



IMPACTS OF IMPORT GROWTH ON THE DEVELOPMENT OF INDUSTRIAL SECTOR IN NIGERIA

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Abstract

The study was undertaken to find out the impact of import growth on the development of industrial sector in Nigeria. The study employed quantitative techniques over 1988 to 2023 using secondary sources of data from the central bank of Nigeria (CBN) were used. The findings show that imports have a significant positive relationship with industrial sector output. Furthermore, a significant relationship is shown between the exchange rate and industrial sector output, though positive and contrary to apriori expectation. The lag value of the dependent variable ($indp_{(-1)}$) is shown to have a significant positive relationship with industrial output. This also meets the apriori expectation. R^2 shows a goodness of fit implying that the explanatory variables adequately explained the behavior of the dependent variables. the study recommends lower cost of importing vital raw materials for industries and the monetary authority should maintain exchange rate stability to prevent high price range to the final consumer.

Keywords: Exchange Rate, Import, Economic development, Industrial output

JEL Code: F3, F1, O1, L6

INTRODUCTION

By accelerating the rate of structural change and economic diversification, industrialization helps the nation make the most of its natural resources and become less reliant on imported raw materials and complete goods for economic growth, development, and sustainability. The country's macroeconomic goals (high income, increased standard of living, self-reliance, job creation, and stability of the balance of payments) were thought to be achieved by industrialization, which was seen as a tool for economic progress (Banjoko et al., 2012). According to some economic analysts, industries are essential to a nation's economic development and progress. Nigeria's industrialization during its 1960 political independence was centered on meeting the demands of Western nations, especially Britain, for agricultural raw resources. Exports of main agricultural goods accounted for most of the country's revenue (Loto, 2012). Data currently available indicates that agriculture accounted for over 80% of the nation's export revenue and roughly 63% of its GDP (Sahar, 2020). Foreign corporations such as the United Africa Company (UAC) Ltd, John Holt, Peterson Zonhoni (PZ), and Union Trading Company (UTC) owned and operated most the nation's commercial activities, with very little industrial activity (Maryam, 2018). These businesses imported and distributed manufactured items from other countries. The goal of colonial economic strategy was to make the colonies permanent providers of primary raw materials for foreign industries and importers of manufactured goods, not to establish a strong basis for an industrial economy in Nigeria (Ndiaya, 2018). The industrial sector in Nigeria has become more capital-intensive than labor-intensive due to the prevalence of imported raw materials. Most Nigeria's industries rely on imported raw resources, and since 1981, the country's imports have been increasing. Increasing worldwide competitiveness in the production of manufactured and

processed commodities is the goal of the industrialization plan, which links industrial activity with primary sector activity, local and international trade, and service activity (Enwerem et al., 2016). Whether an economy is developed, developing, or underdeveloped, industrial development is typically thought to be a catalyst for its quick growth and development. It is commonly maintained that industrialization may accelerate economic growth and guarantee quick structural change (Yamak et al., 2016).

According to Ajayi (2011), the industrial sector is an area of the economy that uses appropriate technology, management strategies, and other resources in a purposeful and consistent manner to transition the economy from a low-level, traditional production system to a more automated and effective system of mass production of goods and services. Established in 2000, the Bank of Industry (BOI) was created as a development organization to promote industrial development by offering industrial businesses equity financing, long-term loans, and technical help. Most Nigeria's industries rely on imported raw resources, and since 1981, the country's imports have been increasing (Yusuf, 2011). The Nigerian economy does not fully utilize the benefits of industrial development, which include improved employment opportunities, a surplus of goods and services, a more favorable trade balance, higher incomes, and other improvements in living standards (Akin et al., 2007). As a result, growth and development suffer a significant setback. Although the government has previously created several policies and programs to promote industrial development in the nation, most of these initiatives, while impressive on paper, have failed miserably in practice. Some of these initiatives have never been implemented, while others have been abandoned midway through, and funds intended for the programs have been embezzled (Shola et al., 2013). Given the pattern of Nigeria's industrial sector development in relation to the country's import growth, it is imperative to investigate the influence of import growth on the development of the industrial sector. Consequently, the study is designed to determine the impact of import growth in the development of industrial sector in Nigeria.

