, who was sworn in in May 2016, is currently facing countless challenges (many inherited), made worse by the impact of falling oil prices – the very commodity that Nigeria has relied on for too long. “Economic diversification” is now a tired phrase in Nigeria due to the emphasis the government lays on
what is believed to be a panacea for Nigeria’s economic crisis. Oil and gas will now be replaced by manufacturing and agribusiness; according to the government’s wish list.

But this diversification dream has been historically aborted by Nigeria’s chronic power generation crises and many other problems that bedevil manufacturing.

Nigeria has never attained sufficiency in generated power, despite her huge energy resource endowments. The direct impact has always been an unhealthy competition between locally manufactured goods and imported goods (for companies that are tenacious enough to produce amidst the crises).

Dr Joseph Odumodu, the former Director General of the Standards Organisation of Nigeria (SON) – the agency that regulates the quality of manufactured goods – says “the enormity of the crisis with manufacturing in Nigeria is underreported.

“When I was at SON, we saw the exit of many manufacturers from Nigeria, simply because they could not compete; Tata, Michelin, and Dunlop all left because the market was flooded with substandard, cheap products that they could not compete with.”

In the literature and reports on the manufacturing crisis in Africa’s largest economy, insufficient power supply has often been named as the culprit. While this is correct, there are many other factors that are often ignored. The quality of the products brought into Nigeria from regions such as South-East Asia is a major problem for manufacturing in Nigeria.

Because of the low income of many Nigerians, substandard and cheap products are traditionally more appealing to the consumer. Dr Odumodu says: “When I resumed as the director-general in 2011, we conducted a study that revealed that about 80% of the products in the Nigeria market were substandard.

“But we also realised that SON could only bark but couldn’t bite; because there are limited means for prosecuting offenders and we lacked special courts to attend to crimes related to substandard products. As long we have these imported substandard goods in the market, our local manufacturing will perennially suffer,” he concluded.

The implications of this are well illustrated by the ordeals of Emenike Chika, chief executive of the Kotec Group of Companies. In 2010, Emenike was a dealer in machineries, hardware and spare parts. These products were facing unhealthy competition from cheaper Chinese products. Today he manufactures noodles and has totally abandoned his former trade.

But this move has not really improved his lot, he says: “We abandoned the old business of spares dealership to embrace noodles production. But even here, our relationship with the government has not changed.

“We provide amenities and infrastructures by ourselves. I use 3,500 litres of diesel daily to power a 20KVA generator, and had to upgrade the very road that leads to the factory by myself.”
His tone depicts an entrepreneur who has learnt how to survive with little or no expectation of support from government. “My fate is the fate of many other people who are manufacturing in this region,” he adds.

The opportunity

Nigeria’s huge population has made it one of the most attractive markets in Africa. With over 180 million people (2015) and growth projections for the population to reach 240 million by 2050 (according to the UN), the demand for manufactured goods in Nigeria is expected to rise exponentially.

The last 17 years (after it returned from military rule to democracy) has also seen mild improvements in the economic situation of Nigeria (until the recent fall in commodity prices). This has had a knock-on effect on consumption patterns, and consumers’ confidence and purchasing power. The present size of the market and the growth capacity is evident from the performance of the consumer goods retail sector in Nigeria.

Nigeria’s economy has been forecast as capable of attaining a value of $1trn by 2025 (according to reports by Renaissance Capital and Frontier Advisory Ltd), from its present level of $560bn. To achieve this will definitely require a robust manufacturing sector and a detailed programme for industrialisation.

The administration of former president GoodLuck Jonathan had an industrialisation template for the country (the Nigeria Industrial Revolution Plan – NIRP), which the Buhari administration has reportedly adopted.

In addition, a favourable demographics, with about 43% of the population being young people, means that the manpower and human resources required to support a robust and rapidly growing manufacturing sector are already available.

Nigeria has some of the best and strongest financial institutions in Africa, with well-capitalised banks that have a huge presence all over the continent and are continuously well rated by global financial rating institutions. Despite this, attaining the dream of being Africa’s leading manufacturing hub will require even more patronage from local financial institutions in terms of favourable lending terms and interest rates.

The renowned professor of production management, Prof. Banjoko, says: “One of the major issues bedevilling the manufacturing sector in Nigeria is bad policy. The business environment is simply unfriendly. Manufacturers are left to fend for themselves on many issues and in the provision of social amenities that should be easily created by government. The notoriously bad policy here being multiple taxation.”

The future
The future of Nigeria may well depend on the steps the country takes to salvage its severely ailing manufacturing sector. Industries in areas such as Nnewi have previously made great strides in spite of government’s failure to support them and the numerous challenges that limit their growth.

Many thought it was impossible to build an automobile manufacturing plant in Nigeria. But in 2010, the Innoson Group, led by industrialist Innocent Chukwuma, defied received wisdom when he floated Nigeria’s first car manufacturing plant in Nnewi. In close proximity to this plant is the Cutix group – a large manufacturer of electrical cables – as well as the Chicason group, with diverse interests in manufacturing and construction.

These organisations are representative of what could be achieved should the Nigerian government move to assist in overcoming many of the problems of manufacturers, such as power insufficiency, an overvalued Naira currency, weak regulations pertaining to the import of substandard products, and poor infrastructure development.

While these problems are surmountable, the reality is that a bleak future could also befall Nigeria if the dwindling manufacturing sector is not quickly salvaged. Nigeria’s teeming youths – both skilled and unskilled – will find it increasingly difficult to eke out a living in the absence of massive employers of labour, like manufacturers.

The restiveness which has already reared its head across many areas of Nigeria in the form of militant groups such as Boko Haram, the Indigenous People of Biafra and Niger Delta Avengers, can only escalate. As Dr Odumodu says, “the problem is very organic and many Nigerians don’t realise it”.

As Nigeria’s manufacturers continue to struggle amidst what seems to be a very daunting business environment, their success or failure will have a ripple effect and touch all stakeholders, from government to the average consumer.