LITERATURE REVIEW

Foreign goods and services purchased by a nation's citizens are known as imports. The government, companies, and citizens are all considered residents. The type of imports and the method of delivery are irrelevant (Tuned, 2011). They can be sent, emailed, or even transported by hand in an airplane's personal luggage. They are considered imports if they are made elsewhere and offered for sale to citizens of the country (Abu et al., 2010). Even goods and services related to tourism are imported. A good or service that is introduced into one nation from another is called an import. In addition to exports, imports are the foundation of global trade; the greater the amount of imports coming into a nation relative to the amount of exports, the more negative the trade balance of that nation becomes (Goldratt 2009). An increase in a nation's level of imports is known as import growth. This occurs when the amount of products and services that a nation imports increases.

Nigeria imports a lot of products from other countries, and economic growth depends on the purchase of capital goods. Mostly in the industrial sector of the economy, imported capital goods have a direct impact on investment, which is the engine of economic growth (Anyanwu, 2012). Interest in the development of a nation has been piqued by the significance of international trade. As globalization has gained momentum, countries have become more interdependent on one another on a worldwide scale (Abernathy et al., 2004). Every nation seeks to attain a swift rate of

economic growth by maximizing the advantages of global trade and utilizing contemporary production techniques. Most developing nations have seen a sharp increase in imports since the World Trade Organization (WTO) regulations were put into place and trade restrictions were significantly loosened; Nigeria's economy is no different (Lafargue, 2005).

Macroeconomic policy concerns are significantly impacted by the study of the import demand function (Hansson, 2005). The effects of spending switching through commercial policy and exchange rate management on a nation's trade balance, the international spread of domestic disruptions where import demand elasticity is a vital link between economies, and the extent to which the external balance constraint impacts a nation's growth and development are a few examples. Interest rates, exchange rates, purchasing power parity, trade regulations, external economies of scale, demand, and the level of necessity for the commodities are all factors that affect imports (Mirugui, 2017).

According to a survey of the literature on development, the market-led development paradigm, which is based on the principles of neoclassical economics, makes the case for letting the market distribute resources and reducing the role of importation (Adarov et al., 2019). Based on the idea that the market is the most effective way to distribute resources, the paradigm has been repeatedly supported by a number of international organizations, most notably the World Bank. Market proponents contend that the economic crises, particularly those of the 1970s, and their effects on inflation, trade deficits, and mass unemployment are what made market-led solutions to development possible (Burkachi et al., 2020). These solutions relied on competitive industrial growth and market deregulation as long-term labor and financial solutions (Konara et al., 2017), Kicking away the ladder: an unofficial history of capitalism, especially in Britain and the United States. Proponents of the market are eager to highlight the state's well-known flaws, including import substitution, the challenges of working with the private sector, the development of inflated expectations for working conditions (Thu et al., 2015), high transaction costs, excessive coordination costs, and information asymmetries. Following the World Bank, several donor organizations have advocated for market-driven development in Africa and support strategies that use the promotion of industrial material imports as a means of advancing the industry (Yahya et al., 2013).

Despite this, industrial strategy has placed greater priority on importing industrial materials during the last ten years. The purpose of this is to increase Nigeria's industrial development by utilizing the technology of other industrialized nations and their more effective industrial materials (Steetle et al., 2015). These methods firmly rely upon a large portion of the rest of economic theory, which plainly avoids articulating market-led tactics. For example, institutional economics departs from the theoretical presumption of rational, welfare-maximizing individuals functioning in an imaginary world where every decision can be precisely predicted. Instead, it imagines a more realistic world where institutions are necessary to promote industrial development in Nigeria (Bakare et al., 2011). Industrial development is a sustained increase in the size, number, and productive rate of industries in a country; it can occur when there are both internal and external economies of scale; it is accomplished by a continuous growth of industries through a steady supply of raw materials; and industrialization is the intentional act of establishing many new industries in a country; it can also be seen as a conscious effort by the government to create new industries in a country (Rasheed, 2010). The goal of sustainable industrial development is to satisfy

industry's and other stakeholders' current demands without compromising the capacity of future generations to satisfy their own. Sustainable industrial development should be viewed as an ongoing process of enhancing industry's social, economic, and environmental performance. Finding performance metrics that can be controlled is made possible by this process method (Smith, 2005). Cleaner production, environmental and integrated management systems, life cycle-based product-oriented measures, performance-based sustainability reporting, efficient resource allocation and management systems, and the upkeep of effective material and human resources are the main components of sustainable industrial development (Dickson, 2010).

In the first ten years after gaining political independence, Nigeria's economy grew at a healthy rate. The real gross domestic product (GDP) grew by 3.1% year between 1960 and 1970. Comparably between 1970 and 1978, real GDP increased by 6.2% yearly. However, the early 1980s had negative growth, which was reversed with the implementation of SAP, and real GDP grew by 4% year between 1988 and 1997 (Eisenman et al., 2006). For most of the three decades after oil was discovered and exploited, annual growth was less than 3% (NPC 2004). Real GDP increased by 6.27 percent in 2009, 7.57 percent in 2010, and 7.38 percent in 2011, indicating a significant acceleration of growth in the Nigerian economy in recent years. In 2008, 2009, and 2010, the corresponding growth rates for real per capita income were 2.78 percent, 3.76 percent, and 4.78 percent. the primary sector's dominance, which includes manufacturing, mining, quarrying, and extraction of natural resources like gas and crude oil. By the time of independence, the primary sector accounted for almost 70% of the GDP (Folorunso, 2013). However, in the years that followed, this percentage decreased to 62.10 percent in 1977 and 55.68 percent in 1990, respectively, suggesting a slow shift from primary output to secondary and tertiary activity. Even though the primary sector's share of GDP increased to 68% in 2003, it gradually decreased to 55.3% in 2011, indicating that the primary sector still accounts for more than half of Nigeria's output. Nigeria's secondary sector, which includes building, construction, and manufacturing, makes up the smallest portion of the country's GDP. The industry has grown overtime because of increased production efficiency and output brought about by the advent of the importation of industrial materials and human resources (Obansa et al., 2013).

The development theory known as structuralism focuses on the structural factors that obstruct emerging nations' ability to prosper economically. The shift of a nation's economy from primarily subsistence to primary industrial production serves as the analytical unit. This theory focuses on modifying existing development theories to allow for greater options for national growth (Fujii, 2019). Economic growth is a result of increased market productivity and GDP, while economic development theory is an attempt to improve people's economic and social well-being through policy interventions. Thus, economic growth is one aspect of the process of economic development (Egwaikhide et al., 2001). Development theory focuses on the ideas and methods that lead to long-term growth in every area of the economy. A key development theory that affects many facets of the economy, including industrialization, productivity growth that raises a nation's GDP, employment, tax generation, welfare or quality of living rises, etc., is industrial development.

Nora, Ubong and Michael (2022) obtained a time series data that cover the period of 1981 to 2019 to study the nexus between industrial sector and economic growth in Nigeria, using a disaggregated approach. The OLS and ARDL techniques were used in the study, and the OLS results showed a positive correlation between economic growth and the three industrial sector components that were

chosen: manufacturing, construction, and mining and quarrying subsectors. The results also demonstrated that whereas labor force participation and gross fixed capital formation have a strong positive correlation with economic growth, government spending, trade openness, and inflation have a negative correlation. However, the ARDL's findings indicated that while labor force, inflation rate, and trade openness have a negative relationship with economic growth in Nigeria, manufacturing, construction, and mining and quarrying subsectors, as well as gross fixed capital formation, have a positive relationship.

Cantore et al. (2017) studied the hypothesis that there was a positive correlation between industrialization and economic growth in 80 countries between 1980 and 2013 using the generalized method of moments and was unable to reject it. Using "panel Granger causality methods," Su and Yao (2017) examined data from 1950 to 2013 and discovered a significant correlation between industrialization and economic growth. The study's factors include human capital, gross private savings, total factor productivity, and the service sector. Ugwuanyi and Nkem (2017) carried out "a study to analyze the relationship between industrialization drivers and Nigeria economic growth from 1980 to 2014 using time series data. The Granger Causality Test, Unit Root Test, Co-integration Test, and Error Correction Model were the methods used to establish the study's goals. The results showed that while trade openness has a long-term negative impact on economic growth, foreign direct investment (FDI), financial system development a proxy for aggregate bank lending (ABL), and exchange rates (EXR) significantly boost the Nigerian economy. Bennett, Anyanwu and Kalu (2015) employed "the method of OLS to investigate the effect of industrial development on economic growth in Nigeria between 1973 and 2013. Foreign direct investment, industrial output, total savings, and inflation were used to calculate GDP. The findings showed that industrial output and total savings had a small but favorable effect on economic growth. The outcome also demonstrated that foreign direct investment (FDI) positively and statistically significantly correlates with economic growth.

METHODOLOGY

The ordinary least square (OLS) regression technique will be used for simple regression to confirm the effect of import growth on industrial development on the Nigerian economy. The secondary data obtained from the statistical bulletin is run by the researcher using E-view Statistical Analysis software. outline the model that would reflect the impact of import increase on industrial development considering the study's theoretical exposition. Interest rates (IR), a stand-in for economic development, will be the dependent variable, while import and industrial expansion will be the independent variables.

We therefore specify the model as

$Y = \text{Output of Industrial Sector, } (x) = \text{Import growth, exchange rate}$

Where y represents Industrial Sector (dependent variable)

X_1 represents import growth

X_2 represents exchange rate and specifically we can represent the above model.

using the economic form thus:

$IND = b_0 + b_1 IMP + b_2 ER + U_t$

where IMP = Import growth

ER = Exchange Rate

IND = Industrial production (manufacturing industry)

U_1 = Error term

Since it will assist us in determining the contributions of each explanatory variable, the regression model fitting process outlined above can be applied to data analysis. The CBN statistical bulletin will be the source of the study's data. Additionally, the optimum model for measuring the impact analysis is the ordinary linear model (OLS). It is therefore eligible for this study since it will quantify how import expansion affects industrial development.

The ordinary least square (OLS) regression technique will be used for simple regression to confirm the effect of import growth on industrial development on the Nigerian economy. The information is quantitative in character, and since it provides a broad picture of the state of the economy, it includes data on interest rates (IR) as development. Industrial growth and import spending are additional independent variables. The sample size will span 35 years, from 1981 to 2016. As a result, data from the Central Bank of Nigeria (CBN) was gathered from secondary sources.

Since the research work is a time series regression estimate, we thus utilized the use of simple regression approach, following one dependent and three independent variables utilizing the ordinary least square (OLS) analytical techniques. The use of a student's test, F-ratio and Durbin western statistics shall be applied in finding out the empirical variability of the regression plans and testing the presence of autocorrelation accordingly. Furthermore, a goodness of fit test will be conducted using the coefficient of determination (r^2). Finally, utilizing the five percent (5%) threshold of significance, a conclusion regarding the statistical significance of the test-statistics will be made at the conclusion of the study.

RESULTS AND DISCUSSION

Stationary (Unit Root) Test

To find out if the variables in the model are stationary, the Augmented Dickey Fuller unit root test was used. Since it is the primary method of guaranteeing that there are no erroneous regression results, this test is necessary. The following is a summary of the stationarity test results:

Table 1: Unit root on variables and residuals of all the regression

Variable	T- statistic	Critical value 5%	probability	Order of integration	No of lag
LnINDP	-4.812357	4.663984	0.0473	I(1)	0
LnEXR	-5.965963	-3.965132	0.0004	I(1)	0
LnMG	-6.332939	-3.968221	0.0003	I(1)	0

Source: Author Compilation's, 2025

The log of industrial output (lnINDP), the log of exchange rate (lnEXR), and log of import growth are all stationary at first difference, according to table 1 above. In other words, order I (1) integrates them. As a result, stationarity is a necessary condition for co-integration.

Co-integration Test for OLS result

This test estimates the co-integration, or whether there is a long-term relationship between the variables, using residuals. As a result, it considers each integration order separately before generating and testing the error term for the unit root. The following displays the co-integration result:

Table 2: ADF Co-integration Result

ADFstatistic of residual	ADF residual value	Critical value 5%	Order of Integration
Residual	-3.999499	-2.962443	Stationary

Source: Author’s Compilation, 2025

With the Dickey Fuller unit root test at level, the unit root for the residual is found to be stable at 5%, indicating co-integration between the independent and dependent variables. Thus, it is possible to avoid the issue of misleading and inconsistent regression.

The Interpretation of the Parsimonious Short-run Error Correction Model

Table 3: Parsimonious error correction estimates of the impact of import growth on the industrial output.

Variable	Coefficient	t-Statistic	Prob.
Constant	0.002924	0.279249	0.9792
DlnMG(-4)	0.045585	3.455926	0.0399
DlnEXR(-2)	0.054565	3.044827	0.0659
DlnINDP(-1)	0.886714	5.569265	0.0003
U(-1)	-0.399451	-3.929174	0.0093

Source: Author’s Compilation, 2025

$R^2=0.686258$, Adjusted $R^2= 0.524399$, F-statistic=4.664723, Prob (F-statistic) = 0.00

Given that the error term's coefficient is -0.399451, the above parsimonious error correction model (ECM) results show that it is significant at the five percent level. This illustrates how a short-term adjustment corrects the shift from the long-term equilibrium, i.e., disequilibrium in the industrial sector production from the prior year is adjusted for in the current year by around 28.9 percent. this is a very slow rate of adjustment. The following is a discussion of the variable-based result: This indicates that a percentage increase in MG (-4) will result in a 0.045585 percent increase in the industrial sector. This is the consequence of the lag value of import growth (log (mg (-4))). The industrial sector will increase by 0.054565 percent for every percentage increase in the exchange rate, according to the coefficient of the pass value of exchange change. Additionally, the dependent variable's (INDP) coefficient of 0.886714 indicates that an increase of one period lag INGP (-1) will result in a 0.886714 percent increase in the industrial sector.

The economic apiori expectation will evaluate the parameter in terms of their fulfilling the basic economic theory expectations. The research revealed a positive and significant association between four period lag of import increase and industrial sector production. This has been shown to be in line with what is expected theoretically. The output of the industrial sector and the two-period lag of the exchange rate were likewise found to be positively and significantly correlated. This is not what the theory would have us believe. The outcome also showed a strong and positive correlation between industrial sector output and a one-period lag in industrial output. This has been shown to be in line with what is expected theoretically.

Table 3: Summary of the Signs

Variable	Expected Sign	Realized Sign	Remark
LnMG	Positive	Positive	Conforms
LnEXR	Negative	Positive	Not in conformity

Source: Author's Compilation, 2025

To assess the estimated parameter's dependability in line with statistical theory and expectations, statistical tests are conducted.

The coefficient of multiple determinations (R^2)

This gauges how well the regression model fits data. $R^2 = 0.686258$ from the table illustrates how the explanatory variables account for the variation in the dependent variable. This suggests that the explanatory factors account for roughly 57% of the variation in industrial production.

Test of significance of the parameter (Student t-Test)

The explanatory power of the independent variables is explained by this test:

The outcome demonstrates that the production of the industrial sector is significantly impacted by the fluctuating import increase. This is because the significance level of t-Cal 3.455926 is higher than 5%. The outcome also demonstrates that the production of the industrial sector is significantly impacted by the exchange rate. This is because, at the 5% level of significance, its absolute t-statistics of 3.044827 are higher than the crucial t-statistics. Finally, the outcome shows that the production of the industrial sector has been significantly impacted by one lagged period of industrial output. This is because, at the 5% level of significance, its absolute t-statistics of 5.569265 are higher than the crucial t-statistics.

The F-Statistic

The purpose of this test is to ascertain whether the independent variables in the model are significant at the same time. The overall importance of every variable in the model is ascertained using F-statistics. As a result, the F-statistics P-value is 0.00, below the significance limit of 5%. This suggests that there is a substantial difference between zero and the sum of the variables.

Econometrics Test (Diagnostic Checking)

The Breush-Godfrey Serial Correlation LM Test (test for autocorrelation problem), the Breush-Pagan Godfrey test (test for heteroskedasticity problem), and the Jarque-Bera normality test (test for model normality) were among the diagnostic tests used in this work to obtain reliable results.

Test for Autocorrelation

The Breush-Pagan Godfrey serial correlation LM test is used to ascertain if our model has autocorrelation or not.

H0: there is no autocorrelation in the model

H1: there is autocorrelation in the model

	F-statistics	Probability
Serial Correlation LM test	2.621935	0.3572

Source: Author Compilation, 2025

The f-statistics is not significant and the p-value of 0.3572 is greater than the significant level at 5%. Therefore, we would not reject the null hypothesis which implies that there is no auto correction.

Heteroscedasticity Test

	F-statistics	Probability
Breush Pagan Godfrey test	2.771717	0.2785

Source: Author Compilation, 2025

The test is basically on the variance of the error term. It helps to ascertain if the variance of the error term is constant or not.

Ho = Homoscedasticity

H1 = Heteroscedasticity

Decision Rule

The outcome shows that the p-value of 0.2785 is higher than the significant level at 5% and that the f-statistic (2.771717) is not significant. As a result, the null hypothesis is not rejected, and the model's lack of heteroscedasticity is sufficiently demonstrated. As a result, the error term's conditional variances are equal (homoscedasticity).

Normality Test result

The normality test was be used to determine whether the model's residuals have a normal distribution.

H0: The error term is normally distributed

H1: The error is not normally distributed

We reject the null hypothesis because the Jarque-Bera statistic p-value of 0.061298 is less than the 5% level of significance. Consequently, we draw the conclusion that error terms do not follow a normal distribution.

CONCLUSION AND RECOMMENDATIONS

This study seeks to assess the impact of import growth on Industrial sector in Nigeria. The log of industrial output (lnINDP) is the dependent variable. The logs of the exchange rate (lnEXR) and import growth (lnMG) serve as explanatory variables. The outcome demonstrates a strong positive correlation between import growth and industrial sector output, which is consistent with the a priori prediction. Despite being positive and going against presumptions, a substantial correlation between the exchange rate and industrial sector output is demonstrated. It is demonstrated that there is a substantial positive correlation between economic growth and the dependent variable's lag value (INDP (-1)). The priori expectation is also satisfied by this. The explanatory variables sufficiently explained the behavior of the dependent variables, according to the R2 value of 57.51%, which indicates typical goodness of fit.

To ensure greater development in the industrial sector, industrial policy implementation should be geared toward the import of essential and necessary industrial raw materials that will yield a potential output: thereby stimulating development of the industrial sector. This study has examined the impact of import growth on the development of the industrial sector's output over the period of 1981-2015, adding new insights into the challenges faced during import growth on the development of the industrial sector.

The study recommends as follows:

- i. To lower the cost of importing vital raw materials for industries, the monetary authority should maintain exchange rate stability.
- ii. To prevent super-furious from entering the industrial sector, policymakers must reroute policies.
- iii. Guidelines that will improve credit accessibility for financial sector investment should be established by Nigeria's financial authorities.

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